ARIZONA CORPORATE TAX PROCEDURE

CTP 95-1

ISSUE:

On what basis should a corporate taxpayer compute the allowable enterprise zone income tax credit for a taxable year? How is average employment computed during a given taxable year?

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 43-104.22 defines a taxable year.

A.R.S. § 41-1525 prescribes eligibility requirements for the enterprise zone income tax credit.

A.R.S. § 43-1161 governs the allowance of the corporate enterprise zone income tax credit for net increases in employment of qualified employees and/or dislocated workers by a business located in an Arizona enterprise zone.

DISCUSSION:

The enterprise zone tax credit is comprised of two separate credits, the credit for net increases in employment of qualified employees and the credit for net increases in employment of dislocated workers. Prior to September 30, 1992, the enterprise zone tax credit was allowed only for net increases in employment of qualified employees. The eligibility requirements and the limitations apply separately to the credits and, therefore, the credits must be computed separately by the taxpayer.

The enterprise zone tax credit is allowed for net increases in employment of qualified employees and dislocated workers by a business at a site in an Arizona enterprise zone. The net increase in employment is determined by comparing the average employment during the current taxable year at the site with the average employment during the immediately preceding taxable year at the site. The net increase in employment calculation includes all employees, i.e., qualified employees, dislocated workers, and all other employees.

The average employment computation for a taxable year includes both full-time and part-time employees. The computation is not based on full-time equivalent employees. The taxpayer must first determine the total number of employees that the business had at the end of each month during the taxable year. Then the taxpayer must add the number of employees listed for each month during the taxable year. Divide the total by the number of months in the taxable year. The quotient is the average employment for the taxable year. The difference between average employment for the current taxable year and average employment for the immediately preceding taxable year is the net increase in employment.

The maximum number of qualified employees and the maximum number of dislocated workers for which the credit may be claimed is the lower of the net increase in employment or the number of qualified employees/dislocated workers hired during the taxable year. The net increase in employment is applied as a limitation to both the credit for qualified employees and the credit for dislocated workers.

The enterprise zone tax credit is allowed for taxable years and, therefore, is computed on a taxable year basis and not on an employment year basis. Each taxable year is an employment year for purposes of the credit, regardless of when the employee's anniversary date occurs within the employer's taxable year.

The term "taxable year" means a calendar year or fiscal year, or, in the case of a return made for a fractional part of a year under Title 43 or under the rules prescribed by the department, the period for which the return is made.

A.R.S. § 43-1161 does not provide specific guidance regarding the calculation of the enterprise zone credit by corporate taxpayers who file short period income tax returns. However, the enterprise zone tax credit is calculated in the same manner for all taxable years, regardless of the length of the taxable year.

The following example illustrates the computation of the allowable enterprise zone tax credit on three income tax returns filed by a corporate taxpayer.

Example:

FIRST TAXABLE YEAR (04/01/94 - 03/31/95)

Qualified Employee (QE) or Dislocated Worker (DW)	35% Residency Requirement Met?	Net Increase in Employment for Taxable Year	Number Hired During Taxable Year	Maximum Number of First Year Employees That May Be Claimed
QE	Yes	2	2	2
DW	Yes	2	3	2
Total				4

ALLOWABLE CREDIT FOR QUALIFIED EMPLOYEES

Individual's Name	Hire Date	Termination Date	Taxable Wages	Applicable Percentage	Calculated Credit	Allowable Credit

A	04/15/94	N/A	$ 10,000	.25	$ 2,500	$ 1,000 *
B	07/05/94	N/A	8,000	.25	2,000	1,000 *
Total						$ 2,000

* Credit limited to $1,000.

ALLOWABLE CREDIT FOR DISLOCATED WORKERS

Individual's Name	Hire Date	Termination Date	Taxable Wages	Applicable Percentage	Calculated Credit	Allowable Credit
C	09/01/94	N/A	$ 6,000	.25	$ 1,500	$ 1,000 *
D	01/17/95	N/A	2,100	.25	525	525
E	01/17/95	N/A	2,100	.25	525	0 **
Total						$ 1,525

* Credit limited to $1,000.

** Credit cannot be claimed for this individual due to the net increase in employment limitation.

Due to a change in ownership, the taxpayer will file two short period returns for the period April 1, 1995 through March 31, 1996. The first short period return filed by the taxpayer is for the period April 1, 1995 through June 30, 1995. The second short period return filed by the taxpayer is for the period July 1, 1995 through March 31, 1996.

SECOND TAXABLE YEAR (04/01/95 - 06/30/95)

Qualified Employee (QE) or Dislocated Worker (DW)	35% Residency Requirement Met?	Net Increase in Employment for Taxable Year	Number Hired During Taxable Year	Maximum Number of First Year Employees That May Be Claimed
QE	Yes	1	2	1
DW	No	1	0	0
Total				1

ALLOWABLE CREDIT FOR QUALIFIED EMPLOYEES

Individual's Name	Hire Date	Termination Date	Taxable Wages	Applicable Percentage	Calculated Credit	Allowable Credit
A	04/15/94	N/A	$ 3,000	.3333	$ 1,000	$ 1,000
B	07/05/94	N/A	3,000	.3333	1,000	1,000
L	04/17/95	06/28/95	2,000	.25	500	500
M	05/30/95	N/A	900	.25	225	0 *

Total						$ 2,500

* Credit cannot be claimed for this individual due to the net increase in employment limitation.

ALLOWABLE CREDIT FOR DISLOCATED WORKERS

Individual's Name	Hire Date	Termination Date	Taxable Wages	Applicable Percentage	Calculated Credit	Allowable Credit
C	09/01/94	05/12/95	$ 1,500	.3333	$ 500	$ 0 *
D	01/17/95	N/A	3,500	.3333	1,167	1,167
E	01/17/95	N/A	2,700	.3333	900	900
Total						$ 2,067

* Credit cannot be claimed for this individual, since the taxpayer substituted Individual E.

THIRD TAXABLE YEAR (07/01/95 - 03/31/96)

Qualified Employee (QE) or Dislocated Worker (DW)	35% Residency Requirement Met?	Net Increase in Employment for Taxable Year	Number Hired During Taxable Year	Maximum Number of First Year Employees That May Be Claimed
QE	No	2	0	0
DW	Yes	2	3	2
Total				2

ALLOWABLE CREDIT FOR QUALIFIED EMPLOYEES

Individual's Name	Hire Date	Termination Date	Taxable Wages	Applicable Percentage	Calculated Credit	Allowable Credit
A	04/15/94	N/A	$ 9,000	.50	$ 4,500	$ 2,500 *
B	07/05/94	N/A	6,000	.50	3,000	2,500 *
M	05/30/95	N/A	4,000	.3333	1,333	1,333
Total						$ 6,333

* Credit limited to $2,500.

ALLOWABLE CREDIT FOR DISLOCATED WORKERS

Individual's Name	Hire Date	Termination Date	Taxable Wages	Applicable Percentage	Calculated Credit	Allowable Credit
D	01/17/95	N/A	$ 12,000	.50	$ 6,000	$ 2,500 *
E	01/17/95	N/A	9,000	.50	4,500	2,500 *
R	10/01/95	N/A	5,400	.25	1,350	1,000 **
S	12/18/95	N/A	2,600	.25	650	650
T	02/01/96	N/A	1,200	.25	300	0 ***
Total						$ 6,650

* Credit limited to $2,500.

** Credit limited to $1,000.

*** Credit cannot be claimed for this individual due to the net increase in employment limitation.

CONCLUSION:

The enterprise zone tax credit is allowed for net increases in employment of qualified employees and, effective September 30, 1992, for net increases in employment of dislocated workers by a business located in an Arizona enterprise zone. Since the enterprise zone tax credit is comprised of two separate credits, the credits must be computed separately by the taxpayer.

The enterprise zone tax credit is allowed on a taxable year basis and, therefore, is calculated on a taxable year basis. The calculation of the allowable enterprise zone tax credit is the same for all taxable years, regardless of the length of the taxable year.

Note: In order to claim the enterprise zone tax credit, the taxpayer must complete the Arizona Form 304.

Harold Scott, Director

Signed: May 31, 1995

Explanatory Notice

The purpose of a tax procedure is to provide procedural guidance to the general public and to department personnel. A tax procedure is a written statement issued by the department to assist in the implementation of tax laws, administrative rules, and tax rulings by delineating procedures to be followed in order to achieve compliance with the law. Relevant statute, case law, or administrative rules, as well as a subsequent procedure, may modify or negate any or all of the provisions of any tax procedure. See GTP 92-1 for more detailed information regarding documents issued by the Department of Revenue.