

2017 Agricultural Pollution Control Equipment Credit

For information or help, call one of the numbers listed:

Phoenix (602) 255-3381
From area codes 520 and 928, toll-free (800) 352-4090

Tax forms, instructions, and other tax information

If you need tax forms, instructions, and other tax information, go to the department's website at www.azdor.gov.

Income Tax Procedures and Rulings

These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our website and click on *Legal Research* then click on *Procedures* or *Rulings* and select a tax type from the drop down menu.

Publications

To view or print the department's publications, go to our website and click on *Publications*.

General Instructions

Arizona Revised Statutes §§ 43-1081.01 and 43-1170.01 provide nonrefundable individual and corporate income tax credits for expenses that a taxpayer incurred during the taxable year to purchase agricultural pollution control equipment.

The amount of the credit is equal to 25% of the cost of the property. The maximum credit that a taxpayer may claim in a taxable year is \$25,000.

The Agricultural Pollution Control Equipment Credit claimed on Form 325 is in lieu of the Pollution Control Credit claimed on Form 315 with respect to the same equipment or expense.

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.

To Qualify for the Credit:

- The taxpayer must be involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products; AND
- The taxpayer must purchase tangible personal property that is primarily used in the taxpayer's trade or business in Arizona to control or prevent pollution.
- Property eligible for the tax credit includes only that portion of the property directly used, constructed, or installed in Arizona to prevent, monitor, or reduce air, water, or land pollution.
- Qualifying property includes a portion of a structure, building, installation, excavation, machine, equipment, or device, and any attachment to, or addition to, or reconstruction, replacement, or improvement of that property.

Amounts that qualify for the credit must be includible in the taxpayer's adjusted basis for the property. The adjusted basis of any property for which the taxpayer has claimed a credit must be reduced by the amount of credit claimed for that property.

If the allowable tax credit exceeds the taxes otherwise due 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.

NOTE – To claim this credit:

- **Individual taxpayers**, complete this credit form and Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture. Include both completed forms with your tax return.
- **C corporations, S corporations claiming this credit at the corporate level, and exempt organizations with UBTI**, complete this credit form and Arizona Form 300, Nonrefundable Corporate Tax Credits and Recapture. Include both completed forms with your tax return.
- **S corporations electing to pass this credit through to its shareholders**, complete this credit form and Arizona Form 300, Nonrefundable Corporate Tax Credits and Recapture. Also, complete Form 325-S for each shareholder of the S corporation. Provide each shareholder a copy of his or her completed Form 325-S. Include Form 300, Form 325, and one copy of each completed Form 325-S with your tax return.
- **Partnerships**, complete this credit form. Also, complete Form 325-P for each partner of the partnership. Provide each partner a copy of his or her completed Form 325-P. Include Form 325 and one copy of each completed Form 325-P with your tax return.

Specific Instructions

Complete the name and taxpayer identification number (TIN) section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

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

Part 1 - Schedule of Equipment and Current Taxable Year's Credit Calculation

Lines 1 through 10 -

Column (a): Enter the date the qualifying agricultural property was placed in service or the date it is expected to be placed in service in Arizona.

Column (b): Enter a brief description of the Arizona property used in the taxpayer's business to control or prevent pollution.

Column (c): Enter the total cost incurred during the taxable year for qualifying agricultural property used to reduce pollution. For additional information, see the section “*To Qualify for the Credit*” in column 1 of this page.

If there are more than 10 items of qualifying property, complete additional schedules. Include the completed schedules with Form 325.

Line 11 -

Add lines 1 through 10 in column (c) and enter the total.

Line 12 -

Enter the total cost of equipment from additional schedules.

Line 13 -

Add lines 11 and 12 and enter the total. This is the total cost incurred during this taxable year of all items of property for which the taxpayer is claiming the credit.

Line 14 -

Multiply line 13 by 25%. Enter the result.

Part 2 – Credit Passed Through From Partnerships or S Corporations

NOTE: *If you received a pass through of this credit from more than one partnership and/or S corporation, total the amounts received on a separate schedule and include it with this form. Include a copy of each Form 325-P and/or Form 325-S you received with your return.*

Line 15 -

Enter the total amount of the credit passed through from partnerships on Form(s) 325-P, line 4.

Line 16 -

Enter the total amount of the credit passed through from S corporations on Form(s) 325-S, line 4.

Part 3 - Total Current Year Credit

Line 17 -

Add lines 14 through 16. Enter the total.

Line 18 - Maximum Credit Allowed

The maximum credit amount allowed for this credit is \$25,000.

Line 19 -

Enter the lesser of line 17 or line 18. This is your maximum current year credit for agricultural pollution control equipment.

Partnerships - continue to Part 4.

S Corporations passing this credit through to its shareholders - skip to Part 5.

All others - skip to Part 6.

Part 4 - Partnerships Passing Through the Credit

Partnerships claiming this credit must pass it through to its partners. Proceed to the instructions on page 4 for completing Form 325-P.

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.

NOTE: *Trusts and estates which are partners in a partnership are not eligible to claim this credit. However, the share of a partnership owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.*

Part 5 - S Corporation Credit Election and Shareholder’s Share of the Credit

Lines 20, 20a, & 20b – S Corporation Credit Election

The S corporation must complete line 20 and line 20a or line 20b. The S corporation must make an irrevocable election either to claim the current taxable year credit at the corporate level or to pass the credit through to its shareholders. The S corporation election is made by:

- Entering the date the S corporation taxable year ends in the box provided on line 20.
- Checking the box on line 20a electing to claim the current taxable year credit at the corporate level; or,
- Checking the box on line 20b electing to pass the current taxable year credit through to its shareholders.
- The election statement must be signed by an officer of the S corporation who is also a signatory to Arizona Form 120S.

If the S corporation elects to claim the credit at the corporate level and has a credit carryforward from prior taxable years, continue to Part 6.

If the S corporation elects to pass this credit through to its shareholders, proceed to the instructions for completing Form 325-S on page 4.

If passing this credit through to the shareholders:

- Complete Form 325-S for each shareholder.
- Provide a copy of completed Form 325-S to each shareholder.
- Include a copy of each completed Form 325-S with your tax return.
- Keep a copy of each completed Form 325-S for your records.

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.

NOTE: *Trusts and estates which are shareholders of S corporations, are not eligible to claim this credit. However, the share of an S corporation owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.*

If the S corporation passes the credit through to its shareholders, it must notify each shareholder of the shareholder's *pro rata* share of the adjustment to income required by the difference between the federal depreciable basis and the Arizona depreciable basis of the property for which the credit is claimed. The S corporation must also notify the shareholder of the shareholder's *pro rata* share of any difference in gain or loss on the sale or other disposition of the property due to the difference in basis.

Part 6 - Available Credit Carryover

Complete Part 6 only if you claimed this credit for prior taxable years and the credit exceeded your Arizona income tax liability for those taxable years.

S corporations, if this credit was claimed at the corporate level in a prior taxable year and there is a carryover amount available, complete Part 6.

Lines 21 through 25 -

Enter the taxable years from which the credit is carried over in column (a) on lines 21 through 25. In column (b), enter the credit originally computed for that taxable year. In column (c), enter the amount of the credit from that taxable year which was previously used or expired. Subtract the amount in column (c) from the amount in column (b) and enter the difference in column (d).

Line 26 -

Add the amounts entered on lines 21 through 25 in column (d). Enter the total on line 26, column (d).

Part 7 - Total Available Credit

Line 27 -

Individuals, C corporations, S corporations electing to claim this credit at the corporate level, and exempt organizations with UBTI - enter the current year's credit from Part 3, line 19.

Individuals - Also, enter this amount on Form 301, Part 1, line 15, column (a).

C corporations, S corporations electing to claim this credit at the corporate level - also, enter this amount on Form 300, Part 1, line 9, column (a).

Partnerships, enter "0".

S corporations that elected to pass the current year credit through to shareholders, enter "0".

Line 28 -

Individuals, C corporations, S corporations that elected to claim this credit at the corporate level, and exempt organizations with UBTI - enter the amount from Part 6, line 26, column (d). This is the total available credit carryover.

Individuals - Also, enter this amount on Form 301, Part 1, line 15, column (b).

C corporations, S corporations that elected to claim this credit at the corporate level, and exempt organizations with UBTI - Also, enter this amount on Form 300, Part 1, line 9, column (b).

Line 29 -

Individuals, C corporations, S corporations electing to claim this credit at the corporate level, and exempt organizations with UBTI - add line 27 and line 28. Enter the total. This is the total available agricultural pollution control equipment credit that may be applied to the current taxable year's tax liability.

Individuals - Also, enter the total on Form 301, Part 1, line 15, column (c).

C corporations, S corporations that elected to claim this credit at the corporate level, and exempt organizations with UBTI - Also, enter the total on Form 300, Part 1, line 9, column (c).

Form 325-P, Partner's Portion of the Credit

Enter the taxable year from which this credit is being passed through to your partners.

Complete Form 325-P for each partner of the partnership *except for* trust or estate partners. However, a partnership ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The partnership must furnish each partner with their completed copy of Form 325-P, including additional schedules as needed.

Part 1 – Partnership and Partner Information

Line 1 –

Enter the partnership name and EIN in the spaces provided.

Line 2 –

Enter the partner's name, EIN, TIN, or SSN, and ownership percentage in the spaces provided.

Part 2 – Distribution of the Credit

Line 3 –

Enter the total amount of the partnership's credit for Agricultural Pollution Control Equipment from Form 325, Part 3, line 19.

Line 4 –

Multiply the amount on line 3 by the partner's ownership percentage shown on line 2(c). Enter the result. This is the partner's portion of this credit.

Each partner will use this form to complete their Form 325.

Form 325-S, S Corporation Shareholder's Portion of the Credit

Enter the taxable year from which this credit is being passed through to your shareholders.

Complete Form 325-S for each shareholder *except for* trust or estate shareholders. However, an S corporation ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The S corporation must furnish each shareholder with their completed copy of Form 325-S, including additional schedules as needed.

Part 1 – S Corporation and Shareholder Information

Line 1 –

Enter the S corporation name and EIN in the spaces provided.

Line 2 –

Enter the Shareholder's name, EIN, TIN, or SSN, and ownership percentage in the spaces provided.

Part 2 – Distribution of the Credit

Line 3 –

Enter the total amount of the S corporation's credit for Agricultural Pollution Control Equipment Form 325, Part 3, line 19.

Line 4 –

Multiply the amount on line 3 by the shareholder's ownership percentage shown on line 2(c). Enter the result. This is the shareholder's portion of the credit.

Each shareholder will use this form to complete their own Form 325.