2014 ARIZONA INCENTIVES

TABLE OF CONTENTS

“ANGEL INVESTMENT” SMALL BUSINESS CAPITAL INVESTMENT INCENTIVE 3
COMMERCIAL/INDUSTRIAL SOLAR ENERGY TAX CREDIT 4
COMPUTER DATA CENTER 5-6
HEALTHY FOREST ENTERPRISE 7-8
JOB TRAINING 9
MILITARY REUSE ZONE 10
PRIVATE ACTIVITY BONDS 11
QUALIFIED FACILITY TAX CREDIT 12
QUALITY JOBS TAX CREDIT 13
RENEWABLE ENERGY TAX CREDIT 14-15
RESEARCH AND DEVELOPMENT TAX CREDIT 16
“ANGEL INVESTMENT” SMALL BUSINESS CAPITAL INVESTMENT INCENTIVE
(ESTABLISHED UNDER A.R.S §41-1518)

**SUMMARY**

In 2005, the Arizona Legislature established the Small Business Capital Investment Incentive (Angel Investment) program. The program is effective July 1, 2006 through June 30, 2016. The main objective of the Angel Investment program is to expand early stage investments in targeted Arizona small businesses. The program accomplishes this goal by providing tax credits to investors who make investments in targeted small businesses certified by the Arizona Commerce Authority (ACA).

Arizona statutes provide non-transferable tax credits totaling $20 million during the life of the program. These tax credits are authorized by the ACA on a first-come, first-served basis.

**INCOME TAX CREDIT**

An investor must document to the ACA the investment was made in a qualified small business. If the investment is made in a qualified small business that is also a bioscience or rural company, the tax credit may total up to 35% of the investment amount over three years; for any other qualified small business, the tax credit may total up to 30% over three years. If the tax credits exceed the income tax liability, any unused tax credit amount may be carried forward for up to three taxable years as long as the investor timely claims the credits with the Arizona Department Revenue. The investor can begin claiming the tax credits on the tax return for the year following the investment. Tax credits can be claimed as follows:

**35% for a Rural or Bioscience Company**

1st Year Credit: 12% of the investment
2nd Year Credit: 12% of the investment
3rd Year Credit: 11% of the investment

**30% for Any Other Qualified Business**

1st Year Credit: 10% of the investment
2nd Year Credit: 10% of the investment
3rd Year Credit: 10% of the investment

The ACA accepts applications year round and determines eligibility for program benefits. Only qualified investors are eligible to receive tax credits. However, all of the following criteria must also be met at the time of investment to generate a tax credit.

**INVESTOR**

A qualified investor must be either an individual, limited liability company, S corporation or a partnership. To receive an income tax credit, the investment in a qualified small business must be at least $25,000. Further, the investor, along with its affiliates, cannot possess more than 30% of the total voting power of all equity securities of the qualified small business. Once the investor and its affiliates have received tax credits on investments in a single small business exceeding $250,000, the investor is no longer eligible to receive credits for further investments in that small business in that year.

**INVESTMENT**

A qualified investment is an equity security totaling at least $25,000 cash or cash equivalent and must be reported to the ACA within 30 days of the date of the investment.

**SMALL BUSINESS**

A qualified small business must be either a corporation, limited liability company, partnership or other business entity exclusive of a sole proprietorship. To be certified for a 12-month period, the business must be in the early stage of development. It must also maintain a portion of its operations in Arizona and employ at least two full-time equivalent Arizona residents. The small business cannot have assets exceeding $10 million, exclusive of intellectual property and qualified investments.

Further, the business must not be principally engaged in activities precluded by statute and by the ACA, which include activities that involve human cloning or embryonic stem cell research. The maximum amount of qualified investments in a small business that generate tax credits shall not exceed an aggregate of $2 million for all years.

**ADDITIONAL INCENTIVE:** For tax year beginning from and after December 31, 2013, Arizona will also offer the elimination of capital gains tax on income derived from investments in companies certified by ACA. (A.R.S. §43-1022(36))
COMMERCIAL/INDUSTRIAL SOLAR ENERGY TAX CREDIT
(ESTABLISHED UNDER A.R.S. §41-1510.01)

SUMMARY
The primary goal of the Commercial/Industrial Solar Energy Tax Credit Program is to stimulate the production and use of solar energy in commercial, industrial or any other non-residential applications by offsetting the initial cost of solar energy devices. The program achieves this goal by providing an income tax credit for the installation of solar energy devices in Arizona business facilities.

An Arizona income tax credit is offered to businesses that install one or more solar energy devices in their Arizona facilities. The tax credit is equal to 10% of the installed cost of the solar energy device not to exceed $25,000 in credits for one building in a single tax year and $50,000 total credits per business per tax year. Tax credits may be used to offset Arizona income tax liability; any unused credit amounts may be carried forward for a five-year period. The tax credit is available for tax years beginning from and after December 31, 2005 through December 31, 2018.

The Arizona Commerce Authority (ACA) cannot certify tax credits under this program that exceed $1 million in any calendar year. Therefore, tax credits are authorized on a first-come, first-served basis, according to a priority placement number issued by the ACA.

A business seeking tax credits under this program must apply to the ACA for initial certification. A business must submit a separate application for each building. If more than one device will be installed at a building, the business must submit a separate project page for each solar energy device. The ACA will issue initial certification to each eligible solar energy device and assign a unique identifying number. The business must submit a completion report when each device is operational. A priority placement number will be assigned by the ACA to each completion report on the date of receipt. The date the solar device becomes operational will determine the calendar year cap from which the allocation is made.

If the review of the completion report is favorable, the ACA shall issue a credit certificate to the business and transmit the certification information to the Arizona Department of Revenue (Revenue). Once the business receives the credit certificate, the credit can be claimed by the business and used to offset Arizona tax liability or passed through to a third-party organization for use.

Organizations exempt from taxation under Title 43 Chapter 12 of Arizona statutes are eligible to receive a commercial/industrial tax credit for installing a solar energy device A.R.S. §43-1085(A)(2). The credit generated may be passed on to a third-party organization that financed, installed or manufactured the device. Credits are claimed on a tax return for the tax year identified on the credit certificate.

The definition of a solar energy device for the Commercial/Industrial Solar Energy Tax Credit Program is set forth by statute:

“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 day lighting 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, including wind generator systems that produce electricity. Solar energy systems may also have the capability of storing solar energy for future use. Passive systems shall clearly be designed as a solar energy device, such as a trombe wall, and not merely as a part of a normal structure, such as a window.”

ADDITIONAL INCENTIVES
The Commercial/Industrial Solar Energy Tax Credit Program is administered through the ACA. However, additional incentives are offered by Revenue, including:

1. A transaction privilege tax exemption (TPT exemption) on:
   • The total sales price of solar energy devices sold by retailers that are registered with Revenue. See A.R.S. §§42-5061 and 42-5001;
   • Gross income derived from contracts to provide and install solar energy devices. There is no limit on the amount of the contract. The prime contractor must be registered with Revenue to receive the TPT exemption. See A.R.S. §§42-5075 and 42-5001.

2. A property tax exemption on solar energy devices used for the production of solar energy for on-site consumption. These devices are considered to add no value to real property and, therefore, do not raise property taxes. See A.R.S. §§42-11054 and 44-1761.

3. A solar energy device installed at a residential location may be eligible for a tax credit equal to 25% of the total installed cost of the device not to exceed $1000 under A.R.S. §43-1083. This credit is administered solely by Revenue.
COMPUTER DATA CENTER PROGRAM  
(ESTABLISHED UNDER A.R.S §41-1519)

SUMMARY
The Arizona Legislature in 2013 established the Computer Data Center program (the Program). The objective of the Program is to encourage computer data center (CDC) operation and expansion in Arizona. The Program accomplishes this objective by providing Transaction Privilege Tax (TPT) and Use Tax Exemptions at the state, county and local levels, on qualifying purchases of CDC Equipment. The Program is administered by the Arizona Commerce Authority (ACA) in conjunction with the Arizona Department of Revenue (ADOR).

BACKGROUND
In general, an owner, operator or qualified co-location Tenant of a certified CDC can receive the exemptions provided by the program for up to ten full calendar years following the year certification of the CDC is issued. However, if the CDC qualifies as a sustainable redevelopment project, the exemptions are available for up to 20 full calendar years following the year certification of the CDC is issued.

The TPT and Use Tax Exemptions provided by the program are available if all of the following are satisfied:
1. An applicant submits an application for CDC certification and receives a letter of certification from the ACA.
2. The CDC owner, operator and/or qualified co-location tenant collectively satisfy the requisite capital investment threshold in a timely manner and the applicant submits to the ACA evidence of satisfaction of one of the following:
   • If the CDC facility is located in either Maricopa or Pima County, a capital investment of at least $50 million is made within five years of the date of the letter of CDC certification from the ACA. OR
   • If the CDC facility is located in any county other than Maricopa or Pima, a capital investment of at least $25 million is made within five years of the date of the letter of CDC certification from the ACA. OR
   • In the case of an existing CDC, regardless of location, a capital investment of at least $250 million was made during the period between September 1, 2007 and August 31, 2013.
3. The applicant remits a non-refundable processing fee equal to $50.00 at the time of certification of the CDC and, as applicable, remits a separate non-refundable processing fee equal to $50.00 for each qualified co-location tenant receiving certification.
4. All relevant parties comply with the employer requirements set forth in A.R.S. §§ 23-214(B).

APPLICATION FOR CERTIFICATION
The ACA is authorized to accept applications for certification of a CDC between September 1, 2013 and December 31, 2023.

• An owner or operator may apply for certification of a CDC by completing the electronic “application for CDC certification.”
• Within 60 days of receipt of a complete application, will notify the owner or operator of certification or denial.
• Upon receipt of certification from the ACA, an owner, operator and/or qualified co-location may begin obtaining the TPT and Use Tax Exemptions offered by the program.
• ADOR may revoke a CDC certification if the requisite capital investment threshold is not satisfied or if the CDC violates the provisions of A.R.S. § 41-1519(L) which prohibit a CDC from generating electricity for resale purposes or providing or selling electricity outside the CDC. If a CDC certification is revoked, the owner or operator may be liable for repayment of all or part of the exemptions it received, including penalties and interest. If ADOR revokes a CDC certification, all certifications pertaining to Qualified co-location tenants at the CDC are similarly revoked.

DEFINITIONS
• “Capital Investment” means the purchase price as well as any non-refundable lease payments incurred with respect to land, buildings (including tenant improvements), modular data center and CDC Equipment. Capital Investment includes cumulative expenditures of an owner, operator and any qualified co-location tenant, as may be applicable.
• “Computer Data Center” means all or part of a facility that may be composed of multiple businesses or owners, that is or will be predominantly used to house working servers and that may have uninterruptible energy supply or generator backup power, or both, cooling systems, towers and other temperature control infrastructure.
• “Facility” means one or more parcels of land in Arizona and any structures and personal property contained on the land
• “Modular Data Center” means a portable system of information technology, climate control, energy supply and energy distribution machinery, equipment and related tangible personal property contained in an intermodal freight container or similar structure.
DEFINITIONS continued

• “CDC Equipment” means equipment that is used to outfit, operate or benefit a CDC and component parts, installations, refreshments, replacements and upgrades to this equipment, whether any of the property is affixed to or incorporated into real property, including:

a) All equipment necessary for the transformation, generation, distribution or management of electricity that is required to operate computer server equipment, including generators, uninterruptible energy, supplies, conduit, gaseous fuel piping, cabling, duct banks, switches, switchboards, batteries and testing equipment.

b) All equipment necessary to cool and maintain a controlled environment for the operation of the computer server and other components of the computer data center, including mechanical equipment, refrigerant piping, gaseous fuel piping, adiabatic and free cooling systems, cooling towers, water softeners, air handling units, indoor direct exchange units, fans, ducting and filters.

c) All water conservation systems including facilities or mechanisms that are designed to collect, conserve and reuse water.

d) All enabling software, computer server equipment, chassis, networking equipment, switches, racks, cabling, trays and conduit.

e) All monitoring equipment and security systems.

f) Modular data centers and preassembled components of any item described in this paragraph, including components used in the manufacturing of modular data centers.

g) Other tangible personal property that is essential to the operations of a CDC.
**HEALTHY FOREST ENTERPRISE**  
(ESTABLISHED UNDER A.R.S. §41-15168)

**SUMMARY**  
The primary goal of the Healthy Forest Enterprise Incentives Program is to promote forest health in Arizona. The program achieves this goal by enhancing opportunities to certified businesses that are primarily engaged in harvesting or processing for commercial use or transporting of qualified forest products.

The Arizona Commerce Authority (ACA) accepts applications year round and determines eligibility for program incentives. A company may be qualified for a sixty-month period if it:

1. Is primarily (more than 50%) engaged in a qualifying project,
2. Employs at least one full-time employee, and
3. Enters into a Memorandum of Understanding with the ACA.

The following is a brief summary of the incentives provided by the Healthy Forest Program.

**Use fuel tax reduction** from September 1, 2012 through December 31, 2024. A certified business that transports qualified forest products from or to qualifying projects is offered a use fuel tax reduction. The use fuel tax is imposed to reduce to nine cents per gallon for use-class motor vehicles. (A.R.S. §§28-5606 and 28-5614)

**Transaction privilege tax exemption on:**
- Equipment purchased from and after June 30, 2004 through June 30, 2024 - a certified business is offered a transaction privilege tax exemption on qualifying equipment used for harvesting or processing qualifying forest products. (A.R.S. §42-5061)
- Equipment leased or rented from and after June 30, 2004 through June 30, 2014 - a certified business is offered a transaction privilege tax exemption on qualifying equipment used for harvesting or processing qualifying forest products. (A.R.S. §42-5070)
- Construction contracts if construction begins before January 1, 2024 - a certified business is offered a transaction privilege tax exemption on a contract for the construction of any building, or other structure, project, development or improvement that is owned by the certified business, used for harvesting or processing qualifying forest products and if a letter of qualification is received by the prime contractor prior to beginning work under the contract. (A.R.S. §42-5075)
- Repair parts - a certified business is offered a transaction privilege tax exemption for repair parts installed in equipment used directly by a qualified business in harvesting, processing or transporting qualifying forest products removed from qualifying projects. (A.R.S. §42-5061)
- Motor vehicle and use fuel - a certified business is offered a transaction privilege tax exemption on motor vehicle fuel and use fuel to qualified businesses for off-road use in harvesting, processing or transporting qualifying forest products removed from qualifying projects. (A.R.S. §42-5061)

**Use tax exemption on equipment purchased out-of-state** from and after June 30, 2004 through June 30, 2024 - a certified business is offered a use tax exemption on the storage, use or consumption in Arizona of qualifying equipment purchased out-of-state and used for harvesting or processing qualifying forest products. (A.R.S. §42-5159)

**Property tax reduction** on real and personal property and improvements constructed or installed from and after December 31, 2004 through December 31, 2024 - a certified business that owns and uses the property solely for the purpose of harvesting, transporting or processing qualifying forest products is offered a property tax reduction. All real and personal property can be reclassified to Class 6 property, changing the assessment ratio 5% for both primary and secondary tax purposes. (A.R.S. §§42-12006(6) and 42-15006(9)

**Employment income tax credit** for taxable years beginning from and after December 31, 2004 through December 31, 2024 - a certified business can receive a tax credit for net increases in qualified employment positions, subject to the following requirements and restrictions: job duties must primarily involve or directly support the harvesting, transporting or processing of qualifying forest products removed from qualified projects into a product having commercial value; an employee must have been employed for at least 90 days in the first taxable year to generate a tax credit; an employee must not have been previously employed by the business within the 12 months prior to the current date of hire; and all of the net new eligible employees on whom the business is claiming a credit must be residents of Arizona on the date of hire; and three new employees must be hired in the first year a tax credit is claimed. (A.R.S. §§43-1076 and 43-1162)

Tax credits may total up to $3,000 per qualified employment position over three years for a maximum of 200 employees in any given tax year. A qualified employment position:

- Is a full-time permanent job (1,550 hours per year),
- Pays an hourly wage above the “Wage Offer by County”
- Offers health insurance to employees for which the employer pays at least 25% - 50% of the cost depending on the year in which the credit is claimed. An employer shall not reduce the amount of existing coverage provided to employees after certification.

The tax credits for qualified employment positions are equal to:

**First year:** one-fourth of wages paid to an employee up to $500  
**Second year:** one-third of wages paid to each previously qualified employee up to $1,000  
**Third year:** one-half of wages paid to each previously qualified employee up to $1,500
If the allowable tax credit exceeds the income tax liability, any unused amount may be carried forward for up to five taxable years. A business who claims a credit under the Military Reuse Zone, Qualified Facilities, Quality Jobs or Renewable Energy Tax Incentive Program cannot claim a credit under the Healthy Forest Enterprise Incentives Program with respect to the same employment position.

**Workforce training income tax credit** for taxable years beginning from and after December 31, 2011 through December 31, 2024 - a certified business can receive a tax credit for expenses incurred in training new employees in qualified employment positions. The amount of the credit is equal to the net cost of training not to exceed $3,000 per year for three consecutive years of employment. (*A.R.S. §§43-1076.01 and 43-1162.01*)
JOB TRAINING
(ESTABLISHED UNDER A.R.S. §41-1541 et seq.)

SUMMARY
The Job Training Program is a job-specific reimbursable grant program that supports the design and delivery of customized training to meet specific needs of employers, create new jobs and help increase the skill and wage levels of employees in Arizona. This Program can provide grant money to businesses for training new employees or to supplement training programs for incumbent employees. The Program is streamlined, flexible and tailored to meet the specific needs of each employer.

Once awarded, an employer may take up to two years to complete the approved training program. As soon as the training is complete, the employer may apply for a new grant for additional job-specific training. Grants are awarded based on the availability of funds.

How is the Job Training Program funded?
Employers currently pay a Job Training Tax equal to one-tenth of one percent on the first $7,000 of an employee’s wages or $7.00 per year, whichever is lower.

Who can apply?
- An employer, excluding government agencies, with at least one business location in AZ.
- A consortium of at least two employers with same or similar training needs.
- A professional or trade association or a joint apprenticeship training committee.
- A Small Business Development Center on behalf of a consortium of employers.

What is required to be eligible for the Job Training Program?
A company must:
- Pay into the Job Training Fund, unless exempt, or
- Be a rural, non-profit organization that opts for unemployment tax reimbursement and therefore is not liable for the Job Training Tax but is able to provide documentation to the Arizona Commerce Authority that a skilled worker shortage exists in the geographical area and the proposed training will increase the number of skilled workers.
- Meet or exceed the average annual qualifying wage rate for trainees at the end of grant.
- Maintain or exceed current level of expenditures for training.

How much money may a company receive?
- A single employer may receive up to $1,500,000 per grant, 10% of the estimated annual Fund amount.
- Award amounts range from $2,000 to $5,000 per position for urban employers with 100 or more employees.
- Award amounts range from $5,000 to $8,000 per position for rural or small businesses with fewer than 100 employees.
- However, the grant amount will never exceed the actual cost of training.

Is the company required to pay for a portion of the training costs?
- Incumbent Employee Program Grant - Company must match at least 50% of the training costs.
- Net New Employee Program Grant - Company must match at least 25% of the training costs.

ELIGIBLE COSTS FOR REIMBURSEMENT
- Course design and development.
- Instruction costs for job-specific training.
- Training materials and supplies.
- Training facility rental.
- Travel costs (subject to limitations).

ELIGIBLE COSTS FOR MATCH ONLY
- Equipment and machinery, pro-rated value used toward training.
- Employer training space, pro-rated.
- Trainee wages, excluding fringe benefits, paid by a small or rural business during training.
- Related training that is not job specific, including time, stress, or life management training classes.

INELIGIBLE COSTS
- Trainee wages for large employers.
- Fringe benefits/signing bonuses.
- Cost to complete application.
- Recruitment/relocation expenses.
- Training of employer officers or partners.
- Management fees.
- Food and beverage.
- Conferences; seminars; tradeshows.
- Drug and other testing associated with screening and pre-screening employees.
MILITARY REUSE ZONE
(ESTABLISHED UNDER A.R.S §41-1531 et seq.)

SUMMARY
In 1992, the Arizona legislature established the Military Reuse Zone Program to lessen the impact of military base closures. The program achieves this goal by providing tax incentives to aviation or aerospace (A&A) companies, insurers and airport authorities located within a Military Reuse Zone (MRZ).

There are two Military Reuse Zones designated in Arizona:

Phoenix-Mesa Gateway Airport. In 1996, the former Williams Air Force Base was designated an MRZ. Included in the zone are runways and buildings used by the Air Force and more than 1,000 undeveloped acres. The current zone designation expires in October 2016.

Phoenix/Goodyear Airport. In 2002, the former U. S. Naval Air Facility in Goodyear was designated an MRZ for five years. Included in the zone are runways and infrastructure used by the Air Force and more than 800 acres. The current zone designation expires in December 2017.

The following is a brief summary of the tax incentives provided by the MRZ program:

TRANSACTION PRIVILEGE TAX (TPT) EXEMPTION
A&A companies and Airport Authorities are offered an exemption from the TPT on construction contracts performed at an MRZ. The exemption applies only to state and county taxes; cities impose their own taxes. A prime contractor must apply for a letter of qualification from the Arizona Department of Revenue prior to work beginning on the contract to receive the exemption. In addition, the A&A company or airport authority must submit a completion report to the ACA to maintain eligibility.

NEW JOB INCOME AND PREMIUM TAX CREDITS
A&A companies or insurers must show a net increase in either dislocated or non-dislocated employees. To calculate the net increase, compare the average number of employees in the current year with the average number of employees in the previous year. For a dislocated employee, the credits may total $10,000 over five years; for a non-dislocated employee, $7,500 over five years. If the tax credits exceed the income or premium liability, any unused amount may be carried forward for up to five taxable years, provided the business remains in the MRZ. Income/Premium tax credits may be claimed in every year an increase is shown not to exceed five consecutive years, as long as the A&A company or insurer maintains its certification and submits an annual report to the ACA. A company that claims Quality Jobs, Qualified Facilities, Renewable Energy Tax Incentive or Healthy Forest Enterprise Incentives Program may not claim credit with respect to the same employee under the MRZ program.

PROPERTY TAX RECLASSIFICATION
A&A companies are eligible for an assessment ratio of five percent on all personal and real property located in the MRZ, for both primary and secondary tax purposes. The reclassification runs for five years as long as the A&A company remains in the MRZ, maintains its certification, submits an annual report to the ACA and annually requests the County Assessor to reclassify the property. At the end of the reclassification period, the property reverts to the standard assessment ratio. Any addition or improvement to property qualifies separately for reclassification under the program for not more than five tax years.

A&A companies located within an MRZ may receive:
• TPT exemption on a construction contract resulting in the provision of aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products.
• New job income tax credits if employees are primarily (more than 50 percent) engaged in providing aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products.
• Property tax reclassification if real or personal property is devoted to providing aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products.

Insurers located within an MRZ may receive:
• New job premium tax credits if a valid Certificate of Authority has been issued by the Arizona Department of Insurance.

Airport Authorities may receive a TPT exemption:
• On a construction contract resulting in the provision of aviation or aerospace services or in manufacturing, assembling or fabricating aviation or aerospace products if work under the contract is completed at an MRZ.

The Arizona Commerce Authority (ACA) accepts applications year round and determines eligibility for program benefits. Only businesses and projects located in an MRZ are eligible for incentives.

The Arizona Commerce Authority (ACA) accepts applications year round and determines eligibility for program benefits. Only businesses and projects located in an MRZ are eligible for incentives.
PRIVATE ACTIVITY BONDS
(ESTABLISHED UNDER A.R.S. §35-901 et seq.)

SUMMARY
Private activity bonds were referred to as Industrial development bonds prior to the Tax Reform Act of 1986. The proceeds of these bonds are used for industrial and other private purposes. The interest on the bonds is exempt from federal income tax for most bondholders. The bonds are an obligation of the private user, not of the issuing authority.

In Arizona, private activity bonds are issued by local industrial development authorities on behalf of local governmental entities for the benefit of private users. Arizona state government and its agencies are not issuers of private activity bonds.

Since the 1986 Tax Act, private activity bond uses have been limited but still include industrial and manufacturing facilities and equipment; student loans; single- and multi-family housing (with restrictions); private utility projects; and some municipal facilities.

Federal law limits a small-issue private activity bond (bonds for manufacturing facilities and equipment) to $10 million. Specifically, a user of the bond proceeds may not expend more than $20 million within the jurisdiction of the issuing industrial development authority during the period of three years before and three years after bond issuance including the amount of the bonds. Nationwide, no one company may have more than $40 million in private activity bonds outstanding at any one time.

Since passage of the Deficit Reduction Act of 1984, the Arizona Commerce Authority (ACA) has been responsible for allocating the state ceiling for private activity bonds imposed by the Act. The allocation process is accomplished following the procedures set out in the Arizona Revised Statutes §35-901 through §35-913.

The mechanics of the allocation process are as follows:

The 2013 volume cap is $622,559,225 ($95 per capita x the U.S. Bureau of the Census estimated Arizona population). A nonrefundable application fee is charged for each request for allocation. The application fee is $500-$2,500 depending on the amount requested. In addition, a nonrefundable confirmation fee of $320 per $1,000,000 is charged for each confirmed request. As required by state statutes, five pools and allocation percentages are established:

- **Director’s Discretion** - 10% of which, until July 1st, 30% for urban areas, and 70% for non-urban areas
- **Mortgage Revenue Bonds and Mortgage Credit**:
  - Certificates Programs - 35%
  - Student Loan Program - 20%
- **Manufacturing projects** - 15% of which, until April 1st, 30% for urban areas; and 70% for non-urban areas
- **Qualified Residential Rental projects** - 10% of which, for 180 days, 30% for non-urban areas; and 70% for urban areas
- **All Other projects** - 10%.

Allocations from these pools are made on a first-come, first-served basis in accordance with state statutes, normally on the first working day of the calendar year.

After June 30th, any unconfirmed state ceiling remaining in the above categories, exclusive of director’s discretion, will be combined. Thereafter (until December 16th), allocations from this new pool will require a refundable 1% security deposit, except for projects exempted by state statutes. Allocations from this new pool are made on a first-come, first-served basis in accordance with state statutes.

A final re-pooling will occur December 17th, and this final pool of remaining state ceiling will be available for state purpose or carry forward projects. As in prior years, projects not closing bonds before December 16th (unless extended until December 26th) will forfeit security deposits.
QUALIFIED FACILITY TAX CREDIT
(ESTABLISHED UNDER A.R.S. §41-1512)

SUMMARY
The primary goal of the Qualified Facility Tax Credit program is to stimulate the creation or expansion of manufacturing facilities, including manufacturing-related research and development or headquarters facilities. The program accomplishes this goal by providing a refundable Arizona income tax credit to qualified applicants.

The tax credit is equal to the lesser of either:
• 10% of the total qualified investment made at the facility; or
• $20,000 per qualified job created at the facility; or
• $30,000,000 per taxpayer.

PROGRAM QUALIFICATIONS
To qualify for program benefits, a company must:
• Invest in the location of or expansion of a Qualified Facility in Arizona. Measured by both the payroll and square footage of the facility, the qualified facility must be dedicated (80% or more) to manufacturing or manufacturing-related R&D or headquarters.
• Create net new full-time employment positions at the facility of which at least 51% must be paid at least 125% of the Arizona median wage. Net new positions must be:
  - Full-time and permanent (1,750 hours per year).
  - Filled by either a U.S. citizen or employee having authorization to work legally in the U.S.
  - Filled for at least 90 days during the first taxable year, beginning with the date of hire. (A position filled during the last 90 days for the taxable year shall be considered a “new” position the next taxable year.)
  - Filled by an employee who has not worked for the taxpayer within 12 months from the current date of hire.
  - Positions where the job duties are performed at the location of qualifying investment.
• Offer to pay at least 80% of employee’s health insurance premiums or membership cost.

A company who claims a credit under the Military Reuse Zone, Quality Jobs, Renewable Energy Tax Incentive or Healthy Forest Enterprise Incentives Program cannot claim a credit under the Qualified Facility program with respect to the same employment position.

APPLYING FOR TAX CREDITS
The Arizona Commerce Authority (ACA) may authorize up to $70 million per calendar year in tax credits to qualified companies beginning January 2013 through December 2019. The tax credits will be authorized on a first-come, first-served basis, according to a priority placement number assigned by the ACA at the time of pre-approval. It is important to note that the program cap ($70MM) is shared between the Qualified Facility program and the Renewable Energy Tax Incentive program.

If the company is eligible, the ACA will issue Pre-Approval and reserve tax credits for the applicant. Once the facility “begins operations,” an applicant will need to enter into a Written Managed Review with the ACA and a third-party CPA. Following the managed review, the applicant may apply to the ACA for Post-Approval. If the applicant receives Post-Approval from the ACA, tax credits must be claimed with the Arizona Department of Revenue in five equal annual installments.

The following definitions are set forth by statute A.R.S. §41-151200 or defined by the ACA:
“Manufacturing” means fabricating, producing or manufacturing raw or prepared materials into usable products, imparting new forms, qualities, properties and combinations. Manufacturing does not include generating electricity.
“Qualifying Investment” means investment in land, buildings, machinery, equipment and fixtures for expansion of an existing qualified facility or establishment of a new qualified facility in this state after June 30, 2012 for a taxable year beginning from and after December 31, 2011. Qualifying investment does not include relocating an existing qualified facility in this state to another location in this state without additional capital investment of at least two hundred fifty thousand dollars.
QUALITY JOBS TAX CREDIT
(ESTABLISHED UNDER A.R.S. §41-1525)

SUMMARY

The goals of the Quality Jobs Tax Credit program are to encourage capital investment and high-quality job creation in the State. The program accomplishes these goals by providing tax credits to employers creating a minimum number of net new quality jobs and making a minimum capital investment. Both the requisite job creation and capital investment must take place at one business location and be satisfied within a 12-month period.

Taxpayers meeting the qualifications in the chart below may receive an Arizona income or premium tax credit valued at up to $9,000 per each new quality job. Tax credits may be claimed in annual increments of $3,000 each over a period of up to three taxable years. Unused tax credits may be carried-forward for 5 consecutive years.

<table>
<thead>
<tr>
<th>AREA DEFINITION</th>
<th>MINIMUM JOB CREATION</th>
<th>MINIMUM CAPITAL INVESTMENT</th>
<th>QUALIFIED JOB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro Area – Counties with a population of 800,000 or more, excluding municipalities of less than 50,000</td>
<td>25</td>
<td>$5 million</td>
<td>Is a net new full-time and permanent position that pays 100% of median county wage and the company offers to pay 65% of health insurance costs of the employee</td>
</tr>
<tr>
<td>Rural Area – Counties with a population of less than 800,000 and municipalities of less than 50,000 within counties of 800,000 or more</td>
<td>5</td>
<td>$1 million</td>
<td>Is a net new full-time and permanent position that pays 100% of median county wage and the company offers to pay 65% of health insurance costs of the employee</td>
</tr>
</tbody>
</table>

The Quality Jobs Tax Credit Program is capped at 10,000 new jobs being claimed each calendar year by all participants. A taxpayer who claims a credit under the Military Reuse Zone, the Qualified Facilities Tax Credit, or the Renewable Energy Tax Incentive Program cannot claim a credit under the Program with respect to the same employment positions. To receive an allocation of tax credits, a taxpayer must submit a Request for Pre-approval to Commerce. Tax credits will be authorized on a first-come, first-served basis, according to the date and time of receipt of a Request for Pre-Approval.

Following receipt of a Pre-Approval Letter, an employer is eligible to claim first year tax credits for three taxable years after satisfying both the job creation and capital investment thresholds in the established timeframe. This is accomplished by submitting an Application for Quality Jobs Tax Credits to Commerce. Applications must be filed with Commerce by the earlier of: (i) six months after the tax year end or (ii) before the original tax return is filed with the Arizona Department of Revenue or Arizona Department of Insurance (as the case may be) for the taxable year including extensions.

1 Thus, two distinct three-year periods are pertinent under the Quality Jobs Program: (i) a three year period during which a taxpayer may generate credits resulting from creation of net new quality jobs and (ii) a three taxable-year period over which credits may be claimed in increments of $3,000 each on the taxpayer’s tax return.
RENEWABLE ENERGY TAX INCENTIVE
(ESTABLISHED UNDER A.R.S. §41-1511)

SUMMARY
The goal of the Renewable Energy Tax Incentive Program (RETIP) is to encourage business investment that will produce high-quality employment opportunities and enhance Arizona’s position as a center for production and use of renewable energy products. The program accomplishes this goal by providing tax incentives to businesses in the solar, water, wind, geothermal, biomass, biogas, landfill gas and other non-fossil renewable energy industries expanding or locating in Arizona.

Administered by Arizona Commerce Authority (ACA), this program offers two benefits: a refundable income tax credit: and real and personal property tax reduction.

REFUNDABLE INCOME TAX CREDIT
Who is eligible? How does my company qualify?
Businesses making new qualifying investments in manufacturing and/or headquarter facilities in Arizona renewable energy industries are eligible for a tax credit if they meet the following requirements:

• At least 51% of the net new full-time employment positions at the facility are paid a wage that is 125% or more than the state’s annual median wage; and

• The business pays 80% of the employee’s health insurance costs for all net new full-time employment positions at the facility.

What is the amount of tax credits available under the RETIP program?
Qualifying businesses may receive a refundable tax credit of up to a 10% of the total qualifying investment for projects that meet the following employment requirements:

• For renewable energy manufacturing operations: At least one and one-half new full-time employment positions are created for each $500,000 increment of capital investment. 1.5 new FTE/$500,000

• For renewable energy business headquarters: At least one new full-time employment position is created for each $200,000 increment of capital investment. 1 new FTE/$200,000

Once the project is operational, the tax credits are claimed by a qualifying business in equal annual installments over a five-year period. The amount of annual tax credits available under the RETIP program is “capped” at $70 million per year.

A company who claims a credit under the Military Reuse Zone, Qualified Facility, Quality Jobs or Healthy Forest Enterprise Incentives Program cannot claim a credit under the RETIP with respect to the same employment position.

REAL AND PERSONAL PROPERTY TAX REDUCTION
Who is eligible? How does my company qualify?
All real and personal property primarily dedicated to renewable energy manufacturing and/or headquarters operations can be reclassified to Class 6 property, effectively constituting nearly a 75% annual savings in property taxes. Businesses making new qualifying investment of $25 million or more in manufacturing and/or headquarters operations in Arizona in renewable energy industries are eligible for:

• 10 years of property tax savings, if the company pays at least 51% of the net new full-time employment positions between 125% and 199% of the annual median wage.

• 15 years of property tax savings, if the company pays at least 51% of the net new full-time employment positions at least 200% of the annual median wage.

There is no limitation on the amount of property tax savings available to a qualified business in any calendar year under the RETIP program. Property tax benefits, however, cannot be claimed until a project is operational.

RETIP DEFINITIONS
“Capital Investment” means an expenditure to acquire, lease or improve property that is used in operating a business, including land, buildings, machinery and fixtures.

“Headquarters” means a principal central administrative office where primary headquarters related functions and services are performed, including financial, personnel, administrative, legal, planning and similar business functions.

“Manufacturing” means fabricating, producing or manufacturing raw or prepared materials into usable products, imparting new forms, qualities, properties and combinations. Manufacturing does NOT include generating electricity for off-site consumption.

“Qualifying investment” means investment in land, buildings, machinery and fixtures for expansion of an existing renewable energy operation or establishment of a new renewable energy operation in this state after September 30, 2009. Qualifying investment does NOT include relocating an existing renewable energy operation in this state to another location in this state without additional capital investment of at least two hundred fifty thousand dollars.

“Qualifying renewable energy operation” means the facility where a qualifying investment was made.
“Renewable energy” means usable energy, including electricity, fuels, gas and heat, produced through the conversion of energy provided by sunlight, water, wind, geothermal, heat, biomass, biogas, landfill gas or other nonfossil renewable resource.

“Renewable energy business” means a person primarily engaged in the business of renewable energy manufacturing operations or renewable energy headquarters operations.

“Renewable energy operations” are limited to manufactures of, and headquarters for, systems and components that are used or useful in manufacturing renewable energy equipment for the generation, storage, testing and research and development, transmission or distribution of electricity from renewable resources, including specialized packaging for the renewable energy equipment manufactured at the qualifying renewable energy operation.

“Renewable energy resource” means a resource that is replaced by natural and assisted processes at a rate that is comparable to or faster than the rate of natural depletion and consumption by humans.
RESEARCH AND DEVELOPMENT TAX CREDIT
(ESTABLISHED UNDER A.R.S. §41-1507)

SUMMARY
The Research and Development (R&D) Tax Credit Program provides an Arizona income tax credit for increased research and development activities conducted in this state, including research conducted at a state university and funded by the taxpayer. The goal of the program is to encourage Arizona businesses to continue investing in research and development activities. The R&D program has nonrefundable components and a refundable component. The nonrefundable components are administered by the Arizona Department of Revenue (Revenue). The refundable component is administered by the Arizona Commerce Authority (ACA).

NONREFUNDABLE TAX CREDIT PROGRAM
The nonrefundable R&D program was enacted in 1992 for corporations (currently, A.R.S. § 43-1168) and in 1999 for individuals (A.R.S. § 43-1074.01). During 2009, the nonrefundable R&D program was modified by the Arizona legislature. For tax years 2011 through 2017, the R&D tax credit percentages are 24% of the first $2.5 million in qualifying expenses plus 15% of the qualifying expenses in excess of $2.5 million. For 2018 and thereafter, the R&D tax credit percentages will be 20% of the first $2.5 million in qualifying expenses plus 11% of the qualifying expenses in excess of $2.5 million.

The nonrefundable R&D program was further enhanced during the 2011 legislative session. An additional credit amount is allowed if the taxpayer made basic research payments during the tax year to a university under the jurisdiction of the Arizona Board of Regents. The additional university R&D tax credit for basic research payments is administered by Revenue for tax years beginning from and after December 31, 2011. The additional credit, when added to the R&D tax credit, could result in an Arizona tax credit of up to 34% of the excess of basic research payments over the base period amount, for some filers. It is not refundable.

REFUNDABLE TAX CREDIT PROGRAM
A taxpayer that otherwise qualifies for the nonrefundable R&D tax credit and who employs less than 150 full-time employees worldwide can apply to the ACA for approval of a refund. The refundable tax credit is equal to the lesser of either:

• 75% of the current year’s tax credit minus the current year’s tax liability; or
• The maximum refund amount on the Certificate of Qualification from the ACA.

APPLYING TO THE ACA FOR THE REFUND
The ACA may authorize up to $5 million per calendar year in refundable tax credits to qualified taxpayers. The refundable tax credits will be authorized on a first-come, first-served basis, according to the date an application is submitted to the ACA.

A taxpayer seeking a refund must submit an application to the ACA prior to filing its tax return with Revenue. If the taxpayer is eligible, the ACA will issue a Certificate of Qualification. After a company has received a Certificate of Qualification from the ACA, it may claim the refund from Revenue. The refund must be claimed by the Applicant or its partners or S corporation shareholders on an original Arizona income tax return along with Revenue Form 308 (for corporations) or Arizona Form 308-I (for individuals) for the tax year identified on the Certificate.

The amount of tax credits not used to offset Arizona income tax liability will be paid to the taxpayer in the same manner as a cash refund, A.R.S. §§ 43-1074.01(C)(3) and 43-1168(D)(3). If Revenue determines that a refund is incorrect or invalid, the excess refund may be treated as a tax deficiency pursuant to A.R.S. § 42-1108.