

2016 Credit for New Employment

CONTACTS FOR CREDIT FOR NEW EMPLOYMENT

Arizona Commerce Authority

•Application forms •Program guidelines

Website: www.azcommerce.com

Program Manager (602) 845-1200

Arizona Department of Revenue

•Tax forms and instructions •Information and assistance

Website: www.azdor.gov

Taxpayer assistance (602) 255-3381

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

General Instructions

Arizona Revised Statutes (A.R.S.) §§ 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. 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 required to be filed with Commerce or the Arizona Department of Revenue (Revenue) are not timely filed or contain materially false information, the taxpayer is ineligible for the credit for new employment (including second and third year credits, and carryovers) 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, claimed on Arizona Form 306;
- The employment credit for healthy forest enterprises, claimed on Arizona Form 332; and
- The credit for renewable energy industry, claimed on Arizona Form 342.

To qualify for the credit for new employment, the owner must either:

- 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 and that is located in a county that has a population of eight hundred thousand persons or more.

- 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: *For taxable years beginning from and after December 31, 2013, if a full-time employee in a qualified employment position left during the second or third taxable year that a credit for that position is being claimed, the employee may be replaced with another new full-time employee in the same employment position and the new employee will be treated as being in their second or third full year of continuous employment if (1) the total time the qualified employment position was vacant from the date the position was originally filled to the end of the current tax year totals 90 days or less, **and** (2) the new employee meets all of the same requirements as the original employee was required to meet. However, only one credit can be claimed for one employee for each qualified employment position, even if there was more than one replacement for the same position during the taxable year.*

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 five 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.

The credit is available to an exempt organization that is subject to corporate income tax on unrelated business taxable income (UBTI). The credit must result from the activities that generate UBTI.

Reporting requirements: Include 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 Revenue and Commerce in order to claim the credit. Do not use the 2016 Forms 345 and 345-1 to claim the credit for new employment for prior taxable years.

Aggregate summary: Complete one Form 345, 345-1, and 345-2 for each business location. Taxpayers having multiple business locations must complete an aggregated summary Form 345. Do not complete aggregate summaries of Forms 345-1 and 345-2.

Taxpayers filing an aggregated Form 345 do NOT need to complete Part 1 - Business Information.

Include the Forms 344, 345-1, and 345-2 for each business location with the aggregated 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. Include the completed form and all supporting documentation with the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, an exempt organization with UBTI, an 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 1 - 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. Include the schedule immediately after Form 345, but before the 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: A.R.S. § 41-1525(D)(1) provides for the information requested in the Form 345-1 to be submitted in a form prescribed by Revenue and may include electronic media. Revenue 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 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 secure the CD-ROM or DVD in a hard case and include it with the tax return. 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.

Taxpayers may password protect the CD-ROM or DVD and email the password separately to MediaLibrarian@azdor.gov. Include "Form 345-1" in the subject line of the email. In the body of the email, include the same information that is on the CD-ROM or DVD label. Revenue **will not** return or copy any media.

CAUTION: *The taxpayer substitutes the CD-ROM or DVD at its own risk and understands that the information may need to be provided to Revenue again at a later date if it is not accessible by Revenue for any reason.*

NOTE: *For taxable years beginning from and after December 31, 2013, if a full-time employee in a qualified employment position left during the second or third taxable year that a credit for that position is being claimed, the employee may be replaced with another new full-time employee in the same employment position and the new employee will be treated as being in their second or third full year of continuous employment if (1) the total time the qualified employment position was vacant from the date the position was originally filled to the end of the current tax year totals 90 days or less, **and** (2) the new employee meets all of the same requirements as the original employee was required to meet. However, only one credit can be claimed for one employee for each qualified employment position, even if there was more than one replacement for the same position during the taxable year. See the example on page 3.*

FORM 345-1, LINE 3a - Check the applicable box for the credit year that you are claiming a credit for this employee.

FORM 345-1, LINE 3b - Check the applicable box to indicate whether this employee is a replacement of another employee

who left a qualified employment position in the second or third year that you are claiming a credit.

FORM 345-1, LINE 3c - If the answer to line 3b is "Yes", check the applicable box on line 3c to indicate if the total time the position was vacant from the date the employment position was originally filled to the end of the current tax year totals 90 days or less.

FORM 345-1, LINE 3d - If the answer to line 3c is "Yes", enter the name of the replaced employee, his or her social security number, and termination date.

Example: ABC Company began operations on January 1, 2014 and hired Employee A, B, and C at a different time period for the same qualified employment position that qualifies for the credit for new employment. ABC Company is a calendar year filer.

<u>Employee</u>	<u>Hire Date</u>	<u>Termination Date</u>
Employee A	May 1, 2015	January 31, 2016
Employee B	March 1, 2016	October 31, 2016
Employee C	December 1, 2016	December 31, 2017

Tax year 2015 (credit year 1): ABC Company was eligible to claim a credit for Employee A for the qualified employment position.

Tax year 2016 (credit year 2): ABC Company is eligible to claim only one credit for one employee (Employee A, Employee B, **OR** Employee C) for the same qualified employment position. The total time the position was vacant from the date the position was originally filled to the end of the current taxable year totals 58 days (28 days in February plus 30 days in November), which is less than 90 days.

Tax year 2017 (credit year 3): ABC Company is eligible to claim a credit for Employee C.

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

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, LINE 4c - If the employee was terminated and was replaced by a new hire in the same qualified employment position, check the box for "Yes" and enter the name of the new hire, his or her social security number, and hire 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, enter 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 "Yes" 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.

FORM 345-2, COLUMN (d)

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

Generally, the number of second year credits claimed this taxable year cannot exceed the number of first year credits claimed in the prior taxable year. Similarly, the number of third year credits claimed this taxable year cannot generally exceed the number of second year credits claimed in the prior taxable year.

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 2 - 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 -

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 -

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 -

Add lines 6 through 8 in each column. Enter the total. 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 3 - Qualification for Credit and Credit Amount Passed Through From S Corporations and Partnerships**Line 10 -**

Did an entity 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 entity 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 S corporation's Form 345, Part 5, line 24 or the partnership's Form 345, Part 6, line 30.

Line 13 -

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 S corporation's Form 345, Part 5, line 25 or the partnership's Form 345, Part 6, line 31.

Line 14 -

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 S corporation's Form 345, Part 5, line 26 or the partnership's Form 345, Part 6, line 32.

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 4 - 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 2, lines 6 through 9, column (b) in Part 4, 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 3, lines 12 through 15 in Part 4, lines 16 through 19, respectively.

If credit amounts are included in both Part 2 and Part 3, total those amounts in Part 4 using the instructions that follow.

Line 16 -

Enter the sum of line 6, column (b) and line 12.

Line 17 -

Enter the sum 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 -

Enter the sum 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 5 - 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 Arizona Form 120S. If the S corporation elects to claim the credit itself, skip lines 21 through 26 and complete Part 7 and Part 8.

If the S corporation elects to pass the credit through to its shareholders, it must first complete Form 345, Parts 1, 2, and 4. If the S corporation received a pass through credit from a partnership, it must also complete Part 3. The S corporation must then complete Part 5, lines 21 through 26, separately for each shareholder.

Lines 21 through 26 -

If the S corporation elects to pass the credit through to its shareholders, it must complete lines 21 through 26 separately for each shareholder. The amounts in lines 24 through 26 will be used by shareholders who receive pass through credits from more than one entity.

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 7 and Part 8.

NOTE: 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 include the schedule with their tax returns.

Part 6 - Partner's Share of Credit

Lines 27 through 32 -

Complete Part 4, lines 27 through 32, separately for each partner. The amounts in lines 30 through 32 will be used by partners who receive pass through credits from more than one entity or partners who will pass the credit to their partners or S corporation shareholders (i.e. a tiered partnership).

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 7 and Part 8.

NOTE: 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 include the schedule with their tax returns.

Part 7 - Available Credit Carryover

The taxpayer who is utilizing the credit carryover should complete Part 7 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 33 in columns (a) through (e). On line 34, enter the credit originally computed for that taxable year. On line 35, enter the amount of the credit from that taxable year already used. Subtract the amount on line 35 from the amount on line 34 and enter the difference on line 36.

On line 37, enter the amount of the credit that is unallowable because the business changed ownership. Subtract the amount entered on line 37 from line 36, and enter the difference on line 38.

Line 39 -

Add the amounts from columns (a) through (e) on line 38 and enter the total on line 39. This is the total credit for new employment carryover available from prior taxable years.

Part 8 - Total Available Credit

NOTE: If you are claiming this credit as a credit you earned, AND are claiming this credit as a pass through credit from a partnership or S corporation, add the amount you earned to the amount passed through to you. Enter the total on line 40.

Line 40 -

Individuals, corporations (including S corporations that elected to claim the credit at the corporate level), and exempt organizations with UBTI - enter the amount from Part 4, line 19.

S corporation shareholders - enter the amount from Part 5, line 23.

Partners of a partnership - enter the amount from Part 6, line 29.

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

Individuals - enter this amount on Form 301, Part 1, line 27, column (a).

Corporations (including S corporations that elected to claim the credit at the corporate level), and exempt organizations with UBTI - enter this amount on Form 300, Part 1, line 20, column (a).

Line 41 -

Enter the amount from Part 7, line 39. This is the total available credit carryover for new employment.

Individuals enter this amount on Form 301, Part 1, line 27, column (b).

Corporations (including S corporations that elected to claim the credit at the corporate level), and exempt organizations with UBTI - enter this amount on Form 300, Part 1, line 20, column (b).

Line 42 -

Add line 40 and line 41 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.

Individuals - enter the total here and on Form 301, Part 1, line 27, column (c).

Corporations (including S corporations that elected to claim the credit at the corporate level), and exempt organizations with UBTI - enter the total here and on Form 300, Part 1, line 20, column (c).