Income Tax Credits in Arizona

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Income tax credits in Arizona have grown significantly since 1992. Prior to 1993, the highest number of individual income tax credits available in any given tax year was seven. In tax year 2001, there will be twenty-seven. For corporations, the highest number of income tax credits available prior to 1993 was three. In tax year 2001, corporations will have nineteen credits available.

Tables 1 and 2, at the end of this report, show the credits available in each tax year for individuals and corporations. The smaller table at the top of each page shows the small number of tax credits available from 1935, at the beginning of income tax in Arizona, through 1989. The larger table below this shows the credits available for tax years 1990 through 2001.

**DEFINITION AND VALUE OF A TAX CREDIT**

A tax credit is a dollar-for-dollar reduction in individual or corporate tax liability. This is different from deductions, subtractions and exemptions\(^1\), which reduce the amount of income that will be taxed. The tax value of additions, subtractions, deductions and exemptions can be determined by multiplying them by the effective tax rate for

\(^1\) Deductions, subtractions and exemptions, whether federally-required or allowed by a state, are adjustments to a federal definition of income. For individuals, that federal starting point is Federal Adjusted Gross Income. For corporations, the federal starting point is Federal Taxable Income. Taxable income is reached after all adjustments to the broader definition of income; tax rates are then applied to taxable income to reach tax liability.
For the single taxpayer with a taxable income of less than $10,000, a $200 tax credit is the same as removing $6,968 ($200 divided by .0287) in income from taxation. In other words, a $6,968 deduction or subtraction from income would give the same tax break as a $200 credit for taxpayers with this taxable income. For the single taxpayer with a taxable income of more than $150,000, a $200 tax credit is equivalent to removing $3,968 in income from taxation ($200 divided by .0504).

Tables Three and Four of this report provide the income value of each credit in tax year 2000, where possible. For example, the agricultural pollution control credit allows a maximum credit of $25,000. Based on an estimated average effective tax rate for individual income tax of 3.5%, the maximum credit has the impact of removing $714,000 in income from taxation. The same maximum credit for corporations has the impact of removing $314,000 in income from taxation, based on the 7.968% tax rate that will be in effect for tax year 2000.

**TAX CREDIT STRUCTURE**

Tax credits in Arizona\(^2\) can be divided into five categories. The first category is equity. This type of credit is created to achieve fairness in taxation. The income tax credit for taxes paid to other states or countries is available so the taxable income won’t be taxed by Arizona and by another state or country. Only one other credit, the renter’s tax credit, falls into this category and has been repealed since 1992. The renter’s tax credit was a credit for the property tax paid on a rented residence, recognizing that the renter was paying property tax through rent but was not allowed to take this as a deduction as mortgage interest.

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\(^2\) Detailed descriptions of all tax credits, including statutory citations and effective and repeal dates, are provided in Tables Three (individual) and Four (corporate) at the end of this report.
Alleviating tax on low-income or disabled individuals is a second goal of tax credits in Arizona. The property tax credit focuses on low-income senior citizens and recipients of federal Title 16 monies. In 1995, a broadly based credit, the family tax credit, was created to exempt low-income taxpayers from paying tax. For the family tax credit, certain income levels were selected, depending on filing status and family size, and a tax credit per person was created that would remove any tax liability remaining after basic exemptions and deductions. For example, in its current form a $40 credit per person in the family is allowed if income is below specified levels. A married filing joint couple earning as much as $31,000 can claim a $40 credit per person in the household, up to $240.

Economic development was the reason for creating a third category of credits. Each of the following credits was created either for a specific corporation or for a specific location, with the exception of the research and development tax credit. The research and development credit was intended to attract and retain corporations with extensive research and development activities.

- Credit for Construction Materials (for a facility costing in excess of $5 million)
- Correctional Industries Credit
- Defense Contracting Credit
- Enterprise Zone Credit
- Environmental Technology Facility Credit
- Military Reuse Zone Credit
- Research and Development Credit

Environmental concerns are the reason for the fourth group of tax credits. For these credits, some kind of environmentally-responsible behavior is being encouraged through the reward of a tax credit.

- Agricultural Pollution Control Equipment
- Agricultural Water Conservation System
- Alternative Fuel Delivery System
- Alternative Fuel Vehicles
- Commercial Solar Application
- Groundwater Measuring Device
- Installation of Residential Insulation and Devices
- Pollution Control Device
- Recycling Equipment
- Solar Energy Device (the first and second)
- Solar Energy Devices Installed in Houses
- Solar Water Heater Plumbing Stub Outs/Electric Vehicle Outlets
- Underground Storage Tanks
- Vehicle Refueling Apparatus

The remaining tax credits are behavioral in nature. The goal is to encourage a certain contribution or purchasing behavior, different from those in the previous four categories. The credits in this category are:

- Contributions to Charities that Provide Assistance to Poor
- Donation of Motor Vehicles to Wheels to Work Program
- Employer Dependent Day Care
- Employment of TANF Recipients
- Private School Tuition Organization
Public School Extra Curricular Activity Fee
Taxes Paid for Coal Consumed in Generating Electrical Power

Tax credits can also be divided into those that are refundable and those that are not refundable. Until the 2000 legislative session, the only refundable tax credit available in Arizona was for individuals claiming the property tax credit (or, prior to its repeal, the renter’s tax credit). The alternative fuel vehicle tax credit, the alternative fuel delivery system credit and the vehicle refueling apparatus and infrastructure credit were changed in the 2000 legislative session to allow the option of refundability. Furthermore, these three credits were given the option of a carry back, meaning that prior year returns could be amended to use the credit. The Agricultural Preservation District Credit and the Technology Training Credit, created in the 2000 legislative session, are also refundable.

In lieu of allowing refundable credits, Arizona has usually opted to allow unused credits to be carried forward to future tax years. Nine credits were allowed no carry forward: Correctional Industries; Donation of Motor Vehicles to Wheels to Work Program; Employer Dependent Day Care; Family; Income Taxes Paid to Other States or Countries; Installation of Residential Insulation and Devices; Property Tax; Renter's Tax; and, Underground Storage Tanks. The Commercial Solar Application Credit was the only credit with a three-year carry forward period. Four credits were given fifteen year carry forward periods: Alternative Fuel Delivery Systems; Environmental Technology Facility; Recycling Equipment; and, Research and Development Credit. All remaining credits have a five-year carry forward.

**TAX CREDIT COST**

The cost of tax credits is deceptively difficult to quantify and report. Should the amount of credit established in a given tax year be reported? Should the number reported be new credit established plus prior year carry forward? Is the amount of credit actually used to offset tax liability the more important number? Should credit carry forward be included in figures even if a taxpayer had no tax liability and did not claim any carry forward? How should amended returns and audited returns be counted? If tax credits are grouped together for reporting purposes to maintain confidentiality, should this grouping be maintained continually or is it okay to regroup these credits as new information becomes available?

Another difficulty relates to the presentation of this information. For some credits, preliminary data is available for tax years 1999 and 1998. For most credits, the most recent information available is from tax year 1997 or even 1996. In light of these considerations, the best data available on the cost of tax credits is provided below. This data is only what is available at the time of this report. Some of these numbers will change in the future. Very little data is available for the early credits. Tables Five and Six, at the end of the report, provide a summary of the cost of tax credits for tax years 1990 forward.

**Tax Year 1999**

**Individual**

*Private School Tuition Organization Credit:* Preliminary data reported by school tuition organizations shows that $13.6 million was contributed and could be claimed.

*Public School Extra Curricular Activity Fee Credit:* Preliminary data reported by school districts shows that $14.5 million could be claimed.
Tax Year 1998

**Individual**

Family Tax Credit: 359,482 claims. $32.8 million claimed. No data available yet on how much of this was actually used.

Private School Tuition Organization Credit: Preliminary data reported by school tuition organizations shows that $1.8 million was contributed.

Property Tax Credit: 17,244 claims. $5.3 million used.

Public School Extra Curricular Activity Fee Credit: Preliminary data reported by school districts shows that $9 million could be claimed.

Tax Year 1997

**Individual**

Enterprise Zone Credit: $422,000 available. $208,000 used. $214,000 in carry forward.

Family Tax Credit: 398,474 claims. $24.0 million used.

Property Tax Credit: 18,644 claims. $5.6 million used.

**Corporate**

Agricultural Water Conservation Credit: Cannot release due to confidentiality law.

Alternative Fuel Vehicles Credit: Cannot release due to confidentiality laws.

Construction Materials Credit: 5 claims. $1.1 million available. $539,000 used. $547,000 in carry forward.

Defense Restructuring Credit: Cannot release due to confidentiality laws.

Enterprise Zone Credit: 37 claims. $5.6 million available. $2.2 million used. $3.5 million in carry forward.

Environmental Technology Facility Credit: Cannot release due to confidentiality laws.

Military Reuse Zone Credit: Cannot release due to confidentiality laws.

Pollution Control Credit: 13 claims. $2.3 million available. $712,000 used. $1.6 million in carry forward.

Recycling Equipment Credit: 4 claims. $191,000 available. $11,000 used. $180,000 in carry forward.

Research and Development Credit: 104 claims. $15.9 million available. $8.5 million used. $592.4 million in carry forward.

Underground Storage Tanks Credit: Cannot release due to confidentiality laws.

Tax Year 1996

**Individual**

Agricultural Water Conservation System Credit: 58 claims. $4.1 million available. $708,000 used. $3.4 million carry forward.

Alternative Fuel Vehicles Credit: 35 claims. $33,000 available. $24,000 used. $10,000 carry forward.

Construction Materials Credit: Cannot release due to confidentiality laws.

Enterprise Zone Credit: $414,000 available. $169,000 used. $245,000 in carry forward.

Environmental Technology Facility Credit: Cannot release due to confidentiality laws.

Family Tax Credit: 384,971 claims. $23.6 million used.

Pollution Control Credit: 19 claims. $2,000 available. $2,000 used.

Property Tax Credit: 19,983 claims. $5.8 million used.

Summer School and Jobs Credit: Cannot release due to confidentiality law.

Military Reuse Zone Credit: Cannot release due to confidentiality laws.

Recycling Equipment Credit: Cannot release due to confidentiality laws.

Solar Energy Device Credit: 1,628 claims. $602,000 available. $513,000 used. $63,000 in carry forward.

Underground Storage Tanks Credit: No claims.
**Corporate**

*Agricultural Water Conservation Credit*: Cannot release due to confidentiality laws.
*Alternative Fuel Vehicles Credit*: Cannot release due to confidentiality laws.
*Construction Materials Credit*: 9 claims. $1.7 million available. $891,000 used.
$805,000 in carry forward.
*Defense Restructuring Credit*: Cannot release due to confidentiality laws.
*Enterprise Zone Credit*: 28 claims. $4.1 million available. $2.4 million used. $1.7 million in carry forward.
*Environmental Technology Facility Credit*: 5 claims. $23.7 million available. $2.6 million used. $21.2 in carry forward.
*Military Reuse Zone Credit*: Cannot be released due to confidentiality laws.
*Pollution Control Credit*: 19 claims. $6.3 million available. $2.3 million used. $4.1 million in carry forward.
*Recycling Equipment Credit*: 4 claims. $171,000 available. $11,000 used. $160,000 in carry forward.
*Research and Development Credit*: 91 claims. $13.2 million available. $8.4 million used. $435.6 million in carry forward.
*Underground Storage Tanks Credit*: Cannot release due to confidentiality laws.

**Tax Year 1995**

**Individual**

*Agricultural Water Conservation System Credit*: 54 claims. $2.6 million available. $923,000 used. $1.7 million carry forward.
*Alternative Fuel Vehicles Credit*: 24 claims. $14,000 available. $11,000 used. $3,000 carry forward.
*Construction Materials Credit*: No claims.
*Enterprise Zone Credit*: $687,000 available. $635,000 used. $52,000 in carry forward.
*Environmental Technology Facility Credit*: No claims.
*Family Tax Credit*: 340,844 claims. $20.6 million used.
*Military Reuse Zone Credit*: No claims.
*Pollution Control Credit*: 32 claims. $98,000 available. $76,000 used. $22,000 in carry forward.
*Property Tax Credit*: 22,091 claims. $6.3 million used.
*Recycling Equipment Credit*: 6 claims. $15,000 available. $5,000 used. $10,000 in carry forward.
*Solar Energy Device Credit*: 1,924 claims. $655,000 available. $593,000 used. $63,000 in carry forward.
*Summer School and Jobs Credit*: Cannot release due to confidentiality laws.
*Underground Storage Tanks Credit*: No claims.

**Corporate**

*Agricultural Water Conservation Credit*: Cannot release due to confidentiality laws.
*Alternative Fuel Vehicles Credit*: Cannot release due to confidentiality laws.
*Construction Materials Credit*: 6 claims. $5.3 million available. $4.8 million used. $459,000 in carry forward.
*Defense Restructuring Credit*: 4 claims. $11.6 million available (in new credit. Prior year carry forward available cannot be disclosed). $1.3 million used. Carry forward cannot be disclosed.
*Enterprise Zone Credit*: 23 claims. $2.8 million available. $1.8 million used. $1.0 million in carry forward.
*Environmental Technology Facility Credit*: 6 claims. $50.5 million available. $15.8 million used. $34.6 in carry forward.
Pollution Control Credit: 16 claims. $5.0 million available. $2.4 million used. $2.7 million in carry forward.
Recycling Equipment Credit: 5 claims. $152,000 available. $15,000 used. $137,000 in carry forward.
Research and Development Credit: 75 claims. $8.1 million available. $4.9 million used. $240.0 million in carry forward.
Underground Storage Tanks Credit: Cannot release due to confidentiality laws.

Tax Year 1994

Individual
Agricultural Water Conservation System Credit: 35 claims. $1.8 million available. $382,000 used. $1.4 million carry forward.
Alternative Fuel Vehicles Credit: 51 claims. $36,000 available. $29,000 used. $7,000 carry forward.
Employer Dependent Day Care Credit: Cannot release due to confidentiality laws.
Enterprise Zone Credit: $595,000 available. $337,000 used. $258,000 in carry forward.
Environmental Technology Facility Credit: No claims.
Military Reuse Zone Credit: No claims.
Property Tax Credit: 23,743 claims. $6.6 million used.
Recycling Equipment Credit: Cannot release due to confidentiality laws.
Underground Storage Tanks Credit: Cannot release due to confidentiality laws.

Corporate
Agricultural Water Conservation Credit: 5 claims. $147,000 available. $8,000 used. $139,000 in carry forward.
Alternative Fuel Vehicles Credit: Cannot release due to confidentiality laws.
Construction Materials Credit: 5 claims. $1.1 million available. $539,000 used. $547,000 in carry forward.
Defense Restructuring Credit: Cannot release due to confidentiality laws.
Employer Dependent Day Care Credit: 5 claims. $7,000 available. $7,000 used.
Enterprise Zone Credit: 25 claims. $1.1 million available. $920,000 used. $200,000 in carry forward.
Environmental Technology Facility Credit: 4 claims. $15.5 million available. $2.3 million used. $13.1 in carry forward.
Recycling Equipment Credit: 4 claims. $191,000 available. $11,000 used. $180,000 in carry forward.
Research and Development Credit: 81 claims. $4.4 million available. $2.4 million used. $129.9 million in carry forward.
Underground Storage Tanks Credit: Cannot release due to confidentiality laws.

Tax Year 1993

Individual
Enterprise Zone Credit: $221,000 available. $134,000 used. $87,000 in carry forward.
Environmental Technology Facility Credit: No claims.
Military Reuse Zone Credit: No claims.
Property Tax Credit: 24,596 claims. $6.7 million used.

Corporate
Employer Dependent Day Care: 5 claims. $18,500 available. $18,300 used.
Enterprise Zone Credit: 17 claims. $1.5 million available. $1.5 million used. $79,000 in carry forward.
Tax Year 1992

**Individual**

Enterprise Zone Credit: $145,000 available. $112,000 used. $33,000 in carry forward.

Property Tax Credit: 25,478 claims. $6.8 million used.

Solar Energy Device Credit: 100 carry forward claims. $58,000 available. $25,000 used. $33,000 in carry forward.

**Corporate**

Employer Dependent Day Care Credit: 8 claims. $9,000 available. $7,500 used.

Enterprise Zone Credit: 13 claims. $1.3 million available. $952,000 used. $347,000 in carry forward.

Tax Year 1991

**Individual**

Enterprise Zone Credit: $67,000 available. $60,000 used. $7,000 in carry forward.

Groundwater Measuring Device Credit: Cannot release information on carry forward claims to confidentiality laws.

Property Tax Credit: 25,033 claims. $6.7 million used.

Renter's Tax Credit: 156,744 claims. $6.1 million used.

Solar Energy Device Credit: 109 carry forward claims. $51,000 available. $25,000 used. $26,000 in carry forward.

**Corporate**

Employer Dependent Day Care: 4 claims. $6,300 available. $5,200 used.

Enterprise Zone Credit: $1.1 million available. $600,000 used. $467,000 in carry forward.

Tax Year 1990

**Individual**

Enterprise Zone Credit: $24,000 available. $23,000 used. $1,000 in carry forward.

Property Tax Credit: 24,378 claims. $6.3 million used.

Renter's Tax Credit: 170,690 claims. $9.1 million used.

**Corporate**

Enterprise Zone Credit: 6 claims. $188,000 available. $170,000 used. $19,000 in carry forward.

Tax Year 1989

**Individual**

Property Tax Credit: 25,407 claims. $6.5 million used.

Renter's Tax Credit: 256,346 claims. $17.2 million used.

Tax Year 1988

**Individual**

Property Tax Credit: 26,905 claims. $6.4 million used.

Renter's Tax Credit: 258,552 claims. $20.8 million used.

Tax Year 1987

**Individual**

Property Tax Credit: 27,454 claims. $6.3 million used.

Renter's Tax Credit: 253,492 claims. $23.5 million used.

Tax Year 1986

**Individual**

Property Tax Credit: 28,805 claims. $6.0 million used.
**Renter’s Tax Credit**: 249,118 claims. $22.8 million used.

**Tax Year 1985**

**Individual**

Property Tax Credit: 28,182 claims. $5.7 million used.
Renter’s Tax Credit: 248,631 claims. $22.7 million used.

**Tax Year 1984**

**Individual**

Property Tax Credit: 21,256 claims. $3.7 million used.
Renter’s Tax Credit: 241,704 claims. $25.6 million used.

**Tax Year 1983**

**Individual**

Property Tax Credit: 46,507 claims. $15.1 million used.
Renter’s Tax Credit: 281,495 claims. $35.8 million used.

**Tax Year 1982**

**Individual**

Income Taxes Paid to Other States or Countries Credit: 8,555 claims. $3.9 million used.
Installation of Residential Insulation and Devices Credit: 32,537 claims. $2.7 million used.
Property Tax Credit: 50,790 claims. $16.6 million used.
Renter’s Tax Credit: 262,171 claims. $31.3 million used.
Solar Energy Devices Credit: 21,630 claims. $13.6 million used.

**Tax Year 1981**

**Individual**

Income Taxes Paid to Other States or Countries Credit: 10,889 claims. $4.6 million used.
Installation of Residential Insulation and Devices Credit: 38,144 claims. $3.2 million used.
Property Tax Credit: 53,131 claims. $16.6 million used.
Renter’s Tax Credit: 246,869 claims. $27.0 million used.
Solar Energy Devices Credit: 22,531 claims. $14.6 million used.

**Tax Year 1980**

**Individual**

Income Taxes Paid to Other States or Countries Credit: 9,969 claims. $3.8 million used.
Installation of Residential Insulation and Devices Credit: 35,223 claims. $2.6 million used.
Property Tax Credit: 53,622 claims. $15.0 million used.
Renter’s Tax Credit: 212,070 claims. $20.7 million used.
Solar Energy Devices Credit: 14,322 claims. $8.4 million used.

**Tax Year 1979**

**Individual**

Income Taxes Paid to Other States or Countries Credit: 8,748 claims. $3.3 million used.
Installation of Residential Insulation and Devices Credit: 35,527 claims. $2.4 million used.
Property Tax Credit: 52,691 claims. $12.5 million used.
Renter's Tax Credit: 184,204 claims. $15.5 million used.
Solar Energy Devices Credit: 8,858 claims. $4.6 million used.

TAX CREDIT CONSIDERATIONS

When reviewing established tax credits or proposing new tax credits, some consideration should be given to the purpose behind the credit or the tax policy or public policy goal the credit is trying to enhance. The following questions, although not all-inclusive, could provide the start of a discussion on the merits of a tax credit.

Are tax credits intended to alleviate income tax burden? If so, do refundable credits, credits that result in a refund when tax liability is exceeded, make sense?

Should tax credits be created for a specific company or industry, or should they be available to a broader group of taxpayers? If the target is a small group, is it acceptable that data on the tax credit, such as amount claimed, may not be disclosable due to confidentiality laws?

By removing part of the tax base, is the ability to pay for services, such as education, threatened? Is the impact of the tax credit large enough to threaten the well-being of the general fund if the economy suffers from a downturn?

Are tax credits an appropriate tool for encouraging charitable contributions? By providing a tax credit for the behavior, isn't some of the "charity" removed? Is it okay to encourage charitable giving to some entities over others? For example, is giving to a public school more highly valued than giving to research to eradicate cancer?

If the purpose of the tax credit is for economic development, is the credit large enough to truly be an incentive? Is there any measure of ultimate success or failure for economic development credits or credits designed for environmental concerns? How will we know if the credit is meeting the desired purpose?
### TABLE ONE
**GROWTH OF INDIVIDUAL INCOME TAX CREDITS IN ARIZONA**

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<td>Taxes Paid for Coal Consumed in Generating Electrical Power</td>
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<td>Underground Storage Tanks</td>
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<td>Vehicle Refueling Apparatus</td>
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TABLE THREE
INDIVIDUAL INCOME TAX CREDITS

AGRICULTURAL POLLUTION CONTROL EQUIPMENT CREDIT
Statute: A.R.S. § 43-1081.01
Effective Date: For taxable years beginning from and after December 31, 1998.
Provisions: A credit is allowed for expenses that a taxpayer, involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products, incurred to purchase tangible personal property that is primarily used in the taxpayer's trade or business in Arizona to control or prevent pollution. Property that qualifies for this credit includes the portion of a structure, building, installation, excavation, machine, equipment or device and any attachment or addition or reconstruction, replacement or improvement of that property that is directly used, constructed or installed to prevent, monitor, control or reduce air, water or land pollution. The credit is equal to 25% of the cost of the real or personal property, not to exceed $25,000, with a five-year carry forward.
Income Value in Tax Year 2000: Based on an estimated effective tax rate of 3.5%, the maximum $25,000 credit removes $714,000 in income from taxation.

AGRICULTURAL PRESERVATION DISTRICT CREDIT
Statute: A.R.S. § 43-1081.02
Effective Date: For taxable years beginning from and after December 31, 2000.
Provisions: A credit is allowed for a taxpayer who owns property classified as Class Two property (agricultural) and who conveys ownership or development rights to an agricultural preservation district. The amount of the credit is either the appraised value of the property if the taxpayer conveys ownership to the district or the difference between the appraised value of the undeveloped land and the appraised value of the land for development purposes if the taxpayer conveys the development rights of the property to the district. No credit in a calendar year can exceed $33,000. No district can award credits exceed $10 million. This credit is refundable.
Income Value in Tax Year 2000: Based on an estimated effective tax rate of 3.5%, the maximum $33,000 credit removes $943,000 in income from taxation.

AGRICULTURAL WATER CONSERVATION SYSTEM CREDIT
Statute: A.R.S. § 43-1084
Effective Date: For taxable years beginning from and after December 31, 1993.
Provisions: A credit is allowed for expenses incurred during the taxable year to purchase and install an agricultural water conservation system in Arizona. The system must be primarily designed to substantially conserve water on land used to
1. produce crops, fruits or other agricultural products.
2. raise, harvest or grow trees.
3. sustain livestock.
The expense must be consistent with a conservation plan filed and in effect with the United States Department of Agriculture Soil Conservation Service. The credit is equal to 75% of the qualifying expenses, with a five-year carry forward.

ALTERNATIVE FUEL DELIVERY SYSTEM CREDIT
Statute: A.R.S. § 43-1086.02
Effective Date: For taxable years beginning from and after December 31, 1997.
Provisions: A credit is allowed for construction costs or operating costs for constructing or operating an alternative fuel delivery system in Arizona that is
capable of dispensing an alternative fuel to an alternative fuel vehicle. Construction costs means those costs directly associated with the construction of an alternative fuel delivery system and does not include any construction costs for gasoline or diesel fuel delivery systems or adjacent buildings, landscaping or paving for areas not directly connected to the alternative fuel delivery system. Operating costs means those costs directly associated with the dispensing of alternative fuel through an alternative fuel delivery system plus a reasonable charge for overhead functions. The amount of the credit is equal to:

1. For an alternative fuel delivery system that is accessible to the general public or for an alternative fuel delivery system that is dispensing renewable fuel, 100% of the costs incurred up to a maximum of $400,000.
2. For an alternative fuel delivery system that does not satisfy paragraph 1, 50% of the costs incurred up to a maximum of $200,000.

This credit is refundable or a fifteen-year carry forward or carry back is allowed.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, the maximum $400,000 credit removes $11.4 million in income from taxation. A $200,000 credit has an income value of $5.7 million.

**ALTERNATIVE FUEL VEHICLES CREDIT**

**Statute:** A.R.S. § 43-1086

**Effective Date:** For taxable years beginning from and after December 31, 1993.

**Provisions:** A credit is allowed for (1) purchases or leases, for a period of at least 3 years, one or more new original equipment manufactured alternative fuel vehicles or (2) expenses incurred for converting one or more conventionally fueled vehicles to operate on an alternative fuel. The amount of the credit is equal to:

1. For a new low emission vehicle 12,000 pounds or less gross vehicle weight, the greater of 30% of the cost or $5,000.
2. For a used low emission vehicle 12,000 pounds or less gross vehicle weight, the greater of 15% of the cost or $2,500.
3. For a new ultralow or inherently low emission vehicle, the greater of 40% of the cost or $7,500.
4. For a used ultralow or inherently low emission vehicle, the greater of 20% of the cost or $3,750.
5. For a new zero or super ultralow emission vehicle, the greater of 50% of the cost or $10,000.
6. For a used zero emission vehicle that is purchased, the greater of 25% of the cost or $5,000.
7. For a used zero emission vehicle that is leased, the greater of 25% of the cost or $2,500.
8. For a new low emission vehicle over 12,000 pounds gross vehicle weight, the greater of 30% of the cost or $30,000.
9. For a used low emission vehicle over 12,000 pounds gross vehicle weight, the greater of 15% of the cost or $15,000.
10. For conversion of a vehicle over 12,000 pounds gross vehicle weight, the greater of 30% of the vehicle purchase price plus conversion cost or 30% of the original manufacturer's base retail price of the vehicle or $30,000.
11. For purchase of a converted vehicle over 12,000 pounds gross vehicle weight, the greater of 15% of the cost or $15,000.
12. For conversion of any other vehicle, the greater of 30% of the vehicle purchase price plus conversion cost or 30% of the original manufacturer's base retail price of the vehicle or $5,000. (If the taxpayer can demonstrate that the converted vehicle qualifies as an ultralow or inherently low emission vehicle, the credit is the greater of 40% of the cost or $7,500. If the taxpayer can demonstrate that the
converted vehicle qualifies as a zero or super ultralow emission vehicle, the credit is
the greater of 50% of the cost or $10,000.

13. For purchase of any other converted vehicle, the greater of 15% of the
cost or $2,500.

This credit is refundable or a ten-year carry forward or carry back is allowed.

If the taxpayer purchases the vehicle or converts the vehicle prior to June 30,
2003, an additional tax credit is available for the incremental cost of the purchase or
conversion. Incremental cost means the amount by which the cost of an alternative
fuel vehicle exceeds the cost of the same model of conventionally fueled vehicle that
is similarly equipped. For a zero emission vehicle, the incremental cost is assumed
to be the greater of 25% of the cost or $10,000.

Comments: This language replaced another alternative fuel vehicle credit that was
effective for taxable years beginning from and after December 31, 1993. The
previous credit was for a maximum amount of $1,000 per vehicle.

Income Value in Tax Year 2000: Based on an estimated effective tax rate of
3.5%, a $5,000 credit removes $143,000 in income from taxation. Income values of
the other available credit amounts are: $2,500 credit - $71,000; $7,500 credit -
$214,000; $3,750 credit - $107,000; $10,000 credit - $286,000; $30,000 credit -
$857,000; $15,000 credit - $429,000.

CONSTRUCTION MATERIALS CREDIT
Statute: A.R.S. § 43-1082
Effective Date: For taxable years beginning from and after December 31, 1994.
Provisions: A credit is allowed for new construction materials incorporated into a
qualifying facility located entirely within Arizona, construction of which is begun on or
after January 1, 1994 and completed on or before December 31, 1999. A qualifying
facility means a new building or structure, or expansion of an existing building or
structure predominantly used for manufacturing, fabricating, mining, refining,
metallurgical operations, direct broadcast satellite television or data transmission
services or research and development and which has a total cost of construction in
excess of $5 million. The credit is 5% of the purchase price of the materials. A five-
year carry forward is allowed.

Comments: This credit was amended in 1996 to include direct broadcast satellite
television or data transmission services.

CONTRIBUTIONS TO CHARITIES THAT PROVIDE ASSISTANCE TO THE
WORKING POOR CREDIT
Statute: A.R.S. § 43-1088
Effective Date: For taxable years beginning from and after December 31, 1997.
Provisions: A credit is allowed for voluntary cash contributions to a qualifying
charitable organization, not exceeding $200. A qualifying charitable means a
501(c)(3) organization that spends at least 50% of its budget on services to
residents of Arizona who receive TANF benefits or low income residents of this state
and their households. Low income individuals means persons whose household
income is less than 150% of the federal poverty level. The credit applies only to
contributions to qualifying charitable organizations that exceed the total amount
deducted on the taxpayer's Schedule A in the taxpayer's baseline year. The baseline
year is:

1. the 1996 taxable year if the taxpayer had charitable contributions as
itemized deductions on the Schedule A.

2. If the taxpayer did not deduct charitable contributions on the Schedule A in
1996, the taxpayer's baseline year is the first taxable year after 1996 that charitable
contributions were deducted on the Schedule A.
A five-year carry forward is allowed.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, the maximum $200 credit removes $5,700 in income from taxation.

**DEFENSE CONTRACTING CREDIT**

**Statute:** A.R.S. § 43-1077 and § 43-1078  
**Effective Date:** For taxable years beginning from and after September 30, 1992  
**Provisions:** This credit is limited to companies that have been certified by the Arizona Department of Commerce as qualified defense contractors. Qualified defense contractors (1) must have one or more current manufacturing, assembling, fabricating, research, development or design contracts directly with USDOD\(^3\) that (a) total at least $5 million in sales of tangible personal property manufactured, assembled, fabricated, researched, developed or designed in Arizona and (b) do not require providing products or services directly to a particular military base or installation and (2) employs at least 200 full-time equivalent employees in Arizona with respect to USDOD contracts.

1. A tax credit for a net increase in employment of qualified employees under United States Department of Defense contract.
   a. Credit is for $2,500 for each first year full-time equivalent position created, $2,000 for each previously qualified full-time equivalent position for the second year of existence, $1,500 in the third year of existence, $1,000 in the fourth year of existence and $500 for the fifth year of existence. Five year carry forward.

2. A tax credit is allowed for a net increase in private commercial employment by a qualified defense contractor due to full-time equivalent positions transferred during the taxable year by the taxpayer from exclusively defense related activities to employment by the taxpayer in exclusively private commercial activities.
   a. Credit amounts are the same as cited in 1a.

3. A tax credit is allowed against income taxes, equal to a portion of the amount paid as taxes on property in this state that is classified as class 3 property (commercial or industrial).
   a. Credit is equal to a percentage of property tax paid on class 3 property. If more than 900 new full-time equivalent positions are created, the credit is 40% of the property tax. If 601 to 900 new full-time equivalent positions are created, the credit is 20% of the property tax. A 20% credit is allowed for 301 to 600 new full-time-equivalent positions, and a 10% credit for 1 to 300 new positions. Five year carry forward.

**Comments:** Although this credit is available for individuals, the requirements set out to be certified as a qualified defense contractor make it unlikely that an eligible candidate would be filing income tax as a sole proprietorship or subchapter S corporation.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, a $2,500 credit (one first-year employee) removes $71,000 in income from taxation. A $500 credit for a fifth-year employee has an income value of $14,000.

**DONATION OF MOTOR VEHICLES TO WHEELS TO WORK PROGRAM CREDIT**

**Statute:** A.R.S. § 43-1090.01  
**Effective Date:** For taxable years beginning from and after December 31, 1998.  
**Provisions:** A credit is allowed for the fair market value of any vehicle as determined by the private entity, up to $1,500 per vehicle, that is donated to the wheels to work program.

\(^3\) United States Department of Defense
**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, the maximum $1,500 credit removes $43,000 in income from taxation.

**EMPLOYER DEPENDENT DAY CARE CREDIT**

**Statute:** A.R.S. § 43-1075

**Effective Date:** For tax years beginning after December 31, 1990 and ending before January 1, 1995. (Repeal date set when credit enacted.)

**Provisions:** A credit is allowed to each taxpayer who incurs expenses for providing dependent day care services for employees of the taxpayer.

1. A credit equal to the lesser of $15,000 or 50% of the costs incurred to acquire, construct, renovate or remodel dependent day care facilities or property for dependent day care facilities.
   
   (a) It must be taken for the taxable year in which the facility becomes operational.
   
   (b) It is in lieu of any allowance for state tax purposes for exhaustion, wear and tear of the property under § 167 or 188 of the Internal Revenue Code.
   
   OR,

2. A credit equal to the lesser of $5,000 or 30% of the net costs incurred by the taxpayer to operate dependent day care facilities for employees, provide dependent day care services for employees or pay employees, as reimbursement or compensation for dependent day care expenses incurred by the employee, and provide information and referral services to assist the taxpayer's employee to obtain dependent day care.

**EMPLOYMENT OF TANF RECIPIENTS CREDIT**

**Statute:** A.R.S. § 43-1087

**Effective Date:** For taxable years beginning from and after December 31, 1997.

**Provisions:** A credit is allowed for net increases in qualified employment of recipients of temporary assistance for needy families who are residents of Arizona. To qualify for a credit:

1. All of the employees with respect to whom a credit is claimed must reside in Arizona and must be recipients of temporary assistance for needy families at the time the employee is hired.
2. A qualified employment position must:
   
   a. be classified as full-time employment.
   
   b. must include health insurance coverage for the employee if the employer offers this coverage for employees who are not receiving TANF.
   
   c. must pay compensation at least equal to the minimum wage or a wage comparable to that paid to employees who are not receiving TANF based on the employee's training, skills and job classification.
3. The employee must have been employed for at least 90 days during the first taxable year.
4. The employee was not employed by the taxpayer within 12 months before the current date of hire.
5. The employee position is not eligible for any other employment credit based on wages paid.

The amount of the credit is equal to:

1. 1/4 of the taxable wages paid to an employee in a qualified employment position, not to exceed $500, in the 1st year or partial year of employment.
2. 1/3 of the taxable wages, not to exceed $1,000 per qualified employment position, in the 2nd year of continuous employment.
3. 1/2 of the taxable wages, not to exceed $1,500, in the 3rd year of continuous employment.

A five-year carry forward is allowed

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, a $500 credit (first-year employee) removes $14,000 in income from taxation. A $1,500 credit for the third-year employee removes $43,000 in income from taxation.

**ENTERPRISE ZONE TAX CREDIT**

**Statute:** A.R.S. § 43-1074

**Effective Date:** For taxable years beginning from and after December 31, 1989.

**Provisions:** A credit is allowed for net increases in qualified employment positions of residents of Arizona by a business located in an enterprise zone, except employment positions at a business location where tangible personal property is sold at retail. The amount of the credit is equal to:

1. 1/4 of taxable wages paid to an employee in a qualified employment position, not to exceed $500, in the first year of employment.
2. 1/3 of the taxable wages, not to exceed $1,000, in the second year of continuous employment.
3. 1/2 of the taxable wages, not to exceed $1,500, in the third year of continuous employment.

To qualify for the credit:

1. All employees with respect to whom a credit is claimed must reside in Arizona.
2. 35% of the employees with respect to whom a credit is claimed for the 1st year of employment must reside on the date of employment in an enterprise zone located in the same county in which the business is located.
3. A qualified employment position must meet all of the following requirements:
   a. The position must be at least 1,750 hours per year of full-time employment.
   b. Health insurance coverage must be included for the employee, of which the employer pays at least 50% of the premium or membership cost.
   c. The employer must pay compensation at least equal to the wage offer by county as computed annually by DES.
   d. The employee must have been employed for at least 90 days during the first taxable year.
   e. The employee has not been previously employed by the taxpayer within 12 months before the current hire date.

A five-year carry forward is allowed.

**COMMENTS:** The credit amounts have changed over the years, but the most significant change to this law occurred in 1996, when retail businesses were excluded from the credit.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, a $500 credit (first-year employee) removes $14,000 in income from taxation. A $1,500 credit for the third-year employee removes $43,000 in income from taxation.

**ENVIRONMENTAL TECHNOLOGY FACILITY CREDIT**

**Statute:** A.R.S. § 43-1080

**Effective Date:** For taxable years beginning from and after December 31, 1992.

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4 Arizona Department of Economic Security
Provisions: A credit is allowed for expenses incurred in constructing a qualified technology manufacturing, producing or processing facility. This facility:
1. is either owned by the manufacturer, producer or processor, or leased for a term of 5 or more years.
2. is used predominantly to do any of the following:
   a. sort, store, prepare, convert, fabricate, manufacture or otherwise process finished products consisting of at least 90% recycled materials.
   b. prepare, fabricate, manufacture or otherwise process finished products that are powered exclusively with solar or other specific renewable energy.
   c. prepare, fabricate, manufacture or otherwise process raw material or intermediate product exclusively through a hydrometallurgical process where at least 85% of the process solution used to produce the finished product is recycled on site for additional production.
   d. fabricate or manufacture finished paper products that consist of at least 80% recycled material.
3. costs, or is expected to cost, an aggregate of at least $20 million of new capital investment in Arizona within 5 years after construction begins or commencement of installation of improvements.

The amount of the credit is equal to 10% of the amount spent during the taxable year to construct the facility, including land acquisition, improvements, building improvements, machinery and equipment, but not exceeding 75% of the tax liability. A fifteen-year carry forward is allowed.

Comments: Recapture provisions are set out in the law. Although this credit is available for individuals, the cost requirements set out for the facility make it unlikely that an eligible candidate would be filing income tax as a sole proprietorship or subchapter S corporation.

FAMILY INCOME TAX CREDIT
Statute: A.R.S. § 43-1073
Effective Date: For tax years beginning from and after January 1, 1995

Provisions: The family income tax credit is a credit for taxpayers below certain income levels, with differing amounts for different household sizes. The credit is $40 per person in the household, not to exceed $240 for married taxpayers filing joint or unmarried head of household and $120 for taxpayers filing single or married filing separate.
1. For taxpayers filing single or married filing separately, income must be less than or equal to $10,000 to take the credit.
2. For married taxpayers filing joint
   a. with one dependent, the income threshold is $20,000.
   b. with two dependents, the income threshold is $23,600.
   c. with three dependents, the income threshold is $27,300.
   d. with four or more dependents, the income threshold is $31,000.
3. For taxpayers filing as unmarried head of household,
   a. with one dependent, the income threshold is $20,000.
   b. with two dependents, the income threshold is $20,135.
   c. with three dependents, the income threshold is $23,800.
   d. with four dependents, the income threshold is $25,200.
   e. with five or more dependents, the income threshold is $26,575.

Comments: The original credit was $30 per person with income limits of $10,000 for single filers and married filing separate filers and $20,000 for married filing joint

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5 Income is defined as Arizona adjusted gross income plus any subtractions taken which reduced Federal Adjusted Gross Income.
and unmarried head of household filers. The maximum credit that could be claimed was $60 on single and married filing separate returns and $120 on married filing joint and unmarried head of household returns. The credit amounts and income thresholds shown above were effective for tax years beginning from and after January 1, 1998.

**Income Value in Tax Year 2000:** This credit is designed to remove all income from taxation that is left after deductions and exemptions. For example, a married couple filing joint with four children and an income of $31,000 has dependent exemptions of $9,200, personal exemptions of $6,300 and a standard deduction of $7,200. This leaves $8,300 in taxable income. Applying a tax rate of 2.87% results in a liability of $238. The $240 credit removes all liability.

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**GROUNDWATER MEASURING DEVICE CREDIT**

*Statute:* A.R.S. § 43-1076  
*Effective Date:* For taxable years beginning from and after December 31, 1982.  
*Provisions:* A credit is allowed for purchase and installation of a groundwater measuring device. This devise, or combination of devices and methods, must be approved by the Director of the Department of Water Resources to measure the rates of withdrawals of groundwater and to continuously record or accumulate the rates over time so as to directly provide the annual volume of pumpage from groundwater sources. The credit is equal to 100% of the costs. The credit shall be used over a period of not less than 3 years with no more than 1/3 of the total credit being used in any one year or not more than 5 years.  

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**INCOME TAXES PAID TO OTHER STATES OR COUNTRIES CREDIT**

*Statute:* A.R.S. § 43-1071  
*Effective Date:* For taxable years beginning from and after January 1, 1935.  
*Provisions:* Residents are allowed a credit against income tax imposed in Arizona for net income taxes imposed by and paid to another state or country on income taxable in Arizona.

1. The credit is available if the taxpayer is paying a net income tax to one of the following states and the tax owed to Arizona and the other state or country must be charged on the same income.

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**INSTALLATION OF RESIDENTIAL INSULATION AND DEVICES CREDIT**

*Statute:* A.R.S. § 43-1075  
*Effective Date:* For taxable years beginning from and after December 31, 1977.  
*Provisions:* A credit is allowed for installation of additional loose fill insulation, roll insulation, rigid insulation, foam insulation, insulating screen, reflective glass or film, insulating windows, thermal insulating doors, waste heat water heaters, wind drive turbine attic ventilators, mechanically driven attic ventilation devices, swimming pool covers or passive roof vents to a taxpayer's residence. The credit is equal to 25% of the cost of such improvements, not to exceed $100.  

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**MILITARY REUSE ZONE CREDIT**
Statute: A.R.S. § 43-1079  
Effective Date: For tax years beginning from and after December 31, 1992.  
Provisions: A credit is allowed for net increases in employment of full-time employees working in a military reuse zone, and who are primarily engaged in providing aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products. The amount of the credit for each new employee is:

1. With respect to each employee other than a dislocated military base employee:
   a. $500 in the 1st year of employment.
   b. $1,000 in the 2nd year of employment.
   c. $1,500 in the 3rd year of employment.
   d. $2,000 in the 4th year of employment.
   e. $2,500 in the 5th year of employment.

2. With respect to each dislocated military base employee:
   a. $1,000 in the 1st year of employment.
   b. $1,500 in the 2nd year of employment.
   c. $2,000 in the 3rd year of employment.
   d. $2,500 in the 4th year of employment.
   e. $3,000 in the 5th year of employment.

Dislocated military base employee means a civilian who previously had permanent full-time civilian employment on the military facility as of the date the closure of the facility was determined under federal law.

A five-year carry forward is allowed.

Income Value in Tax Year 2000: Based on an estimated effective tax rate of 3.5%, a $500 credit (first-year employee) removes $14,000 in income from taxation. A $2,500 credit for the fifth-year employee removes $71,000 in income from taxation.

POLLUTION CONTROL DEVICE CREDIT  
Statute: A.R.S. § 43-1081  
Effective Date: For taxable years beginning from and after December 31, 1994.  
Provisions: A credit is allowed for expenses incurred during the taxable year to purchase real or personal property that is used in the taxpayer's trade or business in Arizona to control or prevent pollution. The amount of the credit is equal to the lesser of 10% of the purchase price or $500,000. Property that qualifies for the credit includes that portion of a structure, building, installation, excavation, machine, equipment or device and any attachment or addition to or reconstruction, replacement or improvement of that property that is directly used, constructed, or installed for the purpose of meeting or exceeding rules or regulations adopted by the United States Environmental Protection Agency, the Department of Environmental Quality or a political subdivision to prevent, monitor, control or reduce air, water or land pollution. A five-year carry forward is allowed.

Comments: The credit was capped in 1995 and 1996 at $750,000.

Income Value in Tax Year 2000: Based on an estimated effective tax rate of 3.5%, a $500,000 credit removes $14.3 million in income from taxation.

PRIVATE SCHOOL TUITION ORGANIZATION CREDIT  
Statute: A.R.S. § 43-1089  
Effective Date: For taxable years beginning from and after December 31, 1997.  
Provisions: A credit is allowed for cash contributions to a school tuition organization, but not exceeding $500. A school tuition organization is a 501 (c)(3) that allocates at least 90% of its revenue for scholarships to children to allow them
to attend any qualified school of their parents' choice. The school tuition organization cannot limit availability of scholarships to only one school. A qualified school is a primary or secondary private school. A five-year carry forward is allowed.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, the maximum $500 credit removes $14,000 in income from taxation.

**PROPERTY TAX CREDIT**

**Statute:** A.R.S. § 43-1072

**Effective Date:** For property taxes accrued during calendar years from and after 1974

**Provisions:** There is allowed to each resident a credit against income taxes for property taxes accrued or rent, or both, paid in that taxable year if all of the following apply:

1. The person must be at least 65 years of age or is a recipient of public monies under title 16 of the social security act.
2. The person paid either property taxes or rent during the taxable year.
3. The person did not live with a spouse or any other persons and had an income from all sources in the taxable year of less than $3,750, or lived with a spouse or other people and the combined income from all sources in the taxable year of all persons residing in the residence was less than $5,001.
4. The credit allowed is the amount of property taxes paid or the amount from a table setting out the maximum credit by income range, as shown below:

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<th>Household Income (Living Alone)</th>
<th>Household Income (Living With Others)</th>
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<td>$279</td>
</tr>
<tr>
<td>$2,751 - $2,850</td>
<td>$4,001 - $4,150</td>
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<tr>
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<td>$4,151 - $4,300</td>
<td>$234</td>
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<td>$4,301 - $4,450</td>
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<tr>
<td>$3,051 - $3,150</td>
<td>$4,451 - $4,600</td>
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<tr>
<td>$3,651 - $3,750</td>
<td>$5,351 - $5,500</td>
<td>$130</td>
</tr>
</tbody>
</table>

5. This credit is refundable.

**COMMENTS:** There have been many statutory changes to this credit since it first became law. The original credit was not available to taxpayers who owned property with an assessed valuation of $5,000 or more and did not have the exclusions from the definition of total income that the current credit allows. Effective with tax year 1977, the assessed valuation condition was dropped and the maximum tax credit was set at $225, with maximum income levels of $3,750 (living alone) and $5,500

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6 The definition of income in the statute excludes railroad retirement, social security, state unemployment, veterans' disability and cash public assistance, workmen's compensation, loss of time insurance, gifts and in-kind transfers.
Beginning with tax year 1978, the credit amounts were indexed to inflation as measured by the state consumer price index. Inflation indexing was repealed and the amounts shown in the table above were set into law for taxable years beginning from and after January 1, 1990.

**Income Value in Tax Year 2000:** There is no income value to this credit because these taxpayers generally do not have any income tax. The credit was intended to be a cash rebate of property taxes paid; the income tax system is simply the mechanism to provide the refund.

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**PUBLIC SCHOOL EXTRA CURRICULAR ACTIVITY FEE CREDIT**

**Statute:** A.R.S. § 43-1089.01

**Effective Date:** For taxable years beginning from and after December 31, 1997.

**Provisions:** A credit is allowed for the amount of any fees paid to a public school located in Arizona for the support of extra curricular activities, but not exceeding $200. A five-year carry forward is allowed.

**Amended in 2000:** This credit has been expanded, effective for taxable years from and after December 31, 2000, to include contributions to public schools to pay for character education.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, the maximum $200 credit removes $5,700 in income from taxation.

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**RENTER’S TAX CREDIT**

**Statute:** A.R.S. § 43-1073

**Effective Date:** For tax years beginning from and after December 31, 1973.

Repealed for tax years beginning from and after January 1, 1992.

**Provisions:** The renter's tax credit was available for taxpayers that were full-year residents and that rented a home in Arizona for six months or more. The original credit was for the lesser of $25 or 10% of rent paid. In 1976, the maximum credit was increased to $50, then to $75 in 1978 with inflation indexing to occur thereafter. The renter's credit reached $132 in 1983. Effective with tax year 1984, the renter's credit was capped at $100. Beginning with tax year 1988, the renter's tax credit was phased out. The maximum credits were $85, $70, $55, and finally $40 for tax year 1991. An income limitation of $25,000 was added as a threshold for taking the renter's tax credit in 1990.

**Repealed:** Effective January 1, 1993

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**RECYCLING EQUIPMENT TAX CREDIT**

**Statute:** A.R.S. § 43-1076

**Effective Date:** For taxable years beginning from and after December 31, 1992

**Provisions:** A credit is allowed to a taxpayer who places recycling equipment in service in Arizona, equal to 10% of the installed cost of the equipment. The credit may not exceed the lesser of 25% of the tax liability for the tax year or $5,000. Recycling equipment is defined as new or used equipment purchased during the tax year and used exclusively to process post-consumer select solid waste materials and manufacturing machinery used exclusively to produce finished products, the composition of which is at least 25% post-consumer select solid waste materials. Select solid waste means paper, plastic, scrap metal and iron, glass and rubber. There is a fifteen-year carry forward.

**COMMENTS:** This credit has recapture provisions. This means that if recycling equipment for which a credit has been claimed ceases to be recycling equipment or is transferred to another person during any tax year, a portion of the amount of recycling equipment credit used by the person must be repaid to the state, according
to a schedule set out in statute. (If the recycling equipment is in service less than one year, 100% of the credit must be repaid. If the equipment is in service for more than one but less than two years, 80% of the credit must be repaid. And so on.)

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, the maximum $5,000 credit removes $143,000 in income from taxation.

**RESEARCH & DEVELOPMENT TAX CREDIT**

**Statute:** A.R.S. § 43-1074.01  
**Effective Date:** For taxable years beginning from and after December 31, 2000  
**Provisions:** A credit is allowed for research and development expenses, computed as follows:

1. Add the excess of qualified research expenses for the taxable year over the base amount, to the basic research payments determined.
2. If the sum is less than or equal to $2.5 million, the credit is 20% or a maximum of $500,000.
3. If the sum is greater than $2.5 million, the credit is $500,000 plus 11% of the amount exceeding $2.5 million, except
   a. For taxable years beginning from and after 12/31/00 through 12/31/01, the credit shall not exceed $1.5 million.
   b. For taxable years beginning from and after 12/31/01 through 12/31/02, the credit shall not exceed $2.5 million.
4. A fifteen-year credit carry forward is allowed. However, the amount of carry forward from tax years beginning before 1/1/03 that can be used in a year may be limited. The carry forward amount from the specified tax years must be less than or equal to the lesser of tax liability less current year credit (thereby zeroing out liability) or the difference between $500,000 and the current year credit. Carry forward from tax years beginning from and after 12/31/02 can zero out liability.

**Income Value in Tax Year 2001:** Based on an estimated effective tax rate of 3.5%, the maximum $1.5 million credit in tax year 2001 removes $42.9 million in income from taxation.

**SCHOOL SITE DONATION CREDIT**

**Statute:** A.R.S. § 43-1089.02  
**Effective Date:** For taxable years beginning from and after December 31, 2000.  
**Provisions:** A credit is allowed in the amount of 30% of the value of real property and improvements donated by the taxpayer to a school district or a charter school for use as a school or as a site for the construction of a school. To qualify for the credit, the real property and improvements must be in Arizona, must be conveyed unencumbered and in fee simple, except that the property shall only be used as a school or construction site for a school. There is a five-year carry forward.

**SOLAR ENERGY DEVICE CREDIT**

**Statute:** A.R.S. § 43-1074  
**Effective Date:** For taxable years beginning from and after December 31, 1977.  
**Provisions:** A credit is allowed for the installation of any solar energy device in the taxpayer’s residence in Arizona. Solar energy device means a system or series of mechanisms designed to provide heating, to provide cooling, to produce electrical power, to produce mechanical power or to provide any combination of the foregoing by means of collecting and transferring solar generated energy into such uses either by active or passive means. The credit shall be equal to 35% of the cost of such device through December 31, 1983, from and after which such credit shall decrease
at a rate of 5% of the cost of the device per year. The maximum credit shall not exceed $1,000. A five-year carry forward is allowed.


SOLAR ENERGY DEVICE CREDIT
Statute: A.R.S. § 43-1083
Effective Date: For taxable years beginning from and after December 31, 1994.
Provisions: A credit is allowed for each resident who is not a dependent of another taxpayer for installing a solar energy device in the taxpayer's residence in Arizona. Solar energy device means a system or series of mechanisms designed primarily to provide heating, to provide cooling, to produce electrical power, to produce mechanical power, to provide solar daylighting or to provide any combination thereof by means of collecting and transferring solar generated energy into such uses either by passive or active means, including wind generator systems that produce electricity. The credit is equal to 25% of the cost of the device, not to exceed $1,000. A five-year carry forward is allowed.
Income Value in Tax Year 2000: Based on an estimated effective tax rate of 3.5%, a $1,000 credit removes $29,000 in income from taxation.

SOLAR ENERGY DEVICES INSTALLED IN HOUSES CREDIT
Statute: A.R.S. § 43-1077
Effective Date: For taxable years beginning from and after December 31, 1981.
Provisions: In the case of a taxpayer who builds a house in Arizona designed for human occupancy as a residence, there is allowed a credit for installation of any solar energy devices, as defined in A.R.S. § 43-1074, in such house. The credit is equal to 35% of the cost of such device through December 31, 1983, from and after which such credit shall decrease at a rate of 5% of the cost of the device per year. The maximum credit shall not exceed $1,000. A five-year carry forward is allowed.

SOLAR HOT WATER HEATER PLUMBING STUB OUTS AND ELECTRIC VEHICLE RECHARGE OUTLETS CREDIT
Statute: A.R.S. § 43-1090
Effective Date: For taxable years beginning from and after December 31, 1997.
Provisions: A credit is allowed for costs incurred of installing or including in one or more houses or dwelling units in Arizona and constructed by the taxpayer one or more:
1. Solar hot water plumbing stub outs. To qualify for the credit, the stub out must:
   a. include 2 insulated 3/4 inch copper pipes and at least 2 pairs of wires for monitoring and controlling purposes that project from the dwelling roof or other suitable location and that are connected to the domestic hot water transport and storage system.
   b. be located and configured to allow sufficient solar access and exposure and to allow ready installation of solar water heating devices without further expense or effort to reach, use or serve the domestic hot water system of the house or dwelling.
2. Electric vehicle recharge outlets. To qualify for the credit, the outlet must be connected to the utility system by a dedicated line that:
   a. is capable of operating at normal secondary voltages.
   b. meets applicable local building safety codes.
c. is commensurate and consistent with electric vehicle recharging needs and methods.

The credit shall not exceed $75 for each installation for each separate house or dwelling unit. A five-year carry forward is allowed. The credit may be transferred from the builder to the purchaser of the house or dwelling unit.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, one installation credit of $75 removes $2,100 in income from taxation.

### SUMMER SCHOOL AND JOBS CREDIT

**Statute:** Laws 1995, HB2227, Chapter 236 and Laws 1996, SB1047, Chapter 309.

**Effective Date:** For taxable years beginning from and after December 31, 1994 through December 31, 1996. (Repeal date set when credit enacted.)

**Provisions:** A credit is allowed for qualifying employers for the amount of wages paid by the employer to students who are enrolled in summer school half days and employed by the qualified employer the other half of the day. The maximum credit shall equal half of the wage paid to the student up to a maximum of $3 per hour, with a maximum of 20 hours of work per week.

### TECHNOLOGY TRAINING CREDIT

**Statute:** A.R.S. § 43-1088.01

**Effective Date:** For taxable years beginning from and after December 31, 2000 and ending before January 1, 2006.

**Provisions:** A credit is allowed for providing technological skills training to not more than 20 of the taxpayer's employees. The amount of the credit is equal to 50% of the amount actually spent during the taxable year for the cost of the training, but not more than $1,500 per employee. The total amount of credits that can be granted (through a Department of Commerce certification procedure) is $2.5 million. This is a refundable credit.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, a $1,500 credit for one employee removes $43,000 in income from taxation.

### UNDERGROUND STORAGE TANKS CREDIT

**Statute:** A.R.S. § 43-1085

**Effective Date:** For taxable years beginning from and after December 31, 1993.

**Provisions:** A credit is allowed for expenses incurred by an individual or taxpayer who is not liable or responsible for a corrective action as an owner or operator of an underground storage tank, for corrective actions taken with respect to the release of a regulated substance from an underground storage tank. The credit is equal to 10% of the total amount spent to take any corrective action certified by the Arizona Department of Environmental Quality.

### VEHICLE REFUELLING APPARATUS AND INFRASTRUCTURE CREDIT

**Statute:** A.R.S. § 43-1086.01

**Effective Date:** For taxable years beginning from and after December 31, 1998.

**Provisions:** A credit is allowed for the purchase of a vehicle refueling apparatus, including storage tanks, for installation on one or more properties in Arizona for the taxpayer's use. Vehicle refueling apparatus means either:

1. A maximum 10 to 15 standard cubic feet per minute natural gas compression appliance used for slow fill, on-site refueling.
2. Equipment necessary to provide an electric charge for an electric vehicle.
The credit for each vehicle refueling apparatus is equal to the cost of the vehicle refueling apparatus. The credit is refundable or a ten-year carry forward or carry back is allowed.

An additional credit is available for each taxpayer who installs any infrastructure necessary for operation of a vehicle refueling apparatus purchased for installation on the taxpayer's property, including gas or electric infrastructure from the closest main or transformer but not more than 100 feet. The amount of the credit is the cost of the installation of the infrastructure. The credit is refundable or a ten-year carry forward or carry back is allowed.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 3.5%, a $2,000 credit removes $57,000 in income from taxation.
**TABLE FOUR**

CORPORATE INCOME TAX CREDITS

### AGRICULTURAL POLLUTION CONTROL EQUIPMENT CREDIT
**Statute:** A.R.S. § 43-1170.01  
**Effective Date:** For taxable years beginning from and after December 31, 1998.  
**Provisions:** A credit is allowed for expenses that a taxpayer, involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products, incurred to purchase tangible personal property that is primarily used in the taxpayer's trade or business in Arizona to control or prevent pollution. Property that qualifies for this credit includes the portion of a structure, building, installation, excavation, machine, equipment or device and any attachment or addition or reconstruction, replacement or improvement of that property that is directly used, constructed or installed to prevent, monitor, control or reduce air, water or land pollution. The credit is equal to 25% of the cost of the real or personal property, not to exceed $25,000.  
**Income Value in Tax Year 2000:** Based on a tax rate of 7.968%, the maximum $25,000 credit removes $314,000 in income from taxation.

### AGRICULTURAL PRESERVATION DISTRICT CREDIT
**Statute:** 2000 Law, HB2060, Chapter 267  
**Effective Date:** For taxable years beginning from and after December 31, 2000.  
**Provisions:** A credit is allowed for a taxpayer who owns property classified as Class Two property (agricultural) and who conveys ownership or development rights to an agricultural preservation district. The amount of the credit is either the appraised value of the property if the taxpayer conveys ownership to the district or the difference between the appraised value of the undeveloped land and the appraised value of the land for development purposes if the taxpayer conveys the development rights of the property to the district. No credit in a calendar year can exceed $33,000. No district can award credits exceed $10 million. This credit is refundable.  
**Income Value in Tax Year 2000:** Based on a tax rate of 7.968%, the maximum $33,000 credit removes $414,000 in income from taxation.

### AGRICULTURAL WATER CONSERVATION SYSTEM CREDIT
**Statute:** A.R.S. § 43-1172  
**Effective Date:** For taxable years beginning from and after December 31, 1993.  
**Provisions:** A credit is allowed for expenses incurred during the taxable year to purchase and install an agricultural water conservation system in Arizona. The system must be primarily designed to substantially conserve water on land used to  
1. produce crops, fruits or other agricultural products.  
2. raise, harvest or grow trees.  
3. sustain livestock.  
The expense must be consistent with a conservation plan filed and in effect with the United States Department of Agriculture Soil Conservation Service. The credit is equal to 75% of the qualifying expenses, with a five-year carry forward.  
**Repealed:** Effective January 1, 2000

### ALTERNATIVE FUEL DELIVERY SYSTEM CREDIT (Formerly Alternative Fuel Fueling Station)
**Statute:** A.R.S. § 43-1086.02  
**Effective Date:** For taxable years beginning from and after December 31, 1997.
Provisions: A credit is allowed for construction costs or operating costs for constructing or operating an alternative fuel delivery system in Arizona that is capable of dispensing an alternative fuel to an alternative fuel vehicle. Construction costs means those costs directly associated with the construction of an alternative fuel delivery system and does not include any construction costs for gasoline or diesel fuel delivery systems or adjacent buildings, landscaping or paving for areas not directly connected to the alternative fuel delivery system. Operating costs means those costs directly associated with the dispensing of alternative fuel through an alternative fuel delivery system plus a reasonable charge for overhead functions. The amount of the credit is equal to:

1. For an alternative fuel delivery system that is accessible to the general public or for an alternative fuel delivery system that is dispensing renewable fuel, 100% of the costs incurred up to a maximum of $400,000.
2. For an alternative fuel delivery system that does not satisfy paragraph 1, 50% of the costs incurred up to a maximum of $200,000.

This credit is refundable or a fifteen-year carry forward or carry back is allowed.

Income Value in Tax Year 2000: Based on a tax rate of 7.968%, the maximum $400,000 credit removes $5 million in income from taxation.

ALTERNATIVE FUEL VEHICLES CREDIT
Statute: A.R.S. § 43-1174
Effective Date: For taxable years beginning from and after December 31, 1993.

Provisions: A credit is allowed for (1) purchase or lease, for a period of at least 3 years, of one or more new original equipment manufactured alternative fuel vehicles or (2) expenses incurred for converting one or more conventionally fueled vehicles to operate on an alternative fuel. The amount of the credit is equal to:

1. For a new low emission vehicle 12,000 pounds or less gross vehicle weight, the greater of 30% of the cost or $5,000.
2. For a used low emission vehicle 12,000 pounds or less gross vehicle weight, the greater of 15% of the cost or $2,500.
3. For a new ultralow or inherently low emission vehicle, the greater of 40% of the cost or $7,500.
4. For a used ultralow or inherently low emission vehicle, the greater of 20% of the cost or $3,750.
5. For a new zero or super ultralow emission vehicle, the greater of 50% of the cost or $10,000.
6. For a used zero emission vehicle that is purchased, the greater of 25% of the cost or $5,000.
7. For a used zero emission vehicle that is leased, the greater of 25% of the cost or $2,500.
8. For a new low emission vehicle over 12,000 pounds gross vehicle weight, the greater of 30% of the cost or $30,000.
9. For a used low emission vehicle over 12,000 pounds gross vehicle weight, the greater of 15% of the cost or $15,000.
10. For conversion of a vehicle over 12,000 pounds gross vehicle weight, the greater of 30% of the vehicle purchase price plus conversion cost or 30% of the original manufacturer's base retail price of the vehicle or $30,000.
11. For purchase of a converted vehicle over 12,000 pounds gross vehicle weight, the greater of 15% of the cost or $15,000.
12. For conversion of any other vehicle, the greater of 30% of the vehicle purchase price plus conversion cost or 30% of the original manufacturer's base retail price of the vehicle or $5,000. (If the taxpayer can demonstrate that the converted vehicle qualifies as an ultralow or inherently low emission vehicle, the credit is the
greater of 40% of the cost or $7,500. If the taxpayer can demonstrate that the converted vehicle qualifies as a zero or super ultralow emission vehicle, the credit is the greater of 50% of the cost or $10,000.

13. For purchase of any other converted vehicle, the greater of 15% of the cost or $2,500.

This credit is refundable or a ten-year carry forward or carry back is allowed.

If the taxpayer purchases the vehicle or converts the vehicle prior to June 30, 2003, an additional tax credit is available for the incremental cost of the purchase or conversion. Incremental cost means the amount by which the cost of an alternative fuel vehicle exceeds the cost of the same model of conventionally fueled vehicle that is similarly equipped. For a zero emission vehicle, the incremental cost is assumed to be the greater of 25% of the cost or $10,000.

Comments: This language replaced another alternative fuel vehicle credit that was effective for taxable years beginning from and after December 31, 1993. The previous credit was for a maximum amount of $1,000 per vehicle.

Income Value in Tax Year 2000: Based on an estimated effective tax rate of 7.968%, a $5,000 credit removes $63,000 in income from taxation. Income values of the other available credit amounts are: $2,500 credit - $31,000; $7,500 credit - $94,000; $3,750 credit - $47,000; $10,000 credit - $125,000; $30,000 credit - $376,000; $15,000 credit - $188,000.

COMMERCIAL SOLAR APPLICATION CREDIT
Statute: A.R.S. § 43-1162
Effective Date: For taxable years beginning from and after December 31, 1979.
Provisions: A credit is allowed for installation of any solar energy device, as defined in A.R.S. § 43-1074, for commercial or industrial purposes in Arizona. The credit is equal to 35% of the cost of such device through December 31, 1983, from and after which such credit shall decrease at a rate of 5% of the cost of the device per year. A three-year carry forward is allowed.
Repealed: Effective January 1, 1985

CONSTRUCTION MATERIALS CREDIT
Statute: A.R.S. § 43-1171
Effective Date: For taxable years beginning from and after December 31, 1994.
Provisions: A credit is allowed for new construction materials incorporated into a qualifying facility located entirely within Arizona, construction of which is begun on or after January 1, 1994 and completed on or before December 31, 1999. A qualifying facility means a new building or structure, or expansion of an existing building or structure predominantly used for manufacturing, fabricating, mining, refining, metallurgical operations, direct broadcast satellite television or data transmission services or research and development and which has a total cost of construction in excess of $5 million. The credit is 5% of the purchase price of the materials. A five-year carry forward is allowed.
Comments: This credit was amended in 1996 to include direct broadcast satellite television or data transmission services.

CORRECTIONAL INDUSTRIES CREDIT
Statute: A.R.S. § 43-1162
Effective Date: For taxable years beginning from and after December 31, 1988.
Provisions: A credit is allowed for investment in qualified property on the grounds of a correctional facility, for employment of inmates in the correctional facility or for
employment of inmates in prison construction. Qualified property means property that is used as an integral part of the operation contemplated by the agreement and that is installed, used or operated exclusively on property managed by the Arizona Department of Corrections. The credit is equal to the lowest of:

1. An amount equal to the sum of:
   a. 50% of any investment in qualified property made as part of the agreement.
   b. 25% of the compensation paid to the inmates as part of the agreement.
2. $100,000
3. The amount of the taxpayer's income tax liability.

Comments: Recapture provisions are set out if the qualified property is converted to any use other than the contemplated use within 3 years after the end of the taxable year for which the credit was claimed.


DEFENSE CONTRACTING CREDIT

Statute: A.R.S. § 43-1165 and § 43-1166

Effective Date: For tax years beginning from and after September 30, 1992

Provisions: This credit is limited to companies that have been certified by the Arizona Department of Commerce as qualified defense contractors. Qualified defense contractors (1) must have one or more current manufacturing, assembling, fabricating, research, development or design contracts directly with USDOD that (a) total at least $5 million in sales of tangible personal property manufactured, assembled, fabricated, researched, developed or designed in Arizona and (b) do not require providing products or services directly to a particular military base or installation and (2) employs at least 200 full-time equivalent employees in Arizona with respect to USDOD contracts.

1. A tax credit for a net increase in employment of qualified employees under United States Department of Defense contract.
   a. Credit is for $2,500 for each first year full-time equivalent position created, $2,000 for each previously qualified full-time equivalent position for the second year of existence, $1,500 in the third year of existence, $1,000 in the fourth year of existence and $500 for the fifth year of existence. Five year carry forward.

2. A tax credit is allowed for a net increase in private commercial employment by a qualified defense contractor due to full-time equivalent positions transferred during the taxable year by the taxpayer from exclusively defense related activities to employment by the taxpayer in exclusively private commercial activities.
   a. Credit amounts are the same as cited in 1a.

3. A tax credit is allowed against income taxes, equal to a portion of the amount paid as taxes on property in this state that is classified as class 3 property (commercial or industrial).
   a. Credit is equal to a percentage of property tax paid on class 3 property. If more than 900 new full-time equivalent positions are created, the credit is 40% of the property tax. If 601 to 900 new full-time equivalent positions are created, the credit is 20% of the property tax. A 20% credit is allowed for 301 to 600 new full-time-equivalent positions, and a 10% credit for 1 to 300 new positions. Five year carry forward.

Income Value in Tax Year 2000: Based on an estimated effective tax rate of 7.968%, a $2,500 credit (one first-year employee) removes $31,000 in income from taxation. A $500 credit for a fifth-year employee has an income value of $6,000.

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7 United States Department of Defense
**DONATION OF MOTOR VEHICLES TO WHEELS TO WORK PROGRAM CREDIT**

**Statute:** A.R.S. § 43-1177  
**Effective Date:** For taxable years beginning from and after December 31, 1998.  
**Provisions:** A credit is allowed for the fair market value of any vehicle as determined by the private entity, up to $1,500 per vehicle, that is donated to the wheels to work program.  
**Income Value in Tax Year 2000:** Based on a tax rate of 7.968%, the maximum $1,500 credit for one vehicle removes $19,000 in income from taxation.

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**EMPLOYER DEPENDENT DAY CARE CREDIT**

**Statute:** A.R.S. § 43-1163  
**Effective Date:** For tax years beginning after December 31, 1990 and ending before January 1, 1995. (Repeal date set when credit enacted.)  
**Provisions:** A credit is allowed to each taxpayer who incurs expenses for providing dependent day care services for employees of the taxpayer.  
1. A credit equal to the lesser of $15,000 or 50% of the costs incurred to acquire, construct, renovate or remodel dependent day care facilities or property for dependent day care facilities.  
   (a) It must be taken for the taxable year in which the facility becomes operational.  
   (b) It is in lieu of any allowance for state tax purposes for exhaustion, wear and tear of the property under § 167 or 188 of the Internal Revenue Code.  
OR,  
2. A credit equal to the lesser of $5,000 or 30% of the net costs incurred by the taxpayer to operate dependent day care facilities for employees, provide dependent day care services for employees or pay employees, as reimbursement or compensation for dependent day care expenses incurred by the employee, and provide information and referral services to assist the taxpayer's employee to obtain dependent day care.

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**EMPLOYMENT OF TANF RECIPIENTS CREDIT**

**Statute:** A.R.S. § 43-1175  
**Effective Date:** For taxable years beginning from and after December 31, 1997.  
**Provisions:** A credit is allowed for net increases in qualified employment of recipients of temporary assistance for needy families who are residents of Arizona. To qualify for a credit:  
1. All of the employees with respect to whom a credit is claimed must reside in Arizona and must be recipients of temporary assistance for needy families at the time the employee is hired.  
2. A qualified employment position must:  
   a. be classified as full-time employment.  
   b. must include health insurance coverage for the employee if the employer offers this coverage for employees who are not receiving TANF.  
   c. must pay compensation at least equal to the minimum wage or a wage comparable to that paid to employees who are not receiving TANF based on the employee's training, skills and job classification.  
3. The employee must have been employed for at least 90 days during the first taxable year.  
4. The employee was not employed by the taxpayer within 12 months before the current date of hire.
5. The employee position is not eligible for any other employment credit based on wages paid.

The amount of the credit is equal to:

1. 1/4 of the taxable wages paid to an employee in a qualified employment position, not to exceed $500, in the 1st year or partial year of employment.
2. 1/3 of the taxable wages, not to exceed $1,000 per qualified employment position, in the 2nd year of continuous employment.
3. 1/2 of the taxable wages, not to exceed $1,500, in the 3rd year of continuous employment.

A five-year carry forward is allowed.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 7.968%, a $500 credit (first-year employee) removes $6,000 in income from taxation. A $1,500 credit for the third-year employee removes $19,000 in income from taxation.

**ENTERPRISE ZONE TAX CREDIT**

**Statute:** A.R.S. § 43-1161

**Effective Date:** For taxable years beginning from and after December 31, 1989.

**Provisions:** A credit is allowed for net increases in qualified employment positions of residents of Arizona by a business located in an enterprise zone, except employment positions at a business location where tangible personal property is sold at retail. The amount of the credit is equal to:

1. 1/4 of taxable wages paid to an employee in a qualified employment position, not to exceed $500, in the first year of employment.
2. 1/3 of the taxable wages, not to exceed $1,000, in the second year of continuous employment.
3. 1/2 of the taxable wages, not to exceed $1,500, in the third year of continuous employment.

To qualify for the credit:

1. All employees with respect to whom a credit is claimed must reside in Arizona.
2. 35% of the employees with respect to whom a credit is claimed for the 1st year of employment must reside on the date of employment in an enterprise zone located in the same county in which the business is located.
3. A qualified employment position must meet all of the following requirements:
   a. The position must be at least 1,750 hours per year of full-time employment.
   b. Health insurance coverage must be included for the employee, of which the employer pays at least 50% of the premium or membership cost.
   c. The employer must pay compensation at least equal to the wage offer by county as computed annually by DES.
   d. The employee must have been employed for at least 90 days during the first taxable year.
   e. The employee has not been previously employed by the taxpayer within 12 months before the current hire date.

A five-year carry forward is allowed.

**COMMENTS:** The credit amounts have changed over the years, but the most significant change to this law occurred in 1996, when retail businesses were excluded from the credit.

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8 Arizona Department of Economic Security
Income Value in Tax Year 2000: Based on an estimated effective tax rate of 7.968%, a $500 credit (first-year employee) removes $6,000 in income from taxation. A $1,500 credit for the third-year employee removes $19,000 in income from taxation.

ENVIRONMENTAL TECHNOLOGY FACILITY CREDIT
Statute: A.R.S. § 43-1169
Effective Date: For taxable years beginning from and after December 31, 1992.
Provisions: A credit is allowed for expenses incurred in constructing a qualified technology manufacturing, producing or processing facility. This facility:
   1. is either owned by the manufacturer, producer or processor, or leased for a term of 5 or more years.
   2. is used predominantly to do any of the following:
      a. sort, store, prepare, convert, fabricate, manufacture or otherwise process finished products consisting of at least 90% recycled materials.
      b. prepare, fabricate, manufacture or otherwise process finished products that are powered exclusively with solar or other specific renewable energy.
      c. prepare, fabricate, manufacture or otherwise process raw material or intermediate product exclusively through a hydrometallurigical process where at least 85% of the process solution used to produce the finished product is recycled on site for additional production.
      d. fabricate or manufacture finished paper products that consist of at least 80% recycled material.
   3. costs, or is expected to cost, an aggregate of at least $20 million of new capital investment in Arizona within 5 years after construction begins or commencement of installation of improvements.
   The amount of the credit is equal to 10% of the amount spent during the taxable year to construct the facility, including land acquisition, improvements, building improvements, machinery and equipment, but not exceeding 75% of the tax liability. A fifteen-year carry forward is allowed.
Comments: Recapture provisions are set out in the law.

GROUNDWATER MEASURING DEVICE CREDIT
Statute: A.R.S. § 43-1164
Effective Date: For taxable years beginning from and after December 31, 1982.
Provisions: A credit is allowed for purchase and installation of a groundwater measuring device. The credit is equal to 100% of the costs. The credit shall be used over a period of not less than 3 years with no more than 1/3 of the total credit being used in any one year or not more than 5 years.

MILITARY REUSE ZONE CREDIT
Statute: A.R.S. § 43-1167
Effective Date: For tax years beginning from and after December 31, 1992.
Provisions: A credit is allowed for net increases in employment of full-time employees working in a military reuse zone, and who are primarily engaged in providing aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products. The amount of the credit for each new employee is:
   1. With respect to each employee other than a dislocated military base employee:
      a. $500 in the first year of employment.
2. With respect to each dislocated military base employee:
   a. $1,000 in the 1st year of employment.
   b. $1,500 in the 2nd year of employment.
   c. $2,000 in the 3rd year of employment.
   d. $2,500 in the 4th year of employment.
   e. $3,000 in the 5th year of employment.

Dislocated military base employee means a civilian who previously had permanent full-time civilian employment on the military facility as of the date the closure of the facility was determined under federal law.

A five-year carry forward is allowed.

**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 7.968%, a $500 credit (first-year employee) removes $6,000 in income from taxation. A $2,500 credit for the third-year employee removes $31,000 in income from taxation.

**POLLUTION CONTROL DEVICE CREDIT**

**Statute:** A.R.S. § 43-1170

**Effective Date:** For taxable years beginning from and after December 31, 1994.

**Provisions:** A credit is allowed for expenses incurred during the taxable year to purchase real or personal property that is used in the taxpayer's trade or business in Arizona to control or prevent pollution. The amount of the credit is equal to the lesser of 10% of the purchase price or $500,000. Property that qualifies for the credit includes that portion of a structure, building, installation, excavation, machine, equipment or device and any attachment or addition to or reconstruction, replacement or improvement of that property that is directly used, constructed, or installed for the purpose of meeting or exceeding rules or regulations adopted by the United States Environmental Protection Agency, the Department of Environmental Quality or a political subdivision to prevent, monitor, control or reduce air, water or land pollution. A five-year carry forward is allowed.

**Comments:** The credit was capped in 1995 and 1996 at $750,000.

**Income Value in Tax Year 2000:** Based on a tax rate of 7.968%, the maximum $500,000 credit removes $6.3 million in income from taxation.

**RECYCLING EQUIPMENT TAX CREDIT**

**Statute:** A.R.S. § 43-1164

**Effective Date:** For taxable years beginning from and after December 31, 1992

**Provisions:** A credit is allowed to a taxpayer who places recycling equipment in service in Arizona, equal to 10% of the installed cost of the equipment. The credit may not exceed the lesser of 25% of the tax liability for the tax year or $5,000. Recycling equipment is defined as new or used equipment purchased during the tax year and used exclusively to process post-consumer select solid waste materials and manufacturing machinery used exclusively to produce finished products, the composition of which is at least 25% post-consumer select solid waste materials. Select solid waste means paper, plastic, scrap metal and iron, glass and rubber. There is a fifteen-year carry forward.

**Comments:** This credit has recapture provisions. This means that if recycling equipment for which a credit has been claimed ceases to be recycling equipment or is transferred to another person during any tax year, a portion of the amount of
recycling equipment credit used by the person must be repaid to the state, according to a schedule set out in statute. (If the recycling equipment is in service less than one year, 100% of the credit must be repaid. If the equipment is in service for more than one but less than two years, 80% of the credit must be repaid. And so on.)


RESEARCH & DEVELOPMENT TAX CREDIT
Statute: A.R.S. § 43-1168
Effective Date: For tax years beginning from and after December 31, 1992
Provisions: A credit is allowed for research and development expenses, computed as follows:
1. Add the excess of qualified research expenses for the taxable year over the base amount, to the basic research payments determined.
2. If the sum is less than or equal to $2.5 million, the credit is 20% or a maximum of $500,000.
3. If the sum is greater than $2.5 million, the credit is $500,000 plus 11% of the amount exceeding $2.5 million, except
   a. For taxable years beginning from and after 12/31/00 through 12/31/01, the credit shall not exceed $1.5 million.
   b. For taxable years beginning from and after 12/31/01 through 12/31/02, the credit shall not exceed $2.5 million.
4. A fifteen-year credit carry forward is allowed.
5. In prior law, excess expenses were carried forward, rather than credit. If the taxpayer has qualified research expense carry forward from taxable years beginning before 1/1/01, the expenses shall convert to credit by multiplying expense carry forward by 20%. The amount of the credit carry forward from taxable years beginning from and after 12/31/02 that may be used in a taxable year may not exceed tax liability after subtracting current year credit. Credit carry forward from taxable years beginning before 1/1/03 that can be used in a year may be limited. The carry forward amount from the specified tax years must be less than or equal to the lesser of tax liability less current year credit (thereby zeroing out liability) or the difference between $500,000 and the current year credit.
Comments: Until tax year 2000, the highest research & development credit that could be taken in a year was $500,000. This was a phased-in amount available only at the fourth year of taking the credit. The prior year credit maximum amounts were $100,000, $250,000 and $400,000.
Income Value in Tax Year 2001: Based on an estimated effective tax rate of 7.968%, the maximum $1.5 million credit in tax year 2001 removes $18.8 million in income from taxation.

SCHOOL SITE DONATION CREDIT
Statute: 2000 Law, HB2451, Chapter 334
Effective Date: For taxable years beginning from and after December 31, 2000.
Provisions: A credit is allowed in the amount of 30% of the value of real property and improvements donated by the taxpayer to a school district or a charter school for use as a school or as a site for the construction of a school. To qualify for the credit, the real property and improvements must be in Arizona, must be conveyed unencumbered and in fee simple, except that the property shall only be used as a school or construction site for a school. There is a five-year carry forward.

SOLAR ENERGY DEVICES INSTALLED IN HOUSES CREDIT
Statute: A.R.S. § 43-1161
**Effective Date:** For taxable years beginning from and after December 31, 1979.  
**Provisions:** In the case of a taxpayer who builds a house in Arizona designed for human occupancy as a residence, there is allowed a credit for installation of any solar energy devices, as defined in A.R.S. § 43-1074, in such house. The credit is equal to 35% of the cost of such device through December 31, 1983, from and after which such credit shall decrease at a rate of 5% of the cost of the device per year. The maximum credit shall not exceed $1,000. A five-year carry forward is allowed.  
**Repealed:** Effective January 1, 1985.

### Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets Credit

**Statute:** A.R.S. § 43-1090  
**Effective Date:** For taxable years beginning from and after December 31, 1997.  
**Provisions:** A credit is allowed for costs incurred of installing or including in one or more houses or dwelling units in Arizona and constructed by the taxpayer one or more:

1. Solar hot water plumbing stub outs. To qualify for the credit, the stub out must:
   - a. include 2 insulated 3/4 inch copper pipes and at least 2 pairs of wires for monitoring and controlling purposes that project from the dwelling roof or other suitable location and that are connected to the domestic hot water transport and storage system.  
   - b. be located and configured to allow sufficient solar access and exposure and to allow ready installation of solar water heating devices without further expense or effort to reach, use or serve the domestic hot water system of the house or dwelling.
2. Electric vehicle recharge outlets. To qualify for the credit, the outlet must be connected to the utility system by a dedicated line that:
   - a. is capable of operating at normal secondary voltages.  
   - b. meets applicable local building safety codes.  
   - c. is commensurate and consistent with electric vehicle recharging needs and methods.

The credit shall not exceed $75 for each installation for each separate house or dwelling unit. A five-year carry forward is allowed. The credit may be transferred from the builder to the purchaser of the house or dwelling unit.  
**Income Value in Tax Year 2000:** Based on an estimated effective tax rate of 7.968%, one installation credit of $75 removes $940 in income from taxation.

### Summer School and Jobs Credit

**Statute:** Laws 1995, HB2227, Chapter 236 and Laws 1996, SB1047, Chapter 309.  
**Effective Date:** For taxable years beginning from and after December 31, 1994 through December 31, 1996. (Repeal date set when credit enacted.)  
**Provisions:** A credit is allowed for qualifying employers for the amount of wages paid by the employer to students who are enrolled in summer school half days and employed by the qualified employer the other half of the day. The maximum credit shall equal half of the wage paid to the student up to a maximum of $3 per hour, with a maximum of 20 hours of work per week.

### Taxes Paid for Coal Consumed in Generating Electrical Power Credit

**Statute:** A.R.S. § 43-1178  
**Effective Date:** For taxable year beginning from and after December 31, 1997.
Provisions: A credit is allowed for purchases of coal consumed in generating electrical power in Arizona. The credit is equal to 30% of the amount paid by the seller or purchaser as transaction privilege or use tax with respect to the coal sold to the taxpayer. A five-year carry forward is allowed.

TECHNOLOGY TRAINING CREDIT
Statute: 2000 Law, HB2442, Chapter 239
Effective Date: For taxable years beginning from and after December 31, 2000 and ending before January 1, 2006.
Provisions: A credit is allowed for providing technological skills training to not more than 20 of the taxpayer's employees. The amount of the credit is equal to 50% of the amount actually spent during the taxable year for the cost of the training, but not more than $1,500 per employee. The total amount of credits that can be granted (through a Department of Commerce certification procedure) is $2.5 million. This is a refundable credit.
Income Value in Tax Year 2000: Based on a tax rate of 7.968%, the maximum $1,500 credit for one employee removes $19,000 in income from taxation.

UNDERGROUND STORAGE TANKS CREDIT
Statute: A.R.S. § 43-1173
Effective Date: For taxable years beginning from and after December 31, 1993.
Provisions: A credit is allowed for expenses incurred by an individual or taxpayer who is not liable or responsible for a corrective action as an owner or operator of an underground storage tank, for corrective actions taken with respect to the release of a regulated substance from an underground storage tank. The credit is equal to 10% of the total amount spent to take any corrective action certified by the Arizona Department of Environmental Quality.

VEHICLE REFUELING APPARATUS CREDIT
Statute: A.R.S. § 43-1174.01
Effective Date: For taxable years beginning from and after December 31, 1998.
Provisions: A credit is allowed for the purchase of a vehicle refueling apparatus, including storage tanks, for installation on one or more properties in Arizona for the taxpayer’s use. Vehicle refueling apparatus means either:
1. A maximum 10 to 15 standard cubic feet per minute natural gas compression appliance used for slow fill, on-site refueling.
2. Equipment necessary to provide an electric charge for an electric vehicle.
The credit is equal to the greater of $2,000 or the cost of the vehicle refueling apparatus. A five-year carry forward is allowed.
Income Value in Tax Year 2000: Based on a tax rate of 7.968%, the minimum $2,000 credit removes $25,000 in income from taxation.