

2004 Enterprise Zone Credit

Obtain additional information or assistance, tax forms and instructions, and copies of tax rulings and tax procedures by contacting one of the numbers listed below:

Phoenix	(602) 255-3381
From area codes 520 and 928, toll-free	(800) 352-4090
Form Orders	(602) 542-4260
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Phoenix	(602) 542-1991
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Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's Internet home page at:

www.azdor.gov

General Instructions

NOTE: *Effective January 1, 2004, the boundaries of most enterprise zones in Arizona will change.* If you have questions about where enterprise zones are located, contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 771-1100 or @www.azcommerce.com/Contact_Us.htm. Answers to general questions about the Enterprise Zone Credit can be found in the Department of Revenue's Corporate Tax Ruling CTR 02-5 and Partnership Tax Ruling PTR 02-1.

CREDIT FOR QUALIFIED EMPLOYMENT POSITIONS: This credit applies to taxable years beginning from and after December 31, 1995. The credit is for net increases in qualified employment positions by a business located in an enterprise zone.

THE RETAIL EXCEPTION EFFECTIVE FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2001 WAS CHANGED FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2003. No credit is allowed for those positions at a business location where more than 10 percent of the business conducted at the location consists of retail sales of tangible personal property, measured by EITHER the number of employees assigned to retail sales OR the square footage of the facility used for retail sales at the location in the enterprise zone. "Assigned to retail" means that more than 25 percent of an employee's working hours are spent performing one or more retail activities. Do not include the following types of activities in the calculation of whether more than 10 percent of business conducted at a location consists of retail sales:

- Food and beverage for consumption on the premises solely by employees and occasional guests of employees at the location.
- Promotional products displaying the company logo or trademark that are not available for sale.
- Products sold to company employees.

The enterprise zone credit for qualified employment positions is scheduled to expire July 1, 2006, unless the enterprise zone program is extended by the Arizona Legislature. A business

must be located within an enterprise zone *prior to July 1, 2006*, in order to be eligible for the enterprise zone credit for qualified employment positions.

THE FOLLOWING CREDIT CRITERIA HAVE NOT CHANGED FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2003:

- Employees in qualified employment positions must be Arizona residents.
- Maximum allowable credit per qualified employment position is \$500 for first year, \$1,000 for second year, and \$1,500 for third year.
- Credit carryover allowed (maximum of 5 taxable years) during life of enterprise zone program unless business relocates outside of enterprise zone.
- A business located in an enterprise zone that is terminated may claim its second and third year credits and its credit carryover, if the business remains at the location that was formerly in an enterprise zone and otherwise qualifies for the credit.
- Business must be located in an enterprise zone prior to July 1, 2006, to be eligible for the credit.
- Thirty-five percent of employees in qualified employment positions for which the first year credit is claimed must be residents of an enterprise zone within the county in which the business is located.

How to Claim This Credit:

Complete Parts I through X of Form 304 and Forms 304-1 and 304-2. See the instructions on page 2 regarding the filing due date and new reporting requirements.

NOTE: *Use the 2004 Forms 304, 304-1 and 304-2 to claim the enterprise zone credit on the 2004 tax return. Do not use this form for prior taxable years.*

Specific Instructions

Enter the taxpayer name and employer identification number or social security number as shown on the tax return. Indicate the period covered by the taxable year (in an MM/DD/YYYY format). Attach the completed forms to the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, partnership, or an S corporation is the taxpayer's employer identification number. The TIN for an individual is the taxpayer's social security number or an IRS individual taxpayer identification number. Taxpayers that fail to include their TIN may be subject to a penalty.

Enterprise Zone Credit for Qualified Employment Positions

ARS §§ 43-1074 and 43-1161 provide individual and corporate NONREFUNDABLE tax credits for net increases in qualified employment positions by a business located in an enterprise zone. This credit applies to taxable years beginning from and after December 31, 1995.

The Arizona Department of Commerce administers some of the provisions of the Arizona Enterprise Zones Program. Refer to ARS §§ 41-1521 through 41-1528 for further information regarding these provisions.

Refer to Corporate Tax Ruling CTR 02-5 and Partnership Tax Ruling PTR 02-1 for further information regarding the enterprise zone tax credit provisions effective for taxable years beginning from and after December 31, 2001.

NOTE: A taxpayer participating in the enterprise zone credit program must certify certain information to the Arizona Department of Commerce. Contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 771-1100 regarding certification requirements or to obtain certification forms or copies of enterprise zone program guidelines. Information regarding certification requirements, certification forms, or enterprise zone program guidelines is also available @ www.azcommerce.com/Contact_Us.htm.

If the documents filed with the Arizona Department of Commerce or the Arizona Department of Revenue contain materially false information, the taxpayer is ineligible for the enterprise zone tax credit and is subject to recovery of the amount of enterprise zone tax credits allowed in preceding taxable years based on the false information, plus penalties and interest.

Thirty-five percent of the employees in a qualified employment position for which the first year credit is claimed must be residents of an enterprise zone within the county in which the business is located on the date of hire. The employees in the new qualified employment positions must have been hired for taxable years beginning from and after December 31, 1995.

The enterprise zone credit for qualified employment positions is equal to:

- One-fourth of the taxable wages paid to an employee in a qualified employment position, not to exceed \$500 per qualified employment position, in the first year or partial year of employment.
- One-third of the taxable wages paid to an employee in a qualified employment position, not to exceed \$1,000 per qualified employment position, in the second year of continuous employment.
- One-half of the taxable wages paid to an employee in a qualified employment position, not to exceed \$1,500 per qualified employment position, in the third year of continuous employment.

If the allowable enterprise zone credit exceeds the taxpayer's income tax liability, the taxpayer may carry over any unused amount for up to five taxable years, providing the business remains in the enterprise zone. However, if the business relocates outside of the enterprise zone, the carryover of the tax credit is lost. A business located in an enterprise zone that is terminated may claim its credit carryover, if the business remains at the location that was formerly in an enterprise zone.

The enterprise zone credit for net increases in qualified

employment positions is in lieu of:

- The military reuse zone credit, under ARS § 43-1079 or § 43-1167, with respect to the same employees; and
- The defense contracting credit, under ARS § 43-1077 or ARS § 43-1165, with respect to the same employees.

Filing due date: Refer to Arizona Corporation Tax Ruling CTR 02-5 or Arizona Partnership Tax Ruling PTR 02-1 for information regarding the filing due date for claiming this credit.

Reporting requirements: A taxpayer that does not timely comply with the reporting requirements to the Department of Revenue and the Department of Commerce is disqualified from the credit. Refer to Arizona Corporation Tax Ruling CTR 02-5 or Arizona Partnership Tax Ruling PTR 02-1 for further information. A taxpayer must attach a copy of the letter received from the Department of Commerce stating that the taxpayer timely complied with the reporting requirements for that agency.

Multiple business locations: Complete separate Forms 304, 304-1 and 304-2 for each business location in an enterprise zone for which a tax credit is being claimed. If a business has more than one business location in a designated enterprise zone, it must complete separate Forms 304, 304-1 and 304-2 for each location within that zone. If a business has more than one business location in Arizona and the business locations are in different enterprise zones, it must complete separate Forms 304, 304-1 and 304-2 for each business location in each enterprise zone.

AGGREGATE SUMMARY FORM 304: If the taxpayer has multiple zone locations, the taxpayer must complete an aggregate summary Form 304. [The Forms 304-1 and 304-2 are completed only on a separate location basis.] Enter the taxpayer name and employer identification number or social security number as shown on the tax return. Indicate the period covered by the taxable year (in an MM/DD/YYYY format). Enter "aggregate summary" at the top of page 1 of Form 304.

Part I - Business Information

AGGREGATE SUMMARY FORM 304: Leave this section blank.

Lines 1 through 4 -

On lines 1, 2a, 2b, 3a, and 3b, enter the name, zone location address, name of enterprise zone in which business is located, Arizona withholding number, and employer identification number of the business which is at a site located in an enterprise zone.

On line 2a, enter the address of the business' actual location in the enterprise zone, not the business' mailing address.

Line 4 – Retail Sales of Tangible Personal Property

Answer the question on line 4. If the answer to this question is yes, the business is not eligible for an enterprise zone credit for any of its qualified employment positions (Part V, lines 14 through 17 of Form 304).

Note for Form 120 filers: Taxpayers filing on a combined or consolidated basis should refer to Arizona Corporate Tax Ruling CTR 02-5 before answering this question.

The business is not eligible for the credit if more than 10 percent of the business consists of retail sales of tangible personal property at the business location in the enterprise zone, measured by EITHER the number of employees assigned to retail OR the square footage of the facility used for retail transactions at the location in the enterprise zone. A RETAIL SALE OF TANGIBLE PERSONAL PROPERTY IS A SALE OF TANGIBLE PERSONAL PROPERTY TO THE ULTIMATE CONSUMER. See page one of these instructions for more information on how to determine whether the business meets the retail exception.

RETAIL ACTIVITIES means all activities persons operating a retail business normally engage in, including taking orders, filling orders, billing orders, receiving and processing payment and shipping, stocking and delivering tangible personal property to the ultimate consumer, except drop shipments by a company acting on behalf of an unrelated company that has made a sale to a final consumer.

ZONE LOCATION means a single parcel or contiguous parcels of owned or leased land, the structures and personal property contained on the land or any part of the structures occupied by a taxpayer.

Multiple business locations: Complete a separate Form 304 for each business location in an enterprise zone for which a tax credit is being claimed. If a business has more than one business location in a designated enterprise zone, it must complete a separate Form 304 for each location within that zone. If a business has more than one business location in Arizona and the business locations are in different enterprise zones, it must complete separate Forms 304 for each business location in each enterprise zone.

Part II - Net Increase in Average Number of Full Time Employees

AGGREGATE SUMMARY FORM 304: Leave this section blank.

The net increase in the number of full time employees is determined by comparing the average number of full time employees during the current taxable year with the average number of full time employees during the immediately preceding taxable year.

The net increase in average number of full time employees calculation includes all permanent, full time employees. It is not limited to full time employees in qualified employment positions. Full time employment means the position must be a minimum of 1,750 hours per year of regularly scheduled work hours. A permanent position is a position that is not for a specified or limited period of time. Do not include overtime hours in the minimum requirement computation.

Note for Form 120 filers: Taxpayers filing on a combined or consolidated basis should refer to Arizona Corporate Tax Ruling CTR 02-5 before completing Part II.

Lines 5 and 6 -

- **Line 5:** Enter the average number of full time employees during the current taxable year. A new full time employee is a newly hired employee who was not employed by the

employer within the preceding 12 months. Include new full time employees who were employed for at least 90 days during the taxable year. EXCEPTION: Count a full time employee hired during the last 90 days of the taxable year as a new employee during the next taxable year. A qualified employment position that is filled during the last 90 days of the taxable year is considered to be a new qualified employment position for the next taxable year.

- **Line 6:** Enter the average number of full time employees during the immediately preceding taxable year. A newly established business in an enterprise zone would not have any full time employees within the zone during the immediately preceding taxable year. Such a business would have zero average full time employees during the immediately preceding taxable year. Therefore, such a business would enter zero on line 6 of the Form 304.

An established business already located in an area which subsequently becomes a designated enterprise zone would have full time employees at this location during the immediately preceding taxable year. This employer would calculate the average number of full time employees of the immediately preceding taxable year according to the worksheet on page 4 of the instructions. Line 15 of the worksheets immediately preceding taxable year column is the amount which is entered on line 6 of the Form 304.

Complete the following worksheet to determine the average number of full time employees. On lines 1 through 12 of the worksheet, enter the number of full time employees employed at the end of each month by the business located in the enterprise zone.

Average Number of Full Time Employees Worksheet		
	Line 5 Column – Current Taxable Year	Line 6 Column – Immediately Preceding Taxable Year
1	January	
2	February	
3	March	
4	April	
5	May	
6	June	
7	July	
8	August	
9	September	
10	October	
11	November	
12	December	
13	Total – Add lines 1 through 12.	
14	Total number of months during the taxable year in which the employer was in business.	
15	Average – Divide the amount on line 13 by the amount on line 14. Do not round the quotient.	

Line 7 - Net Increase in Number of Full Time Employees

Subtract the amount on line 6 from the amount on line 5. If this amount is less than one, enter zero. If this amount contains a decimal, round down to the next whole number. This is the net increase in the number of full time employees for the current taxable year.

NOTE: *If the amount shown on line 7 is zero, the business may not claim an enterprise zone credit for qualified employment positions created during the current taxable year. Do not complete the portion of Form 304-2 relating to first year credits. Enter zero on Part III, line 11c, and on Part IV, line 12a of Form 304. Do not complete Part V, line 14 of Form 304.*

Part III - Maximum Number of Qualified Employment Positions

Note for Form 120 filers: Taxpayers filing on a combined or consolidated basis should refer to Arizona Corporate Tax Ruling CTR 02-5 before completing Part III.

AGGREGATE SUMMARY FORM 304: *Leave this section blank.*

Line 8 -

Enter the total number of qualified employment positions created during the taxable year. If a qualified employment position is filled during the last 90 days of the taxable year it is considered to be a new qualified employment position for the next taxable year. A newly created position is a qualified employment position ON THE DATE that it meets ALL of the requirements for a qualified employment position.

A qualified employment position must meet **all** of the following requirements:

- The position must be a minimum of 1,750 hours per year of permanent full time employment. A permanent position is a position that is not for a specified or limited period of time. Do not include overtime hours in the minimum requirement computation.
- The position must include health insurance coverage for the employee for which the employer pays at least 50 percent of the premium or membership cost. If the taxpayer is self-insured, the taxpayer must pay at least 50 percent of a predetermined fixed cost per employee for an insurance program that is payable whether or not the employee has filed claims.
- The compensation paid by the employer for this position must at least equal the wage offer by county for a particular taxable year as computed annually by the Department of Economic Security Research Administration Division.

NOTE: *Contact the Arizona Department of Commerce Enterprise Zones Administrator at (602) 771-1100 or @www.azcommerce.com/Contact_Us.htm. regarding the wage offer by county for a particular taxable year as computed annually by the Department of Economic Security Research Administration Division.*

Line 9 -

Enter the net increase in the number of full time employees from Part II, line 7.

Line 10 -

Enter the smaller of line 8 or line 9. This is the maximum number of new qualified employment positions for which the business may claim a credit before application of the 35 percent enterprise zone residency requirement.

Application of 35 Percent Enterprise Zone Residency Requirement

Thirty-five percent of the new employees in qualified employment positions for which the first year credit is claimed must be enterprise zone residents. The employees in these positions must be residents of an enterprise zone within the county in which the business is located on the date of hire during the taxable year.

Line 11a -

Enter the number of new employees in qualified employment positions that are enterprise zone residents (on the date of hire).

Line 11b -

Divide the amount on line 11a by 35 percent (.35). Enter the quotient. If this amount contains a decimal, round down to the next whole number.

Part IV - Limitation on Number of Qualified Employment Positions Claimed for First Year and Second Year Tax Credits

Note for Form 120 filers: Taxpayers filing on a combined or consolidated basis should refer to Arizona Corporate Tax Ruling CTR 02-5 before completing Part IV.

AGGREGATE SUMMARY FORM 304: *Complete this section.*

Line 12b -

Enter the total number of employees in the second year of continuous employment in qualified employment positions. Refer to the general instructions for Part V, and the instructions for line 13 and line 15, column (a), before completing this line.

Line 12d -

DETERMINE WHICH OF THE FOLLOWING SITUATIONS APPLY BEFORE COMPLETING THIS LINE.

A. Single enterprise zone location (if taxpayer files Form 120 on a separate company basis or taxpayer files Forms 120A, 120S or 165): Enter the smaller of 200 or line 12c. [If the number on line 12c is greater than 200, identify the qualified employment positions for which the taxpayer is claiming the first year or second year credit by checking the box in column (e) on the Forms 304-2 for the zone location.] This is the maximum number of qualified employment positions for which the first year and second year credits may be claimed.

NOTE: *The maximum number of qualified employment positions entered on Part V, line 14, column (a), and line 15,*

column (a), cannot exceed the number of qualified employment positions entered on Part IV, line 12d.

B. Multiple enterprise zone locations (if taxpayer files Form 120 on a separate company basis or taxpayer files Forms 120A, 120S or 165): If the aggregate number for all zone locations (from line 12c) is equal to or less than 200, complete line 12d for each location as instructed on the form.

NOTE: *The maximum number of qualified employment positions entered on Part V, line 14, column (a), and line 15, column (a), cannot exceed the number of qualified employment positions entered on Part IV, line 12d FOR THAT ZONE LOCATION.*

If the aggregate number for all zone locations (from line 12c) is greater than 200, do not enter a number on line 12d for the separate zone locations. Complete line 12d only on the aggregate summary Form 304. [Identify the qualified employment positions for which the taxpayer is claiming the first year or second year credit by checking the box in column (e) on the Forms 304-2 for the separate zone locations.]

NOTE: *Complete the Form 304-2 for each zone location listing each qualified employment position for which the first year or second year credit is being claimed only after completing Part III (through line 11c) and Part V, line 13, of Form 304. The maximum number of qualified employment positions entered on Part V, line 14, column (a), and line 15, column (a), of the aggregate summary Form 304 cannot exceed the number of qualified employment positions entered on Part IV, line 12d of the aggregate summary Form 304.*

C. Taxpayer filing Form 120 on a combined or consolidated basis.

TAXPAYER HAS A SINGLE ZONE LOCATION: Enter the smaller of 200 or line 12c. [If the number on line 12c is greater than 200, identify the qualified employment positions for which the taxpayer is claiming the first year or second year credit by checking the box in column (e) on the Forms 304-2 for the zone location.] This is the maximum number of qualified employment positions for which the first year and second year credits may be claimed.

NOTE: *The maximum number of qualified employment positions entered on Part V, line 14, column (a), and line 15, column (a), cannot exceed the number of qualified employment positions entered on Part IV, line 12d.*

TAXPAYER HAS MULTIPLE ZONE LOCATIONS: If the aggregate number for all zone locations (from line 12c) is equal to or less than 200, complete line 12d for each location as instructed on the form.

NOTE: *The maximum number of qualified employment positions entered on Part V, line 14, column (a), and line 15, column (a), cannot exceed the number of qualified employment positions entered on Part IV, line 12d FOR THAT ZONE LOCATION.*

If the aggregate number for all zone locations (from line 12c) is greater than 200, do not enter an amount on line 12d for the separate zone locations. Complete line 12d only on the aggregate summary Form 304. [Identify the qualified employment positions for which the taxpayer is claiming the

first year or second year credit by checking the box in column (e) on the Forms 304-2 for the separate zone locations.]

NOTE: *The maximum number of qualified employment positions entered on Part V, line 14, column (a), and line 15, column (a), of the aggregate summary Form 304 cannot exceed the number of qualified employment positions entered on Part IV, line 12d of the aggregate summary Form 304.*

Part V - Credit Calculation for Qualified Employment Positions

AGGREGATE SUMMARY FORM 304: *Complete this section. Do not complete an aggregate summary Form 304-1 or an aggregate summary Form 304-2.*

The enterprise zone credit for qualified employment positions applies only to taxable years beginning from and after December 31, 1995. The taxpayer may claim the first year credit only for employees in new qualified employment positions who were hired in taxable years beginning from and after December 31, 1995.

The taxpayer may claim the first, second, and third year credits for a qualified employment position only if the position continues to meet all of the requirements for a qualified employment position. The compensation paid by the employer for the position must at least equal the wage offer by the county published for a particular taxable year beginning on the first day of the employer's taxable year to maintain eligibility for the second and third year credits.

A taxpayer located in an enterprise zone that is terminated may claim the second and third year credits for a qualified employment position, if the taxpayer remains at the location that was formerly in an enterprise zone and the position continues to meet all of the requirements for a qualified employment position.

The second year and third year credits are allowed only for qualified employment positions for which a first year and second year credit was allowed and claimed by the taxpayer on the taxpayer's original tax return for those taxable years.

Line 13 - Arizona Residency

Answer the question on line 13. If the answer to this question is no, the business is not eligible for an enterprise zone credit for its qualified employment positions (lines 14 through 17) filled by employees who are not Arizona residents.

In order to claim the credit for qualified employment positions, each employee in a qualified employment position for which the credit is claimed must be a resident of Arizona. THE RESIDENCY REQUIREMENT APPLIES TO THE FIRST, SECOND, AND THIRD YEAR CREDITS. Refer to Arizona Individual Income Tax Procedure ITP 92-1 for information on determining Arizona residency.

Lines 14 through 17 and Forms 304-1 and 304-2

Complete Forms 304-1 and 304-2 before completing lines 14 through 17, Part V of Form 304.

Complete a Form 304-1 (or provide the information in an approved alternative form) for each employee at the zone location, WHETHER OR NOT THE EMPLOYEE IS IN A QUALIFIED EMPLOYMENT POSITION.

NOTE: ARS § 41-1525(B)(1) provides for the information requested in the Form 304-1 to be submitted in a form prescribed by the Department of Revenue and may include electronic media. The department will accept a hard copy spreadsheet that contains all the requested information or the information may be submitted on electronic media as a Microsoft Excel spreadsheet or pdf file on either a 3½" diskette or a CD-ROM. The chosen media must be Microsoft Windows compatible.

Regardless of the form, the information must be filed on or before the due date of the tax return including any extensions. Taxpayers submitting the information on CD-ROM or diskette should attach a statement to Form 304 in the tax return that the information is being separately submitted in that form. The Forms 304-1 submitted on CD-ROM or diskette are part of the income tax return and are subject to the sworn statement on the return that they are true and correct to the best of the signer's knowledge and belief.

The CD-ROM or diskette should be labeled as Form 304-1 with the taxpayer's name employer, identification number and taxable year and sent directly to:

Arizona Department of Revenue
 Attn: Corporate Office Audit/EZ Credits
 1600 West Monroe
 Phoenix, AZ 85007

FORM 304-1, LINE 7 - List the employee's current date of hire.

FORM 304-1, LINE 8 - Complete this line if the employee was previously employed by the employer (prior to the current employment).

FORM 304-1, LINE 9a - A permanent position is a position that is not for a specified or limited period of time. A full time position must be 1,750 hours per year of regularly scheduled work hours. Do not include overtime hours in the minimum requirement computation.

FORM 304-1, LINE 11a - Enter the total amount of the insurance premium or membership cost for the employee. If the business is self-insured, list the total amount of a predetermined fixed cost for the employee for an insurance program that is payable whether or not the employee has filed claims.

FORM 304-1, LINE 11b - Enter the total amount of the insurance premium or membership cost for the employee paid by the employer. If the business is self-insured, list the total amount paid by the employer of a predetermined fixed cost for the employee for an insurance program that is payable whether or not the employee has filed claims.

FORM 304-1, LINE 13b - Refer to the instructions for the Form 304, Part V, lines 15 and 16 for information regarding qualifications for substitution before answering this question.

FORM 304-2: Complete a separate form for each zone location listing each employee in a qualified employment position for which a credit is being claimed. All employees listed on the Form 304-2 must be Arizona residents. Requirements for listing an employee in a qualified employment position for which the business is claiming the first year credit are:

- The employee was hired at least 90 days prior to the end of the taxable year; and
- Wages entered in column (d1) are wages paid to the employee for the period of time during which the position met all of the requirements for a qualified employment position, up to a maximum of \$2,000.

Form 304-2, column (e): Check this box if the taxpayer is subject to the 200 qualified employment position limit for its first year and second year credits. Identify the qualified employment positions for which the taxpayer is claiming the first year credit or second year credit by checking the box in column (e) on the Forms 304-2 for each zone location.

Form 304, Line 14 - Column (a)

Enter the number of new employees in qualified employment positions from Form 304-2, line 8, column (b1).

NOTE: The maximum number of qualified employment positions entered on line 14, column (a), and line 15, column (a), cannot exceed the number of qualified employment positions entered on Part IV, line 12d.

Line 14 - Column (b)

Enter the maximum allowable wages for all first year employees in qualified employment positions from Form 304-2, line 8, column (d1).

Line 14 - Column (d)

Multiply the amount entered on line 14, column (b), by the percent shown on line 14, column (c). Enter the result on line 14, column (d). This is the allowable credit for new qualified employment positions.

Line 15 - Column (a)

Enter the total number of employees in qualified employment positions in the second year of continuous employment from Form 304-2, line 8, column (b2).

NOTE: The maximum number of qualified employment positions entered on line 14, column (a), and line 15, column (a), cannot exceed the number of qualified employment positions entered on Part IV, line 12d.

Arizona's statutes do not require that the employee who is claimed in the second year of continuous employment be the same employee who was claimed in the first year of employment. Therefore, if one of the originally claimed new employees leaves employment in year two, the business can claim the second year credit for another employee in a qualified employment position who is in the second year of continuous employment. If the original employee was counted as part of the 35 percent enterprise zone residency requirement, the substitute employee must have been a resident of an enterprise zone in the county in which the business is located on the date of hire.

A second year credit is allowed only for qualified employment positions for which a first year credit was allowed and claimed by the taxpayer on the taxpayer's original tax return for that taxable year.

Line 15 - Column (b)

Enter the maximum allowable wages for all employees in qualified employment positions in the second year of continuous employment, from Form 304-2, line 8, column (d2).

Line 15 - Column (d)

Multiply the amount shown on line 15, column (b), by the percent shown on line 15, column (c). Enter the result on line 15, column (d). This is the allowable credit for employees in qualified employment positions in their second year of continuous employment.

Line 16 - Column (a)

Enter the total number of employees in qualified employment positions in the third year of continuous employment from Form 304-2, line 8, column (b3).

Arizona's statutes do not require that the employee who is claimed in the third year of continuous employment be the same employee who was claimed in the second year of employment. Therefore, if one of the originally claimed new employees leaves employment in year three, the business can claim the third year credit for another employee in a qualified employment position who is in the third year of continuous employment. If the original employee was counted as part of the 35 percent enterprise zone residency requirement, the substitute employee must have been a resident of an enterprise zone in the county in which the business is located *on the date of hire*.

A third year credit is allowed only for qualified employment positions for which a first year and second year credit was allowed and claimed by the taxpayer on the taxpayer's original tax return for those taxable years.

Line 16 - Column (b)

Enter the maximum allowable wages for all employees in qualified employment positions in the third year of continuous employment from Form 304-2, line 8, column (d3).

Line 16 - Column (d)

Multiply the amount shown on line 16, column (b), by the percent shown on line 16, column (c). Enter the result on line 16, column (d). This is the allowable credit for employees in qualified employment positions in their third year of continuous employment.

Line 17 -

Add the numbers in column (a) on lines 14, 15, and 16. Enter the total in column (a) on line 17. The number shown on line 17, column (a), is the total number of employees in qualified employment positions for which the enterprise zone credit is being claimed.

Add the amounts in column (d) on lines 14, 15, and 16. Enter the total in column (d) on line 17. The amount shown on line 17, column (d), is the total allowable enterprise zone credit for qualified employment positions for the current taxable year.

Part VI - Limited Liability Companies

AGGREGATE SUMMARY FORM 304: *Leave this section blank.*

This portion of the Form 304 must be completed if the business is a limited liability company. Refer to Arizona Corporate Tax Ruling CTR 97-1 or Arizona Partnership Tax Ruling PTR 97-1 for further information regarding Arizona's treatment of the federal check-the-box rules. Refer to Arizona Corporate Tax Ruling CTR 97-2 or Arizona Partnership Tax Ruling 97-2 for further information regarding the Arizona tax treatment of a limited liability company.

Part VII - S Corporation Credit Election and Shareholder's Share of Credit**Line 21 -**

This portion of the Form 304 must be completed by the S corporation in order for the S corporation or its shareholders to claim the enterprise zone credit for qualified employment positions. The S corporation must make an irrevocable election either to claim the credit itself or to pass the credit through to its shareholders. The election statement must be signed by one of the officers of the S corporation who is also a signatory to the Form 120S.

AGGREGATE SUMMARY FORM 304: If the S corporation elects to claim the credit itself, do not complete Section VII on the aggregate summary.

Lines 22 through 24 -

If the S corporation elects to pass the credit through to its shareholders, it must also complete lines 22 through 24.

Single zone location: If the S corporation has one business location in an enterprise zone, it must complete Form 304, Parts I through VI. Then, complete Part VII, lines 22 through 24, separately for each shareholder. The S corporation must furnish each shareholder with a copy of the completed Form 304.

AGGREGATE SUMMARY FORM 304: If the S corporation has multiple zone locations, it must complete an aggregate summary Form 304. Enter the taxpayer name and employer identification number as shown on the tax return. Indicate the period covered by the taxable year (in an MM/DD/YYYY format). Enter "aggregate summary" at the top of page 1 of Form 304. Complete Parts IV and V. Then, complete Part VII, lines 22 through 24, separately for each shareholder. The S corporation must provide each shareholder a copy of the completed aggregate summary Form 304 and the completed Forms 304 for each zone location. The S corporation does not have to provide each shareholder with a copy of the Forms 304-1 and 304-2.

Each shareholder must complete Parts IX and X.

Part VIII - Partner's Share of Credit**Lines 25 through 27 -**

Single zone location: If the partnership has a single zone location in an enterprise zone, the partnership must complete Form 304, Parts I through VI. Then, complete Part VIII, lines 25 through 27,

separately for each partner. The partnership must furnish each partner with a copy of the completed Form 304.

AGGREGATE SUMMARY FORM 304: If the partnership has multiple zone locations, it must complete an aggregate summary Form 304. Enter the taxpayer name and employer identification number as shown on the tax return. Indicate the period covered by the taxable year (in an MM/DD/YYYY format). Enter "aggregate summary" at the top of page 1 of Form 304. Complete Parts IV and V. Then, complete Part VIII, lines 25 through 27, separately for each partner. The partnership must provide each partner a copy of the completed aggregate summary Form 304 and the completed Forms 304 for each zone location. The partnership does not have to provide each partner with a copy of the Forms 304-1 and 304-2.

Each partner must complete Parts IX and X.

Part IX - Available Credit Carryover

AGGREGATE SUMMARY FORM 304: *Complete this section.* [Exception: Partnerships and S corporations that elected to pass the credit through to their shareholders, do not complete this section on the aggregate summary Form 304.]

The business should complete Part IX only if its allowable enterprise zone tax credit for qualified employment positions for prior taxable years exceeded its Arizona income tax liability for those taxable years. This credit applies only to taxable years beginning from and after December 31, 1995; consequently, there is no available carryover of this credit from taxable years beginning prior to January 1, 1996.

NOTE: *The business is allowed to carry forward the amount of the unused enterprise zone credit, for a period not to exceed five taxable years, provided the business remains in the enterprise zone. However, if the business relocates outside of the enterprise zone, the carryover of the tax credit is lost. A business located in an enterprise zone that is terminated may claim its credit carryover, if the business remains at the location that was formerly in an enterprise zone.*

Partners of a partnership or shareholders of an S corporation should complete Part IX only if their allowable enterprise zone tax credit for prior taxable years exceeded their Arizona income tax liability for those taxable years. Since the enterprise zone credit for qualified employment positions applies only to taxable years beginning from and after December 31, 1995, there is no available carryover of this credit from taxable years beginning prior to January 1, 1996.

PARTNERSHIPS AND S CORPORATIONS THAT ELECTED TO PASS THE CREDIT THROUGH TO THEIR SHAREHOLDERS: A partner of a partnership or a shareholder of an S corporation is eligible for an enterprise zone credit carryover, if the business remains in the enterprise zone or at the location that was formerly in an enterprise zone. Therefore, a partnership or an S corporation that passed the credit through to its partners or shareholders must furnish each partner or shareholder with a statement indicating that the business is still located in the enterprise zone or is still at the location that was formerly in

an enterprise zone.

Line 28 -

Enter the applicable taxable year(s) in columns (a) through (e).

Line 29 -

In columns (a) through (e), enter the amount of the original tax credit earned for that taxable year.

Line 30 -

In columns (a) through (e), enter the amount of the tax credit for that taxable year which has been previously used.

Line 31 -

In columns (a) through (e), subtract the amount on line 30 from the amount on line 29. Enter the result in the applicable columns on line 31. This is the tentative carryover.

Line 32 -

In columns (a) through (e), enter the amount of the credit which is unallowable because the business is no longer located in the enterprise zone or is not at the location that formerly was in an enterprise zone.

Line 33 -

In columns (a) through (e), subtract the amount on line 32 from the amount on line 31. Enter the result in the applicable columns on line 33. This is the carryover available from prior taxable years.

Line 34 -

Add the amounts in columns (a) through (e) on line 33. Enter the total in column (f) on line 34. This is the total enterprise zone credit carryover for qualified employment positions available for the current taxable year.

Partners and S corporation shareholders:

A partner of a partnership or a shareholder of an S corporation is eligible for an enterprise zone credit carryover, if the business remains in the enterprise zone or at the location that was formerly in an enterprise zone. Therefore, a partnership or an S corporation that passed the credit through to its partners or shareholders must furnish each partner or shareholder with a statement indicating that the business is still located in the enterprise zone or is still at the location that was formerly in an enterprise zone.

Each partner or S corporation shareholder must complete Part IX for the computation of the available carryover of the credit passed through by the partnership or S corporation.

AGGREGATE SUMMARY FORM 304: If the partner or shareholder has multiple partnership or S corporation interests, the taxpayer must complete an aggregate summary Form 304. The taxpayer should attach a schedule detailing the use of the credit carryover BY LOCATION from each partnership or S corporation.

Part X - Total Available Credit

AGGREGATE SUMMARY FORM 304: *Complete this section.* [Exception: Partnerships and S corporations that elected to

pass the credit through to their shareholders, do not complete this section on the aggregate summary Form 304.]

Line 35 -

Individuals and corporations (including S corporations that elected to claim the credit) – Enter the amount from Part V, line 17, column (d).

S corporation shareholders – Enter the amount from Part VII, line 24.

Partners of a partnership – Enter the amount from Part VIII, line 27.

This is the current year's credit for qualified employment positions.

AGGREGATE SUMMARY FORM 304: If the business is claiming the enterprise zone credit for more than one business location, the business should attach a separate schedule to the aggregate summary Form 304 which details the use of the credit BY LOCATION.

NOTE FOR S CORPORATIONS: If the S corporation has elected to pass the enterprise zone credit for qualified employment positions through to its shareholders (refer to Part VII), enter zero.

Partners and S corporation shareholders:

AGGREGATE SUMMARY FORM 304: If the partner or shareholder has multiple partnership or S corporation interests, the taxpayer must complete an aggregate summary Form 304 and attach copies of all Forms 304 received from the partnerships and S corporations. The taxpayer should attach a separate schedule to the aggregate summary Form 304 which details the use of the credit BY LOCATION.

Line 36 -

Enter the amount from Part IX, line 34, column (f). This is the total available credit carryover for qualified employment positions.

AGGREGATE SUMMARY FORM 304: If the business is claiming an enterprise zone credit carryover for more than one business location, the business should attach a separate schedule to the aggregate summary Form 304 which details the use of the credit carryover BY LOCATION.

Partners and S corporation shareholders:

Each partner or S corporation shareholder must complete Part IX for the computation of the available carryover of the credit passed through by the partnership or S corporation.

AGGREGATE SUMMARY FORM 304: If the partner or shareholder has multiple partnership or S corporation interests, the taxpayer must complete an aggregate summary Form 304. The taxpayer should attach a schedule detailing the use of the credit carryover BY LOCATION from each partnership or S corporation.

Line 37 -

Add lines 35 and 36. This is the total available enterprise zone credit for qualified employment positions which may be

applied to the current year's tax liability. Enter the total here and on Form 300, Part I, line 2, or on Form 301, Part I, line 2.

AGGREGATE SUMMARY FORM 304: *If the enterprise zone credit is being claimed for more than one business location, enter the aggregate total available credit on Form 300, Part I, line 2, or Form 301, Part I, line 2.*