

2012 Credit for New Employment

CONTACTS FOR CREDIT FOR NEW EMPLOYMENT

Arizona Commerce Authority

•Application forms •Program guidelines

Internet home page: www.azcommerce.com

Program Manager (602) 845-1200

Arizona Department of Revenue

•tax forms and instructions •information and assistance

Internet home page: www.azdor.gov

Taxpayer assistance (602) 255-3381

From area codes 520 and 928, toll-free (800) 352-4090

Hearing impaired TDD user

Phoenix (602) 542-4021

From area codes 520 and 928, toll-free (800) 397-0256

General Instructions

NOTE: Laws 2012, Chapter 3, sections 45 and 52 (SB 1045) amended the Arizona Revised Statutes that authorize this credit to be effective for taxable years from and after June 30, 2011. Therefore, the credit for new employment is not available to taxpayers whose taxable year began before July 1, 2011.

Arizona Revised Statutes (ARS) §§ 43-1074 and 43-1161 provide nonrefundable individual and corporate income tax credits for net increases in qualified employment positions in Arizona at a business location in Arizona. This credit applies to taxable years beginning from and after June 30, 2011. The credit is limited to 400 first year qualified positions per year, per taxpayer for tax year 2012. No more than 10,000 first year qualified positions for all taxpayers shall be allowed annually. The 10,000 qualified position cap is administered by the Arizona Commerce Authority (Commerce).

Note for Form 120 filers: Taxpayers filing on a combined or consolidated basis are considered to be a single taxpayer for the purposes of the credit for new employment.

If the documents filed with Commerce or the Arizona Department of Revenue (Department) contain materially false information, the taxpayer is ineligible for the credit for new employment and is subject to recovery of the amount of tax credits allowed in preceding taxable years based on the false information, plus penalties and interest.

The credit for new employment is in lieu of the following credits, with respect to the same employment positions:

- The military reuse zone credit, under ARS § 43-1079 or ARS § 43-1167 (claimed on Arizona Form 306);
- The employment credit for healthy forest enterprises, under ARS § 43-1076 or ARS § 43-1162 (claimed on Arizona Form 332); and
- The credit for renewable energy industry, under ARS § 43-1083.01 or ARS § 43-1164.01 (claimed on Arizona Form 342).

To qualify for the credit for new employment, the owner must either, in the taxable year a first year credit is claimed:

- Invest at least \$5 million of capital investment and create at least 25 new qualified employment positions within the exterior boundaries of a city or town in Arizona that has a population of fifty thousand.
- Invest at least \$1 million of capital investment and create at least 5 new qualified employment positions in any other location in Arizona.

To qualify for the credit for new employment, the qualified employment positions must meet the following requirements:

- Consist of at least 1,750 hours per year of permanent employment.
- The job duties are performed primarily at the location or locations of the business in Arizona.
- The employment provides health insurance coverage for the employee where the employer pays 65% of the premium or membership cost.
- The employer pays at least equal to the median wage by county as computed annually by Commerce.

The credit for new employment for qualified employment positions is equal to:

- \$3,000 for each Arizona employee in a qualified employment position in the first year or partial year of employment.
- \$3,000 for each Arizona employee in a qualified employment position for the full taxable year, in the second year of continuous employment.
- \$3,000 for each Arizona employee in a qualified employment position for the full taxable year, in the third year of continuous employment.

The credit is limited to 400 first year employees, per taxpayer, in any taxable year beginning from and after June 30, 2011 through December 31, 2012. The credit is allowed for second and third year employees only for qualified employment positions for which a credit was claimed and allowed in the first year.

NOTE: Generally, no second year credits are available for calendar year 2012. Only taxpayers that qualified for and claimed first year credits in a fiscal year starting after June 30, 2011, will qualify to claim second year credits for tax year 2012. Third year credits would only be available for tax year 2012 to taxpayers with a short period.

If the allowable tax credit exceeds the taxes otherwise due on the claimant's income, or if there are no taxes due, the amount of the credit not used to offset taxes may be carried forward for not more than 5 taxable years as a credit against subsequent years' income tax liabilities.

Co-owners of a business, including partners in a partnership and shareholders of an S corporation, may each claim only the pro rata share of the credit allowed based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

Reporting requirements: Attach a copy of the Certification received from Commerce stating that the taxpayer timely complied with the reporting requirements for that agency and indicating the number of positions certified for the taxable year. A taxpayer must timely comply with the reporting requirements of both the Department and Commerce in order to claim the credit. Do not use the 2012 Forms 345 and 345-1 to claim the credit for new employment for prior taxable years.

Aggregate summary: This is a single Form 345 that combines the results of multiple business locations in Arizona for which the taxpayer is claiming the credit for new employment. Taxpayers having multiple business locations must first complete separate Forms 345, 345-1 and 345-2 for each business location. Then, complete the aggregate summary Form 345. Do not complete aggregate summaries of Forms 345-1 and 345-2.

Taxpayers do NOT need to complete Part I - Business Information, of the aggregate summary Form 345.

Specific Instructions

Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year. Attach the completed form and all supporting documentation to the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, S corporation, or a partnership is the taxpayer's employer identification number. The TIN for an individual is the taxpayer's social security number or an Internal Revenue Service individual taxpayer identification number. Taxpayers that fail to include their taxpayer identification number may be subject to a penalty.

Part I - Business Information

Lines 1 through 3 -

On lines 1, 2, and 3, enter the name, address, and employer identification number of the business location.

Line 4a and Line 4b -

Answer the questions on line 4a and line 4b. If the business is an LLC, a partnership, or an S corporation, be sure to include a schedule that lists ownership information including: name, address, TIN, and ownership percentage at the end of the tax year. Attach the schedule immediately after Form 345, but before the attached Forms 345-1.

Complete Forms 345-1 and 345-2 before completing the rest of Form 345.

FORM 345-1

Complete a Form 345-1 for each employee at the business location, WHETHER OR NOT THE EMPLOYEE IS IN A QUALIFIED EMPLOYMENT POSITION.

NOTE: ARS § 41-1525(D)(1) provides for the information requested in the Form 345-1 to be submitted in a form prescribed by the Department and may include electronic media. The Department will accept a hard copy spreadsheet that contains all the requested information or the information may be submitted on electronic media as a Microsoft Excel spreadsheet or pdf file on a CD-ROM or DVD. The chosen media must be Microsoft Windows compatible.

Regardless of the form, the information must be filed on or before the due date of the tax return including any extensions. Taxpayers submitting the information on CD-ROM or DVD should attach a statement to Form 345 in the tax return that the information is being separately submitted in that format. The Forms 345-1 submitted on CD-ROM or DVD are part of the income tax return and are subject to the sworn statement on the return that they are true and correct to the best of the signer's knowledge and belief.

The CD-ROM or DVD should be labeled as Form 345-1 with the taxpayer's name, employer identification number, and taxable year and sent directly to:

Arizona Department of Revenue
Attn: Corporate Audit/New Employment Credits
1600 West Monroe
Phoenix, AZ 85007

FORM 345-1, LINE 4a - List the employee's current date of hire.

FORM 345-1, LINE 4b - If the employee was terminated before the end of the taxable year, list the employee's termination date.

FORM 345-1, LINES 5a, 5b, 5c AND 5d - Complete these lines if the employee was previously employed by the business (prior to the current employment), or relocated from out-of-state.

FORM 345-1, LINE 6b - Enter the number of hours actually worked by the employee. Include paid time off for holidays, vacation, or sick. Do not include bonuses or over-time.

FORM 345-1, LINES 9a and 9b - On line 9a, enter the total amount of the insurance premium or membership cost provided for the employee. If the business is self-insured, list the total amount of a predetermined fixed cost for the employee for an insurance program that is payable whether or not the employee has filed claims. On line 9b, enter the total amount of the insurance premium or membership cost paid by the employer.

FORM 345-1, LINES 11a and 11b - Arizona's statutes do not require that the employee who is claimed in the second and third years of continuous employment be the same employee who was claimed in the first and second years of employment. Therefore, if one of the originally claimed new employees leaves employment, the business can claim the subsequent years' credits for another employee in a qualified employment position who is in the same year of continuous employment as the departed employee. If the employee is being substituted for another employee, check the box on line 11a, and enter the date of substitution on line 11b.

FORM 345-2

List each employee in a qualified employment position. Do not list employees that are not in qualified positions.

NOTE: Generally, no second year credits are available for calendar year 2012. Do not check box (c)2 unless the taxpayer has a fiscal year end that qualified for and claimed first year credits for tax year 2011, or qualified because of a short period.

FORM 345-2, COLUMN (d)

Check this box to indicate the qualified employment positions for which the taxpayer is claiming the credit.

FORM 345-2, LINE 24

The totals on line 24 must include only the qualified employment positions for which the taxpayer is claiming the credit. These employees would be listed on lines that have a checkmark in column (d).

FORM 345**Part II - Qualification for Credit and Credit Calculation****Line 5 -**

If the taxpayer received a Certification from Commerce, check the "Yes" box. Otherwise, check the "No" box and skip lines 6 through 9.

Line 6 -

In column (a), enter the number of employees in first year or partial year of employment in a qualified employment position, as certified by Commerce for the business for this taxable year. Multiply the number in column (a) by \$3,000 and enter the result in column (b).

Line 7 -

NOTE: Generally, no second year credits are available for calendar year 2012. Do not enter a number on line 7 unless you are a taxpayer with a fiscal year end that qualified for and claimed first year credits for tax year 2011, or are a qualifying taxpayer with a short period.

In column (a), enter the number of employees in the second year of continuous employment in a qualified employment position as certified by Commerce for the business for this taxable year. Multiply the number in column (a) by \$3,000 and enter the result in column (b).

Line 8 -

NOTE: Generally, no third year credits are available for tax year 2012. Do not enter a number on line 8 unless you are a qualifying taxpayer with a short period.

In column (a), enter the number of employees in the third year of continuous employment in a qualified employment position as certified by Commerce for the business for this taxable year. Multiply the number in column (a) by \$3,000 and enter the result in column (b).

Line 9 -

Enter the sum of the numbers on lines 6, 7 and 8 in each column. The number in column (a) is the total number of employees certified by Commerce for the business for this taxable year. The amount in column (b) is the current year's credit for new employment.

Part III - Qualification for Credit and Credit Amount Passed Through From Partnerships**Line 10 -**

Did a partnership from which you are claiming a pass through credit for new employment receive a Certification from Commerce? If so, check the "Yes" box. Otherwise, check the "No" box and skip lines 11 through 15.

Line 11 -

If you checked the "Yes" box on line 10, enter the name of the partnership that received the Certification from Commerce, and its taxpayer identification number on line 11.

Line 12 -

Enter your share of the credit for employees in first year or partial year of employment in a qualified employment position. Enter the amount from the partnership's Form 345, Part VI, line 27.

Line 13 -

NOTE: Generally, no second year credits are available for calendar year 2012. Do not enter a number on line 13 unless you are partner in 1) a partnership with a fiscal year end that qualified for and claimed first year credits for tax year 2011, or 2) a qualifying partnership with a short period.

Enter your share of the credit for employees in the second year of continuous employment in a qualified employment position. Enter the amount from the partnership's Form 345, Part VI, line 28.

Line 14 -

NOTE: Generally, no third year credits are available for tax year 2012. Do not enter a number on line 14, unless you are a qualifying taxpayer with a short period.

Enter your share of the credit for employees in the third year of continuous employment in a qualified employment position. Enter the amount from the partnership's Form 345, Part VI, line 29.

Line 15 -

Enter the total of lines 12, 13 and 14. This is your share of the current year's credit for new employment.

Part IV - Current Taxable Year's Credit

If you checked "No" to the question on line 10 and skipped lines 11 through 15, enter the amounts from Part II, lines 6 through 9, column (b) in Part IV, lines 16 through 19, respectively.

If you checked "No" to the question on line 5, but checked "Yes" to the question on line 10, enter the amounts from Part III, lines 12 through 15 in Part IV, lines 16 through 19, respectively.

If credit amounts are included in both Part II and Part III, total those amounts in Part IV using the instructions that follow.

Line 16 -

Enter the total of line 6, column (b) and line 12. The amount on line 16 cannot exceed \$1,200,000 (400 employees X \$3,000 credit amount).

Line 17 -

NOTE: Generally, no second year credits are available for calendar year 2012. Do not enter a number on line 17 unless you are a taxpayer with a fiscal year end that qualified for and claimed first year credits for tax year 2011, or are a qualifying taxpayer with a short period.

Enter the total of line 7, column (b) and line 13. Generally, the amount on line 17 cannot exceed the amount of first year credits claimed in the prior year.

Line 18 -

NOTE: Generally, no third year credits are available for tax year 2012. Do not enter a number on line 18 unless you are a partner in a qualifying partnership with a short period.

Enter the total of line 8, column (b) and line 14. Generally, the amount on line 18 cannot exceed the amount of second year credits claimed in the prior year.

Line 19 -

Enter the total of lines 16, 17 and 18. This is the current year's credit for new employment.

Part V - S Corporation Credit Election and Shareholder's Share of Credit**Line 20 -**

An S corporation must make an irrevocable election to either claim the credit itself or pass the credit through to its shareholders. The election statement must be signed by one of the officers of the S corporation who is also a signatory to the Form 120S. If the S corporation elects to claim the credit itself, it can skip lines 21 through 23 and complete Part VII and Part VIII.

If the S corporation elects to pass the credit through to its shareholders, it must first complete Form 345, Parts I, II, and IV. If the S corporation received a pass through credit from a partnership, it must also complete Part III. The S corporation must then complete Part V, lines 21 through 23, separately for each shareholder.

Lines 21 through 23 -

If the S corporation elects to pass the credit through to its shareholders, it must complete lines 21 through 23 separately for each shareholder.

Each S corporation shareholder is entitled to only a pro rata share of pass-through credit based on ownership interest in the S corporation. The total of the credit allowed to all shareholders may not exceed the amount that would have been allowed for a sole owner.

The S corporation must furnish each shareholder with a copy of the Certification from Commerce and pages 1 through 3 of Form 345. Each shareholder must complete Part VII and Part VIII.

Taxpayers who are partners or shareholders in multiple entities claiming the credit must complete a schedule detailing the amount of the credit passed through from each partnership or S corporation, and attach the schedule to their tax returns.

Part VI - Partner's Share of Credit**Lines 24 through 29 -**

Complete Part IV, lines 24 through 26, separately for each partner. If the partner is an S corporation or a partnership, also complete lines 27 through 29. If the partner is not an S corporation or a partnership, skip lines 27 through 29.

Each partner is entitled to only a pro rata share of the credit based on the partner's ownership interest in the partnership. The total of the credit allowed to all partners may not exceed the amount that would have been allowed for a sole owner.

The partnership must furnish each partner with a copy of the Certification from Commerce and pages 1 through 3 of Form 345. Each partner must complete Part VII and Part VIII.

Taxpayers who are partners or shareholders in multiple entities claiming the credit must complete a schedule detailing the amount of the credit passed through from each partnership or S corporation, and attach the schedule to their tax returns.

Part VII - Available Credit Carryover

The taxpayer who is utilizing the credit carryover should complete Part VII only if its allowable credit for new employment for qualified employment positions for prior taxable years exceeded its Arizona income tax liability for those taxable years.

Enter the taxable year(s) from which you are carrying over the credit on line 30 in columns (a) through (e). On line 31, enter the credit originally computed for that taxable year. On line 32, enter the amount of the credit from that taxable year already used. Subtract the amount on line 32 from the amount on line 31 and enter the difference on line 33.

On line 34, enter the amount of the credit that is unallowable because the business changed ownership. Subtract the amount entered on line 34 from line 33, and enter the difference on line 35.

Line 36 -

Add the amounts from columns (a) through (e) on line 35 and enter the total in column (f) on line 36. This is the total credit for new employment carryover available from prior taxable years.

Part VIII - Total Available Credit**Line 37 -**

Individuals and corporations (including S corporations that elected to claim the credit) - enter the amount from Part IV, line 19.

S corporation shareholders - enter the amount from Part V, line 23.

Partners of a partnership - enter the amount from Part VI, line 26.

This is the current year's credit for new employment.

Line 38 -

Enter the amount from Part VII, line 36, column (f). This is the total available credit carryover for new employment.

Line 39 -

Add lines 37 and 38 and enter the total. This is the total available credit for new employment for qualified employment positions that may be applied to the current year's tax liability.

Corporations and S corporations - enter the total here and on Form 300, Part I, line 20.

Individuals - enter the total here and on Form 301, Part I, line 26.