

## 2019 Credit for Employment of TANF Recipients

**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](http://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 *Reports and Legal Research* then click on *Legal Research* and select a *Document Type* and *Category* from the drop down menus.

**Publications**

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

### General Instructions

**Individuals:** *You must also complete Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture, and include Forms 301 and 320 with your tax return to claim this credit.*

**Corporate taxpayers including S corporations claiming this credit and exempt organizations with unrelated business taxable income:** *You must also complete Arizona Form 300, Nonrefundable Corporate Tax Credits and Recapture, and include Forms 300 and 320 with your tax return to claim this credit.*

**Partnerships** *passing the credit through to its partners must also complete and include a separate Form 320-P for each partner receiving a pass-through credit.*

**S corporations** *passing the credit through to its shareholders must also complete and include a separate Form 320-S for each shareholder receiving a pass-through credit.*

Arizona law provides a nonrefundable credit for employers that employ recipients of Temporary Assistance for Needy Families (TANF).

This credit is available to individuals, C corporations, and S corporations. A partnership may pass the credit through to its partners. An S corporation may pass the credit through to its shareholders.

This credit is also 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.

The credit for employing TANF recipients is equal to:

1. One-fourth of the taxable wages paid to each qualified employee in the first year or partial year of employment, not to exceed \$500 per net new employee.

2. One-third of the taxable wages paid to each previously qualified employee in the second year of continuous employment, not to exceed \$1,000 per net new employee.
3. One-half of the taxable wages paid to each previously qualified employee in the third year of continuous employment, not to exceed \$1,500 per net new employee.

You cannot claim this credit for any position that is eligible for any other Arizona employment credit based on wages paid.

If the allowable credit exceeds your income tax liability, you may carry over any unused amount for up to five consecutive taxable years.

You cannot take a wage expense deduction for the same wages for which you claim a credit for state tax purposes.

- **Individuals:** If you are claiming a current year's credit you **must** add-back, on your tax return under *Other Additions to Income*, the total net amount of qualifying wage expenses entered on line 17, column (b).
- **C corporations, Partnerships and Exempt organizations with UBTI:** If you are claiming a current year's credit you **must** add-back, on your tax return under *Additions related to Arizona tax credits*, the total net amount of qualifying wage expenses entered on line 17, column (b).
- **S corporations:** If you are passing the current year's credit to your shareholders you must report, on each shareholder's Form 320-S, Part 3, line 5, the net amount of qualifying wage expense entered in Part 4, line 17, column (b).

**A partnership passing the current year's credit** through to its partners **must** do the following:

1. Complete Parts 1 through 5.
2. Complete Arizona Form 320-P, *Credit for Employment of TANF Recipients - Distribution to Partners*, for each partner and provide the partner with a copy of their completed Form 320-P.
  - Form 320-P is available on the department's website.
  - Instructions for Form 320-P are included at the end of these instructions on page 6.
  - The partner will use Form 320-P to complete their own Form 320 to claim.
3. Include Forms 320 and 320-P with its tax return.
4. Keep a copy of Forms 320 and 320-P for its record.

**An S corporation passing the current year's credit** through to its shareholders **must** do the following:

1. Complete Parts 1 through 4, and 6.
2. Complete Arizona Form 320-S, *Credit for Employment of TANF Recipients - Distribution to Shareholders*, for each shareholder and provide the shareholder with a copy of their completed Form 320-S.
  - Form 320-S is available on the department's website.
  - Instructions for Form 320-S are included at the end of these instructions on page 7.

- The shareholder will use Form 320-S to complete their own Form 320.
3. Include Forms 320 and 320-S with its tax return.
  4. Keep a copy of Forms 320 and 320-S for its record.

- The position must be listed on the report that you submit to the Arizona Department of Economic Security for unemployment purposes.

For more information on this credit, see the department’s publication, Pub 708, *Credit for Employment of Recipients of Temporary Assistance for Needy Families*.

**Line-by-Line Instructions**

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

Enter your name and SSN, TIN or EIN as shown on your Arizona income tax form (Forms 140, 140PY, 140NR, 140X, 99T, 120, 120A, 120S, 120X, or 165).

**Part 1 - Business Information**

**Lines 1 through 3 -**

On lines 1, 2, and 3, enter the name, address, and EIN of the business that employs qualifying employees.

**Part 2 - Net Increase in Qualified Employment Positions**

**Lines 4 and 5 -**

This credit is based on net increases in qualified employment positions. You must determine the net increase in the number of qualified positions by comparing the average number of qualified employment positions during the taxable year with the immediately preceding taxable year. This comparison is based on the report that you submit to the Arizona Department of Economic Security for unemployment purposes. The worksheet following the instructions for line 5 is provided to help you determine the average number of qualified positions for lines 4 and 5.

**Line 4 -**

Enter the average number of qualified employment positions during the current taxable year.

A qualified employment position is a position that meets **all** of the following.

- The position must be classified as full-time employment.
- The position must provide health insurance coverage if the employer offers the coverage to other employees not on TANF.
- The position must provide compensation at least equal to the minimum wage or a wage comparable to that paid other employees not receiving TANF in the same job classification.

**Line 5 -**

Enter the average number of qualified employment positions during the immediately preceding taxable year. If the business is a newly established business, the business would not have any qualified employment positions during the immediately preceding taxable year. A newly established business would have zero average employment positions during the immediately preceding taxable year. This business would enter “0” on line 5.

If the business is an established business, the business must figure the average qualified employment positions of the immediately preceding taxable year using the worksheet below. Line 15 of the *Immediately Preceding Taxable Year* column is the amount you should enter on line 5.

Complete the worksheet to determine the average employment. On lines 1 through 12, enter the number of qualifying employment positions the business had during each month of the current taxable year and the immediately preceding taxable year.

	<b>Line 4</b> Current Taxable Year	<b>Line 5</b> Immediately Preceding Taxable Year
1. January		
2. February		
3. March		
4. April		
5. May		
6. June		
7. July		
8. August		
9. September		
10. October		
11. November		
12. December		
13. Total. <i>Add lines 1 through 12.</i>		
14. Enter the total number of months during the taxable year in which you were in business.		
15. Average - <i>Divide line 13 by line 14. Do not round the quotient.</i>		

**Line 6 - Net Increase in the Number of Qualified Employment Positions**

Subtract line 5 from line 4. If this amount is less than one, enter "0". If this amount contains a decimal, round **down** to the next whole number. This is your net increase in qualified employment positions.

**NOTE:** *If the amount shown on line 6 is zero or less, you may not claim this credit for qualified employees hired during the year.*

**Line 7 -**

You cannot take this credit for any position that is **eligible** for any other Arizona employment credit based on wages paid.

On line 7, enter the number of positions on line 6 that are eligible for any other income tax credit under Arizona law.

**Line 8 -**

Subtract line 7 from line 6. This is the maximum number of new employment positions for which you may claim a credit for employees in their first year of employment.

**Part 3 - Qualifying New Employees****Line 9 -**

Enter the total number of new employees hired during the year.

**Line 10 - Qualified New Employees**

Enter the number of employees shown on line 9 who are qualified employees.

A qualified employee is an employee who meets **all** of the following criteria:

- The employee is a resident of Arizona.
- The employee was a recipient of TANF at the time he or she was hired. The employer should obtain documentation from the employee substantiating that the employee was a TANF recipient on the date of hire.
- The employee was employed for at least ninety days during the first taxable year. An employee hired with less than 90 days left in the taxable year is considered a new employee in the next taxable year. Periods when the employee's wages are subsidized under A.R.S. § 46-299 cannot be counted as employment time.
- The employee was not employed by the taxpayer within 12 months before the current date of hire.

**Line 11 - Maximum Number of Qualifying Net New Employees**

Enter the smaller of line 8 or line 10. This is the maximum number of qualifying net new employees for which you may claim a credit.

**Part 4 - Credit Calculation for Qualified Employees****Lines 12 through 17 and Form 320-1 and Form 320-2**

**IMPORTANT:** *Before completing Part 4, lines 12 through 17 of Form 320, complete Form 320-1, and Form 320-2.*

**Form 320-1 Qualifying Employees**

List each employee who is a qualified employee. List each employee's name and SSN. Also, list the date each employee was hired. You must also answer the questions in columns (d) and (e).

**Form 320-2 Qualifying Employees for Which You are Claiming a Credit**

List each qualifying employee from Form 320-1 for whom you are taking the credit. List the employees' names and SSNs. Complete columns (c) through (e), as instructed on the form.

**Form 320****Line 12 - Column (a)**

Enter the number of qualifying net new employees from Form 320-2, line 12, column (c1).

**NOTE:** *The maximum number of qualifying net new employees entered on line 12, column (a), cannot exceed the number of qualified net new employees entered on line 11 (Part 3).*

**Line 12 - Column (b)**

Enter the maximum allowable wages for all of your qualifying first year employees from Form 320-2, line 12, column (e1).

**Line 12 - Column (d)**

Multiply the amount entered on line 12, column (b), by the percent shown on line 12, column (c). Enter the result on line 12, column (d). This is the allowable credit for qualifying net new employees.

**Line 13 - Column (a)**

Enter the total number of previously qualified employees in the second year of continuous employment from Form 320-2, line 12, column (c2).

**NOTE:** *The maximum number of previously qualified employees in the second year of continuous employment entered on line 13, column (a), cannot exceed the number of qualified net new employees entered on the 2018 Form 320, line 11 (Part 3).*

Arizona's statutes do not require that the employee who is claimed in the second year of continuous employment be the same employee who was claimed in the first year of employment. Therefore, if one of the originally claimed net new employees leaves employment in year two, the business can claim the second year credit for another previously qualified employee who is in the second year of continuous employment.

**Line 13 - Column (b)**

Enter the maximum allowable wages for all previously qualified employees in the second year of continuous employment, from Form 320-2, line 12, column (e2).

**Line 13 - Column (d)**

Multiply the amount shown on line 13, column (b), by the percent shown on line 13, column (c). Enter the result on

line 13, column (d). This is the allowable credit for previously qualified employees in their second year of continuous employment.

#### Line 14 - Column (a)

Enter the total number of previously qualified employees in the third year of continuous employment from Form 320-2, line 12, column (c3).

**NOTE:** *The maximum number of previously qualified employees in the third year of continuous employment entered on line 14, column (a), cannot exceed the number of qualified net new employees entered on the 2017 Form 320, line 11 (Part 3).*

Arizona's statutes do not require that the employee who is claimed in the third year of continuous employment be the same employee who was claimed in the second year of employment. Therefore, if one of the originally claimed net new employees leaves employment in year three, the business can claim the third year credit for another previously qualified employee who is in the third year of continuous employment.

#### Line 14 - Column (b)

Enter the maximum allowable wages for all previously qualified employees in the third year of continuous employment from Form 320-2, line 12, column (e3).

#### Line 14 - Column (d)

Multiply the amount shown on line 14, column (b), by the percent shown on line 14, column (c). Enter the result on line 14, column (d). This is the allowable credit for previously qualified employees in their third year of continuous employment.

#### Lines 15 and 16 - Pass-through credit from Partnerships and S corporations

*Only complete line 15 if you received Arizona Form 320-P from a partnership passing through the credit.*

*Only complete line 16 if you received Form 320-S from an S corporation passing through the credit.*

#### Line 15 - Column (b)

Enter your pro rata share of the partnership's qualifying wage expense from Form 320-P, Part 3, line 6.

#### Line 15 - Column (d)

Enter your pro rata share of the partnership's credit from Form 320-P, Part 2, line 4.

#### Line 16 - Column (b)

Enter your pro rata share of the S corporation's qualifying wage expense from Form 320-S, Part 3, line 6.

#### Line 16 - Column (d)

Enter your pro rata share of the S corporation's credit from Form 320-S, Part 2, line 4.

#### Line 17- Columns (a), (b), and (d)

- Add amounts in column (a) on lines 12, 13 and 14 enter the total in column (a) on line 17.

The amount entered is the total number of qualified employees for which you are claiming the credit.

- Add the amounts in column (b) on lines 12, through 16; enter the total in column (b) on line 17.  
The amount entered on line 17, column (b) is the total net amount of qualifying wages.
- Add the amounts in column (d) on lines 12 through 16; enter the total in column (d) on line 17.  
The amount entered on line 17, column (d), is the total allowable credit for qualified employees for the current taxable year.

#### Part 5 - S Corporation Credit Election and Shareholder's Share of Credit

##### Line 18 and Boxes (a) and (b)

The S corporation must complete this portion of the Form 320 in order for the S corporation or its shareholders to claim this credit. The S corporation must make an irrevocable election either to claim the credit (check box a) or to pass the credit through to its shareholders (check box b).

Each shareholder may claim only a pro rata share of the credit based on the shareholder's ownership interest in the S corporation.

The election statement must be signed by one of the officers of the S corporation who is also a signatory to the Arizona Form 120S.

- If box (a) is checked, continue to Part 7.
- If box (b) is checked:
  - Complete a separate Form 320-S for each shareholder
  - Furnish each shareholder with a copy of their completed Form 320-S.
  - S corporations that have a carryover available from a credit claimed in a prior year **must** complete Part 7 and Part 8, lines 26 and 27.

#### Part 6 - Partner's Share of Credit

Each partner may claim only a pro rata share of the credit based on the partner's ownership interest in the partnership.

Partnerships

- Complete Form 320, Parts 1 through 4. *Do not complete Parts 7 and 8 of Form 320.*
- Complete Form 320-P for each partner.
- Furnish each partner with a copy of their completed Form 320-P.

#### Part 7 - Available Credit Carryover

##### Lines 19 through 24 -

Use Part 7 to figure your total available credit carryover from tax years 2014 through 2018. Complete lines 19 through 24 if you claimed the credit on a prior year return and the credit was more than your tax.

- In column (b), enter the credit originally computed for the taxable year listed in column (a).
- In column (c), enter the amount of the credit from that taxable year which you have already used.

- Subtract the amount in column (c) from column (b) and enter the difference in column (d).
- Add the amounts entered on lines 19 through 23 in column (d).

Enter the total on line 24, column (d).

## Part 8 - Total Available Credit

### Line 25 - Current Year's Credit

Individuals, C corporations, S corporations claiming the credit, and exempt organizations with UBTI: Enter the amount from Part 4, line 17, column (d).

- Individuals: Also, enter this amount on Form 301, line 9, column (a).
- Corporations, including S corporations that are claiming the credit and exempt organizations with UBTI: Also, enter this amount on Form 300, line 7, column (a).

### Line 26 - Available Credit Carryover

Enter the amount from Part 7, line 24, column (d).

- Individuals: Also, enter this amount on Form 301, line 9, column (b).
- Corporations, including S corporations that are claiming the credit and exempt organizations with UBTI: Also, enter this amount on Form 300, line 7, column (b).

### Line 27 - Total Available Credit

Add lines 25 and 26. Enter the total.

- Individuals: Also, enter this amount on Form 301, line 9, column (c).
- Corporations, including S corporations that are claiming the credit and exempt organizations with UBTI: Also, enter this amount on Form 300, line 7, column (c).

**NOTE:** *You cannot take a deduction for the same wage expense for which a credit is claimed.*

If you are claiming this credit, you must include the amount from Part 4, line 17, column (b), on your Arizona income tax return.

- **Individuals:** If you are claiming a current year's credit, you **must** add-back on your tax return, under *Other Additions to Income*, the total net amount of qualifying wage expenses entered on line 17, column (b).
- **Corporations, Partnerships and Exempt organizations with UBTI:** If you are claiming a current year's credit, you **must** add-back on your tax return, under *Additions related to Arizona tax credits*, the total net amount of qualifying wage expenses entered on line 17, column (b).
- **S corporations:** If you are passing the current year's credit to your shareholders you must report, on each shareholder's Form 320-S, Part 3, line 5, the net amount of qualifying wage expense entered in Part 4, line 17, column (b).

## **Form 320-P, Credit for Employment of TANF Recipients - Distribution to Partners**

**NOTE:** Form 320-P is available on the department's website.

### **Instructions for Partnerships passing the credit to partners**

#### **Part 1 – Partnership and Partner Information**

##### **Line 1 (a) and (b) -**

In the space provided, enter the name of the partnership and employer identification number.

##### **Line 2 (a) and (b) -**

In the space provided, enter the partner's name, social security or employer identification number, and ownership percentage.

Each partner is entitled to a *pro rata* share of the credit, based on its ownership percentage.

#### **Part 2 - Distribution of Credit**

##### **Line 3 -**

Enter the partnership's current year's credit from Form 320, Part 4, line 17, column (d).

##### **Line 4 -**

Multiply line 3 by the ownership percentage on line 2(c) and enter the result. This is the partner's *pro rata* share of the pass-through credit.

Partners: Enter this amount on *your own* Form 320, Part 4, line 15, column (d).

#### **Part 3 - Partner's share of Qualifying Wage Expense**

##### **Line 5 -**

Enter the total amount of qualifying wage expense used to compute the credit from Form 320, Part 4, line 17, column (b).

##### **Line 6 -**

Multiply line 5 by the percentage on line 2(c) and enter the result. This is the partner's *pro rata* share of the qualifying wage expense.

Partners: enter this amount on your own Form 320, Part 4, line 15, column (b).

### **Instructions for Partners receiving Form 320-P**

- Enter the amount from Form 320-P, line 4, on *your own* Form 320, in Part 4, on line 15, column (d).

If you are claiming a pass-through credit from more than one partnership, add all amounts from Forms 320-P, line 4, and enter the total on Form 320, in Part 4, on line 15, column (d).

- If the partner is another partnership, it must complete a separate Form 320-P for each partner identifying the partner's *pro rata* share of the pass-through credit amount and qualifying wage expense.
- If the partner is an S corporation and the S corporation elects to pass through the credit to its shareholders, it must also complete a separate Form 320-S for each shareholder identifying the shareholder's *pro rata* share of credit amount and qualifying wage expense.
- If the partner is a C corporation, S corporation (electing to claim the credit), or an exempt organization with UBTI, it must complete its own Form 320 to claim the credit.

**NOTE:** If you file your income tax return on a calendar year basis (January 1, 2019 – December 31, 2019) but the partnership passing the credit files its return on a fiscal year basis, claim the pass-through credit on your income tax return for the year in which the partnership's fiscal year ends. For example, if the partnership's tax year ends in February 2020, claim this credit on your 2020 tax return.

**Form 320-S, Credit for Employment of TANF Recipients - Distribution to Shareholders**

**NOTE:** Form 320-S is available on the department's website.

**Instructions for S corporations passing the credit to shareholders**

**Part 1 – S corporation and Shareholder Information**

**Line 1 (a) and (b) -**

In the space provided, enter the name of the S corporation and employer identification number.

**Line 2 (a) and (b) -**

In the space provided, enter the shareholder's name, social security or employer identification number, and ownership percentage.

Each shareholder is entitled to a *pro rata* share of the credit, based on its ownership percentage.

**Part 2 - Distribution of Credit**

**Line 3 -**

Enter the S corporation's current year's credit from Form 320, Part 4, line 17, column (d).

**Line 4 –**

Multiply line 3 by the ownership percentage on line 2(c) and enter the result. This is the shareholder's *pro rata* share of the qualifying wage expense.

**Part 3 - Shareholder's share of Qualifying Wage Expense**

**Line 5 -**

Enter the total amount of qualifying wage expense used to compute the credit from Form 320, Part 4, line 17, column (b).

**Line 6 -**

Multiply line 5 by the percentage on line 2(c) and enter the result. This is the shareholder's *pro rata* share of the qualifying wage expense.

Shareholders: enter this amount on *your own* Form 320, Part 4, line 16, column (b).

**Instructions for shareholders receiving Form 320-S**

- Enter the amount from Form 320-S, line 4, on *your own* Form 320, Part 4, line 16, column (d).

If you are claiming a pass-through credit from more than one S corporation, add all amounts from Forms 320-S and enter the total on Form 320, Part 4, line 16, column (d).

- Enter the amount from Form 320-S, line 6, on your own Form 320, Part 4, line 16, column (b).

**NOTE:** If an individual shareholder claims the credit, the shareholder is required to add back the *pro-rata* portion of the total wage expense used to compute the allowable current year credit.

**For example:**

Arizona Form 320 line:	Qualifying Wages
12. Net new employees	\$15,000
13. Second-year employees	\$27,000
14. Third-year employees	<u>\$38,000</u>
Total Qualifying Wages	<u>\$80,000</u>
A shareholder has a 20% pro-rata share. The amount the S Corporation would enter on Form 320-S, line 6, for this shareholder is \$16,000 (\$80,000 X 20%).	

**NOTE:** If you file your income tax return on a calendar year basis (January 1, 2019 - December 31, 2019) but S corporation passing the credit files its return on a fiscal year basis, claim the pass-through credit on your income tax return for the year in which the S corporation's fiscal year ends. For example, if the S corporation's tax year ends in February 2020, claim this credit on your 2020 tax return.