

WATER CONSERVATION SYSTEMS (INDIVIDUAL INCOME TAX CREDIT) AND PLUMBING STUB OUTS (CORPORATE INCOME TAX CREDIT)

Arizona law provides an individual taxpayer with an income tax credit for installing a water conservation system in the taxpayer's residence located in Arizona (A.R.S. §43-1090.01) plus it allows for a corporate income tax credit for the cost of installing plumbing stub outs for a water conservation system when constructing new homes (A.R.S. §43-1182). Both credits require pre-certification by the department. The department intends this brochure to provide guidance with respect to both these credits.

For complete details, refer to the Arizona Revised Statutes. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes will prevail.

Individual Water Conservation Systems Credit

This credit is for costs associated with installing a water conservation system in the taxpayer's residence located in Arizona.

Q. What is a water conservation system?

A. A water conservation system is a system or series of components or mechanisms that are designed to provide for the collection of rainwater or residential graywater. A water conservation system includes a system that is capable of storing rainwater or residential graywater for future use and reusing the collected water for the same residential property.

Q. What requirements must a residential graywater system meet in order to qualify for this credit?

A. To qualify for this credit, a residential graywater system and its installation must comply with rules that are adopted by the Arizona Department of Environmental Quality (ADEQ) and that relate to the recovery and disposal of residential graywater. For detailed information please contact ADEQ:

www.azdeq.gov/environ/water/permits/reclaimed.html

Phone number: (602) 771-2300

Toll free: (800) 234-5677

Q. What are the effective dates of this credit?

A. This credit is effective for taxable years from and after December 31, 2006 and ending before January 1, 2012. Therefore, the credit is available for tax years 2007 through 2010 and calendar year 2011. A

taxpayer with a fiscal year ending in 2012 will not qualify for the credit.

Q. Who is eligible to take the water conservation systems credit?

A. An individual who is an Arizona Resident who is not a dependent of another taxpayer is eligible to take the water conservation systems credit.

Q. What is the amount of the water conservation systems credit?

A. The water conservation systems credit is equal to 25 percent of the cost of the water conservation system, not to exceed \$1,000. Tax credits claimed over multiple years by a taxpayer for the same residence cannot exceed \$1,000.

Q. If the water conservation system credit is more than the taxpayer's Arizona income tax, can the taxpayer carry the unused credit forward?

A. If the allowable credit exceeds the taxes otherwise due, the taxpayer may carry the credit forward for a period not exceeding the next consecutive five taxable years.

Q. How do I apply for this credit?

A. The individual must make application to the Arizona Department of Revenue (DOR) on the appropriate form (AZDOR 05-5543) and must obtain a Credit Certificate indicating that the taxpayer is entitled to take this credit and the amount of the credit to which the taxpayer is entitled. You may obtain a copy of this form by visiting our web site at www.azdor.gov or by calling Taxpayer Information & Assistance at (602) 255-3381.

Application can only be made after actual purchase and installation of the system. Copies of the receipt for purchase and installation of the system, with date of installation shown, must be attached to the application.

Q. Is there a maximum amount of individual water conservation system credits that the department can certify in a year?

A. The maximum amount of individual water conservation system income tax credits that the department can certify in a calendar year is \$250,000.

WATER CONSERVATION SYSTEMS (INDIVIDUAL INCOME TAX CREDIT) AND PLUMBING STUB OUTS (CORPORATE INCOME TAX CREDIT)

Q. What happens if I apply for the credit and the maximum amount of credit that can be certified for the year has already been certified?

A. The credit is granted on a first come first serve basis. If an application is received that, if authorized, would require the department to exceed \$250,000, the department will grant that applicant only the remaining credit amount that would not exceed the \$250,000 limit. If the \$250,000 limit has been met before the application is received, no credit will be certified.

Q. If a taxpayer takes the water conservation system credit, can the taxpayer take depreciation on the Arizona return for the water conservation system?

A. The credit is in lieu of any allowance for Arizona purposes for exhaustion, wear and tear of the system under Internal Revenue Code §167. Amounts of depreciation included in the taxpayer's federal adjusted gross income for the water conservation system for which the credit is taken must be added to the taxpayer's Arizona gross income. (Note: the depreciation must be added back for each period in which it is deducted for federal purposes.)

Corporate Plumbing Stub Outs Credit

This credit is for costs incurred for installing or including a water conservation system plumbing stub out that collects all graywater sources that end at a plumbing stub out that is separate and distinct from the regular plumbing system. These costs are for installing or including such a system in one or more houses or dwelling units located in Arizona and constructed by the taxpayer.

Q. What requirements must be met in order for a plumbing stub out to qualify for this credit?

A. To qualify for this credit, the plumbing stub out must comply with rules that are adopted by the Arizona Department of Environmental Quality that relate to the direct reuse of reclaimed water. It must also meet applicable local building codes. For detailed information please contact ADEQ: www.azdeq.gov/environ/water/permits/reclaimed.html

Phone number: (602) 771-2300

Toll free: (800) 234-5677

Q. What are the effective dates of this credit?

A. This credit is effective for taxable years from and after December 31, 2006 and ending before January 1, 2012. Therefore, the credit is available for tax years 2007 through 2010, and calendar year 2011. A taxpayer with a fiscal year ending in 2012 will not qualify for the credit.

Q. Who is eligible to take the plumbing stub out credit?

A. Co-owners of a business, including corporate partners in a partnership, may each claim only the pro rata share of the credit, based on ownership interest.

Q. What is the amount of the plumbing stub out credit?

A. The plumbing stub out credit is for costs incurred to install or include the plumbing stub out in each house or dwelling unit, but cannot exceed \$200 for each separate house or dwelling unit.

Q. If the plumbing stub out credit is more than the taxpayer's Arizona income tax, can the taxpayer carry the unused credit forward?

A. If the allowable credit exceeds the taxes otherwise due, the taxpayer may carry the credit forward for a period not exceeding the next five consecutive taxable years.

Q. How can a corporation apply for this credit?

A. The corporation must make application to the Arizona Department of Revenue (DOR) on the appropriate form (AZDOR 05-5544) and must obtain a Credit Certificate indicating that the taxpayer is entitled to take this credit and the amount of the credit to which the taxpayer is entitled. You may obtain a copy of this form by visiting our web site at www.azdor.gov, or by calling Taxpayer Information and Assistance at (602) 255-3381.

Application can only be made after actual purchase and installation of the plumbing stub outs. Copies of documentation for installation of the plumbing stub outs, with date of installation and addresses shown, must be attached to the application.

WATER CONSERVATION SYSTEMS (INDIVIDUAL INCOME TAX CREDIT) AND PLUMBING STUB OUTS (CORPORATE INCOME TAX CREDIT)

Q. Is there a maximum amount of corporate plumbing stub out credits that the department can certify in a year?

A. The maximum amount of corporate plumbing stub out income tax credits that the department can certify in a calendar year is \$500,000.

Q. What happens if I apply for the credit and the maximum amount of credit that can be certified for the year has already been certified?

A. The credit is granted on a first come first serve basis. If an application is received that, if authorized, would require the department to exceed \$500,000, the department will grant that applicant only the remaining credit amount that would not exceed the \$500,000 limit. If the \$500,000 limit has been met before the application is received, no credit will be certified.

Q. If a taxpayer takes the credit, are any expenses for installing the plumbing stub out allowed to be deducted on the Arizona return?

A. The credit is in lieu of any expenses for installing the plumbing stub out for Arizona purposes. The amount of expenses included in the taxpayer's federal adjusted gross income for the plumbing stub out for which a credit is taken must be added to the taxpayer's Arizona gross income.

For additional information, call:

Phoenix.....(602) 255-3381
Toll free from area codes 520 & 928(800) 352-4090

For Hearing Impaired –TDD only:

Phoenix.....(602) 542-4021
Toll free from area codes 520 & 928(800) 397-0256

Or write to:

Arizona Department of Revenue
Taxpayer Information & Assistance
1600 W Monroe
Phoenix AZ 85007

For Related Tax Information:

Internet www.azdor.gov

This publication is available in an alternative format upon request.