

2024 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 is available to individuals, corporate taxpayers, partners in a partnership (except trust and estate partners), and to shareholders of an S Corporation (except trust and estate shareholders). Exempt organizations subject to unrelated business taxable income (UBTI) may claim this credit if the credit results from activities that generate UBTI.

Trusts and estates, with the exception of grantor trusts, cannot claim this credit either directly or as a pass through. A grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. As a result, the grantor may claim the credit. The total of the credits may not exceed the amount that would have been allowed for a sole owner of the business.

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.

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 the Arizona Commerce Authority (Commerce) or the Arizona Department of Revenue (ADOR) 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 employment credit for Healthy Forest Enterprises, claimed on Form 332.

To qualify for the Credit for New Employment:

- *Businesses in an urban location must meet at least one of the following:*
 - Invest at least \$5 million of capital investment and create at least 25 new qualified employment positions that pay compensation at least equal to 100% of the county median wage as computed annually by Commerce.
 - Invest at least \$2.5 million of capital investment and create at least 25 new qualified employment positions that pay compensation at least equal to 125% of the county median wage as computed annually by Commerce.
 - Invest at least \$1 million of capital investment and create at least 25 new qualified employment positions that pay compensation at least equal to 150% of the county median wage as computed annually by Commerce.
 - Invest at least \$500,000 of capital investment and create at least 25 new qualified employment positions that pay compensation at least equal to 200% of the county median wage as computed annually by Commerce.
- *Businesses in a rural location must meet at least one of the following:*
 - Invest at least \$1 million of capital investment and create at least 5 new employment positions that pay compensation at least equal to 100% of the county median wage as computed annually by Commerce.
 - Invest at least \$500,000 of capital investment and create at least 5 new employment positions that pay compensation at least equal to 125% of the county median wage as computed annually by Commerce.
 - Invest at least \$100,000 of capital investment and create at least 5 new employment positions that pay compensation at least equal to 150% of the county median wage as computed annually by Commerce.

The capital investment and the new qualified employment positions requirements listed above must be accomplished within 12 months after the start of the required capital investment. No credit may be claimed until both requirements are met.

In addition, 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 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 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: *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. That 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 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.

Reporting requirements: Include a copy of the Certification you received from Commerce. The Certification will state you complied with their reporting requirements and will indicate the number of positions for which you are certified for the taxable year. To claim this credit, you must timely comply with the reporting requirements of both ADOR and Commerce. Do not use the 2024 Form 345 and 345-1 to claim this credit for previous taxable years.

Aggregate summary: Complete Form 345, 345-1, and 345-2 for each business location for which you are claiming this credit. If you claim this credit for multiple business locations, complete an aggregated summary Form 345. Do not complete aggregate summaries of Forms 345-1 and 345-2.

If you complete an aggregated Form 345, do NOT complete Part 1 - Business Information.

Include the Forms 345, 345-1, and 345-2 for each business location with the aggregated Form 345.

Specific Instructions

Complete the taxpayer 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 and all supporting documentation 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 (ITIN). Taxpayers that fail to include their taxpayer identification number may be subject to a penalty.

NOTE – To claim this credit:

- **Individual taxpayers that did not make the Small Business Income election,** complete this credit form and Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture. Include both completed forms with your Individual Income Tax Return, (Form 140, 140PY, 140NR, or 140X).
- **Individual taxpayers that made the Small Business Income election,** complete this credit form and Arizona Form 301-SBI, Nonrefundable Individual Tax Credits and Recapture for Form 140-SBI, 140PY-SBI, 140NR-SBI and 140X-SBI. Include both completed forms with your SBI Tax Return (Form 140-SBI, 140PY-SBI, 140NR-SBI, or 140X-SBI).
- **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 return.
- **S Corporations electing to pass this credit through to its shareholders,** complete this credit. Also complete Form 345-S for each shareholder of the S Corporation. Provide each shareholder a copy of his or her completed Form 345-S. Include Form 345 and one copy of each completed Form 345-S with your return.
- **Partnerships** complete this credit form. Also, complete Form 345-P for each partner of the partnership. Provide each partner a copy of his or her completed Form 345-P. Include Form 345 and one copy of each completed Form 345-P with your return.

Part 1 - Business Information

Lines 1 through 3

On lines 1, 2, and 3, enter the name, address, and EIN of the business location.

Line 4a and Line 4b

Check the boxes to 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 as of the end of the tax year. Include the schedule immediately after Form 345.

NOTE: *If you are claiming only a carryover of this credit from previous taxable years, DO NOT complete Forms 345-1 and 345-2. Complete ONLY Form 345.*

If you are claiming a credit for the current taxable year, complete Forms 345-1 and 345-2 before completing the rest of Form 345.

- Please refer to page 5 for the instructions to complete Form 345-1.
- Please refer to page 6 for the instructions to complete Form 345-2.

Part 2 - Qualification for Credit and Credit Calculation

Line 5

If you received a Certification from the Arizona Commerce Authority (Commerce) for this credit, check the "Yes" box. Otherwise, check the "No" box.

Line 6

If you are claiming a pass through of this credit from a partnership and/or an S Corporation, check the "Yes" box. Otherwise, check the "No" box.

Line 7

- If you answered "Yes" to the question on line 5 or on line 6, go to Part 3. Include a copy of all Form(s) 345-P and/or Form(s) 345-S with this form.
- If you answered "No" to the question on line 5 or on line 6, **STOP! YOU ARE NOT ELIGIBLE TO CLAIM THIS CREDIT.**

Part 3 - Current Taxable Year's Credit Calculation

Line 8

Enter the total number of employees in their first year or partial year of employment in a qualified employment position from Form 345-2, line 24, column (c1), in column (a). Multiply the number in column (a) by \$3,000 and enter the result in column (b).

Line 9

Enter the total number of employees in their second year of continuous employment in a qualified employment position from Form 345-2, line 24, column (c2), in column (a). Multiply the number in column (a) by \$3,000 and enter the result in column (b).

Line 10

Enter the total number of employees in their third year of continuous employment in a qualified employment position from Form 345-2, line 24, column (c3), in column (a). Multiply the number in column (a) by \$3,000 and enter the result in column (b).

Line 11

Enter the amount of this credit passed through from partnerships on Form(s) 345-P, line 3(c). If you received a pass through of this credit from more than one partnership, include a schedule indicating the amount of the credit passed through from each partnership.

Line 12

Enter the credit passed through from S Corporations on Form(s) 345-S, line 3(c). If you received a pass through of this credit from more than one S Corporation, include a schedule indicating the amount of the credit passed through from each S Corporation.

Line 13

Add lines 8 through 12 in column (b). Enter the total. This is the current year's Credit for New Employment.

Part 4 - Partnerships

A partnership claiming this credit *must* pass it through to its partners. Proceed to the instructions for completing Form 345-P on page 7.

- Complete Form 345-P for each partner.
- Provide a completed copy of Form 345-P to each partner.
- Include a copy of each completed Form 345-P with your tax return.
- Keep a copy of each completed Form 345-P for your records.
- Do not complete the remainder of this form.

Each partner is entitled to only a *pro rata* share of each credit based on the partner's ownership interest in the partnership. The total of each 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 these credits. 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 these credits.*

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

Lines 14, 14a, & 14b

The S Corporation must complete line 14, and line 14a, or line 14b. 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.
- Checking the box on line 14a electing to claim the current year taxable credit at the corporate level; or,
- Checking the box on line 14b 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, continue to Part 6.

If the S Corporation elects to pass this credit through to its shareholders, proceed to the instructions for completing Form 345-S on page 7.

If passing this credit through to the shareholders:

- Complete Form 345-S for each shareholder.
- Provide a copy of completed Form 345-S to each shareholder.
- Include a copy of each completed Form 345-S with your tax return.
- Keep a copy of each completed Form 345-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 an S Corporation are not eligible to claim these credits. 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 these credits.*

Part 6 - Available Credit Carryover

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.*

Use Part 6 to figure your total available credit carryover from prior taxable years. Complete lines 15 through 20 if you claimed the credit on a prior year's return and the credit exceeded your tax liability.

Line 15

Enter the taxable years from which you are carrying over the credit in columns (a) through (e).

Line 16

Enter the credit originally computed for the taxable year indicated in columns (a) through (e).

Line 17

Enter the amount of the credit from the taxable year indicated in columns (a) through (e) that was used in a prior taxable year.

Line 18

Subtract columns (a) through (e) of line 17 from columns (a) through (e) of line 16. Enter the difference in each column. This is your tentative credit carryover amount.

Line 19

Enter the amount of the credit from the taxable year indicated in columns (a) through (e) that is disallowed because the business changed ownership.

Line 20

Subtract columns (a) through (e) of line 19 from columns (a) through (e) of line 18. Enter the difference in each column.

Line 21

Add the amounts from columns (a) through (e) on line 20. Enter the total. This is the total credit for new employment carryover from prior taxable years.

Part 7 - Total Available Credit

Line 22

Individuals, C Corporations, S Corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - enter the amount from Part 3, line 13, column (b).

Partnerships - enter "0".

S Corporations that elected to pass the current year credit through to shareholders - enter "0".

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

*Individuals that **did not make the Small Business Income election:*** Enter this amount on Form 301, Part 1, line 17, column (a).

*Individuals that **made the Small Business Income election:*** Enter this amount on Form 301-SBI, Part 1, line 12, column (a).

C Corporations, 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 10, column (a).

Line 23

Individuals, C Corporations, S Corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - enter the amount from Part 6, line 21. This is the total available credit carryover for new employment.

*Individuals that **did not make the Small Business Income election:*** Enter this amount on Form 301, Part 1, line 17, column (b).

*Individuals that **made the Small Business Income election:*** Enter this amount on Form 301-SBI, Part 1, line 12, column (b).

C Corporations, 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 10, column (b).

Line 24

Individuals, C Corporations, S Corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI - add line 22 and line 23. 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 that **did not make the Small Business Income election:*** Enter this amount on Form 301, Part 1, line 17, column (c).

*Individuals that **made the Small Business Income election:*** Enter this amount on Form 301-SBI, Part 1, line 12, column (c).

C Corporations, 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 10, column (c).

FORM 345-1
Employees at Business Location

Complete 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(E)(2) provides for the information requested in Form 345-1 to be submitted in a manner prescribed by ADOR, including electronic media. ADOR 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 (CD/DVD).

The information must be filed on or before the due date of the tax return, including any extensions. Taxpayers submitting the information on CD/DVD should secure the CD/DVD in a hard case and include it with the tax return. Forms 345-1 submitted on CD/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/DVD should be labeled as Form 345-1 with the taxpayer’s name, EIN, and taxable year.

Taxpayers may password protect the CD/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/DVD label. ADOR **will not** return or copy any media.

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

Line 1

Enter the employee’s first and last name.

Line 2

Enter the employee’s SSN.

Line 3a

Check the box to indicate the credit year for which you are claiming this employee: “First”; “Second”; “Third”; or “Not qualified for credit, or fourth year or more.”

Line 3b

If this employee replaced another employee who left a qualified employment position during the second or third year that you are claiming the credit, check the “Yes” box. If not, check the “No” box.

Line 3c

If you answered “Yes” to the question on line 3b, and the total time this position was vacant from the date the position was originally filled to the end of the current taxable year was 90 days or less, check the “Yes” box. If the position was vacant for more than 90 days, check the “No” box.

Line 3d

If the answer to the question on line 3c is “Yes”, enter the name of the replaced employee, his or her SSN, and termination date.

Example: XYZ Company began operations on January 1, 2023 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. XYZ Company is a calendar year filer.

Employee	Hire Date	Termination Date
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Employee A	May 1, 2023	January 31, 2024
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Employee B	March 1, 2024	October 31, 2024
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Employee C	December 1, 2024	December 31, 2025
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Tax year 2023 (credit year 1): XYZ Company was eligible to claim a credit for Employee A for the qualified employment position.

Tax year 2024 (credit year 2): XYZ 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 59 days (29 days in February plus 30 days in November), which is less than 90 days.

Tax year 2025 (credit year 3): XYZ Company is eligible to claim a credit for Employee C.

Line 4a

Enter the date the employee was hired. If the employee was previously employed, enter the date the employee was re-hired.

Line 4b

If the employee was terminated before the end of the taxable year, enter the employee’s termination date.

Line 4c

If the employee was terminated and replaced by a new hire in the same qualified employment position, check the “Yes” box and enter the name of the new hire, his or her SSN and hire date.

Complete these lines 5a and 5b if the employee was previously employed by the business (prior to the current employment).

Line 5a

If the employee was previously employed by the business, enter the date the employee was previously hired.

Line 5b

If the employee was previously employed by the business, enter the employee’s date of separation.

NOTE: Complete line 5c and line 5d if the employee relocated from out-of-state.

Line 5c

If the employee relocated from out of state, check the “Yes” box. If not, check the “No” box.

Line 5d

If the employee relocated from out of state, enter the date the employee relocated.

Line 6a

Check the “Yes” box if this employee is in a permanent position consisting of at least 1750 hours per year. If this employee is not in a permanent position consisting of at least 1750 hours per year, check the “No” box.

Line 6b

If you checked the “Yes” box on line 6a, enter the number of hours worked by this employee. Include paid time off for holidays, vacation, or sick. Do not include bonuses or overtime.

Line 7

If this employee’s job duties are performed primarily at the location(s) of your business, check the “Yes” box. If not, check the “No” box.

Line 8a

Enter this employee’s annual compensation for the taxable year.

Line 8b

Enter this employee’s hourly wage rounded to the nearest cent.

Line 9a

Enter the total cost of this employee’s insurance premium or membership cost. If your business is self-insured, enter the predetermined fixed cost for this employee’s insurance coverage.

NOTE: *The predetermined fixed cost must be payable whether this employee files a claim or not.*

Line 9b

Enter the total amount of the insurance premium or membership cost you paid as the employer.

Line 10

If this employee is in a new qualified employment position, check the “Yes” box. If not, check the “No” box.

Line 11a

If this employee was substituted for another employee in a qualified employment position, check the “Yes” box. If not, check the “No” box.

Line 11b

If the “Yes” box on line 11a is checked, enter the date of substitution. Also, check either the box “Second year employee”, or “Third year employee” to indicate this employee is a second year employee or a third year employee.

NOTE: *Arizona law does not require that the employee who is claimed in the second or third year of continuous employment be the same employee who was claimed in the first or second year 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.*

FORM 345-2

Employees in Qualified Employment Positions

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

Lines 1 through 23

Complete lines 1 through 23 as follows:

- a) Enter the employee’s name in column (a);
- b) Enter the employee’s SSN in column (b);
- c) If the employee is:
 - A first year employee, check box (c1);
 - A second year employee, check box (c2);
 - A third year employee, check box (c3);
- d) Check box (d) if the employee’s position is included in the count for the credit for Qualified Employment Positions.

NOTE:

- *The number of employees for which you are claiming second year credits for this taxable year cannot exceed the number of employees for whom you claimed first year credits in the prior taxable year.*
- *The number of employees for which you are claiming third year credits for this taxable year cannot exceed the number of employees for whom you claimed second year credits in the prior taxable year.*

Line 24

Count the checkmarks on lines 1 through 23 for each column, (c1) through (c3), only if there is a checkmark in column (d) for that column and line. Enter the count in the corresponding column (c1) through (c3).

- Enter the amount in column (c1) on Form 345, Part 3, line 8, column (a).
- Enter the amount in column (c2) on Form 345, Part 3, line 9, column (a).
- Enter the amount in column (c3) on Form 345, Part 3, line 10, column (a).

NOTE: *If you are claiming this credit for more than 23 employees in qualified employment positions for this business location, include additional schedules.*

**Form 345-P,
Distribution to Partners of a Partnership**

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

Complete Form 345-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 345-P, including additional schedules as needed.

Distribution of the Credit

Line 1

Enter the partnership name and EIN in the spaces provided.

Line 2

Enter the partner's name and TIN in the spaces provided.

Line 3a

Enter the amount of this credit from Form 345, Part 3, line 13.

Line 3b

Enter the partner's ownership percentage.

Line 3c

Multiply line 3(a) by line 3(b) and enter the result.

This is the partner's portion of this credit.

**Form 345-S, S Corporation
Distribution to Shareholders of an
S Corporation**

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

Complete Form 345-S for each shareholder of the S Corporation, *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 a completed copy of Form 345-S, including additional schedules as needed.

Distribution of the Credit

Line 1

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

Line 2

Enter the shareholder's name and TIN in the spaces provided.

Line 3a

Enter the amount of this credit from Form 345, Part 3, line 13.

Line 3b

Enter the shareholder's ownership percentage.

Line 3c

Multiply line 3(a) by line 3(b) and enter the result.

This is the shareholder's portion of this credit.