



ARIZONA DEPARTMENT OF REVENUE – PROGRAM GUIDELINES HEALTHY FOREST PRODUCTION TAX CREDIT

A.R.S. § 43-1076.01 • A.R.S. § 43-1162

Section 1. Overview

The Healthy Forest Production individual and corporate income tax credit was established by legislation during the 2021 first regular session for processing qualifying forest products. For taxable years beginning from and after December 31, 2020, credits were created for taxpayers that: 1) have a current Healthy Forest Enterprise Incentive Certification and Memorandum of Understanding with the Arizona Commerce Authority, 2) process qualifying forest products from a qualifying project from and after December 31, 2020 and before January 1, 2031, and 3) the facility that processes qualifying forest products is located within Arizona.

The tax credit is based on the number of tons of qualifying forest products that a taxpayer processes during a calendar year. The amount of credit is \$10,000 for the first 20,000 tons processed and \$5,000 for every 10,000 tons thereafter. The amount of credit for any calendar year may not exceed \$500,000 per taxpayer and may not exceed in the aggregate a total of \$2 million for any calendar year.

To be eligible for the credit, a taxpayer must obtain a Certificate of Approval for the Healthy Forest Production Tax Credit from the Arizona Department of Revenue (ADOR). A Certificate of Approval may be obtained from ADOR by submitting an Application for Approval of Healthy Forest Production Tax Credit (Application) between January 2 and January 31 of the year following the calendar year for which the credit is being requested.

The first year in which an Application will be accepted by ADOR is 2022 (application year); the Application submitted in 2022 will be for processing qualifying forest products in calendar year 2021 (production year). The final application year will be 2031 based on processing qualifying forest products in calendar year 2030.

Applications are processed on a first-come, first-served basis and may not exceed the aggregate total of \$2 million for any calendar year. The first year a taxpayer submits an Application, the taxpayer is added to the credit authorization list in the order first received. A taxpayer's position on the credit authorization list will remain unchanged as long as a timely Application is filed in subsequent years.

Section 2. Eligibility Requirements

A taxpayer is eligible for the income tax credit if all the following apply:

- The taxpayer has a current Healthy Forest Enterprise Incentive Certification and Memorandum of Understanding with the Arizona Commerce Authority pursuant to § 41-1516.
- The taxpayer processes qualifying forest products from a qualifying project from and after December 31, 2020 and before January 1, 2031.
- The facility that processes qualifying forest products is located within Arizona.

Section 3. Explanation of the Income Tax Credit

A taxpayer is eligible to seek authorization of the income tax credit if the taxpayer processes qualifying forest products from a qualifying project from and after December 31, 2020 and before January 1, 2031. For the purpose of this tax credit, processed or processing means any change in the physical structure of qualifying forest products removed from a qualifying project into a marketable commercial product or component of a product that has commercial value to a consumer or purchaser and that is ready to be used with or without further altering its form.

Qualifying forest products means dead standing and fallen timber, and forest thinning associated with the harvest of small diameter timber, slash, wood chips, peelings, brush, and other woody vegetation (as defined in § 41-1516) that are sourced within Arizona. Qualifying project means harvesting, transporting, or processing qualifying forest products as prescribed in § 41-1516.

For a facility that processes qualifying forest products, the amount of the income tax credit is:

- \$10,000 for the first 20,000 tons and \$5,000 for every 10,000 tons thereafter of qualifying forest products the taxpayer processes in the calendar year.
- The amount of the tax credit for any calendar year cannot exceed \$500,000 per taxpayer who processes qualifying forest products.
- The aggregate total for any calendar year cannot exceed \$2 million.

The income tax credit is based on the number of tons of qualifying forest products that a taxpayer processes during a calendar year. For a taxpayer that files on a fiscal year basis, the credit shall be claimed on the income tax return for the taxable year in which the calendar year ends.

Co-owners of a facility that processes qualifying forest products (including partners in a partnership and shareholders of an S Corporation) may each claim only the pro rata share of the credit allowed based on ownership interest. The total credit allowed all such owners who process qualifying forest products may not exceed the amount that would have been allowed for a sole owner.

If the allowable tax credit exceeds the income tax otherwise due on the taxpayer's income, the amount of the credit not used to offset taxes may be carried forward for not more than five consecutive taxable years as a credit against subsequent years' income tax liability.

Section 4. Income Tax Credit Limitations

1. ADOR cannot approve more than \$2 million in income tax credits for a calendar year. The \$2 million limit is for the individual income tax credit and corporate income tax credit combined. Once the \$2 million credit limitation is approved, no additional tax credits will be approved, even if the amounts certified to any taxpayer are not claimed.

2. The amount of income tax credit approved for any calendar year shall not exceed \$500,000 per taxpayer who processes qualifying forest products.

3. ADOR may only accept Applications postmarked from January 2 through January 31 of the year following the production year.

4. Only Applications from taxpayers that have a current Healthy Forest Enterprise Incentive Certificate and Memorandum of Understanding with the Arizona Commerce Authority pursuant to § 41-1516 will be approved.
5. Only Applications for taxpayers processing qualifying forest products from a qualifying project from and after December 31, 2020 and before January 1, 2031 will be approved.
6. Only Applications from a facility that processes qualifying forest products that is located within Arizona will be approved.

Section 5. Calendar Year Limitation Management

1. ADOR may approve \$2 million in income tax credits annually for processing qualifying forest products within Arizona in calendar years 2021 through 2030.
2. Income tax credits are authorized on a first-come, first-served basis according to the placement number established.
3. ADOR will only accept Applications by Express Mail dated January 2 through January 31 of the Application Year. No Applications will be accepted prior to January 2, 2022.

Section 6. Application for Approval of Healthy Forest Production Tax Credit

The Application should be submitted by the taxpayer that has a current Healthy Forest Enterprise Incentive Certification and Memorandum of Understanding with the Arizona Commerce Authority.

The Application shall include:

1. Name, address, social security number, or federal employer identification number of the applicant.
2. The location of the taxpayer's facility that processes qualifying forest products for which the credit is claimed.
3. The amount of the credit for which they may be eligible.
4. The date the taxpayer began processing commercially marketable amounts of qualifying forest products.

ADOR is also requiring the following information to be supplied on the Application:

1. The business structure of the Applicant (a C corporation, an S corporation, a sole proprietorship, a partnership, or an LLC).
2. If the applicant business has any affiliates or subsidiaries, all other entities must be listed on the application or a copy of the federal Form 851 must be attached.
3. If this credit will be passed through to shareholders or partners, a schedule should be attached listing the names of the shareholders or partners, with social security numbers or federal employer identification numbers, and percent of ownership. If the percent of ownership on the taxpayer's tax return for the tax year for which the credit is being claimed is different from what

is shown on the application, the taxpayer must submit an addendum containing the updated information on shareholders or partners and percentages within 30 days of filing the income tax return. Failure to submit an addendum could result in problems with credits claimed on tax returns.

4. A contact person, with title, phone number, fax number, and email. If this person is not a corporate officer, a Power of Attorney should be included for the contact person. Power of Attorney and Disclosure forms are available at <https://azdor.gov/forms/poa-and-disclosure-forms>.
5. An affidavit signed by an officer of the applicant company. By signing the affidavit, the company agrees that the information contained in the Application is true and correct under penalty of perjury, that the qualifying forest products are processed in a facility located in Arizona and the applicant has a current Healthy Forest Enterprise Incentive Certification and Memorandum of Understanding with the Arizona Commerce Authority.

There are two types of Applications, determined by which box is checked at the beginning of Section A of the Application. Checking the first box means that this is an Initial Application. The Initial Application is intended to obtain a spot on the Credit Authorization List and obtain approval of credit, if available.

Checking the second box indicates that this is a Renewal Application. The applicant already has a spot on the Credit Authorization List and the Renewal Application seeks a tax credit in a subsequent year.

It is possible that a taxpayer with a spot on the Credit Authorization List loses their position for failing to submit a Renewal Application between January 2 and January 31 or no qualifying forest products were processed in a subsequent calendar year. In this case, another Initial Application will need to be submitted for the qualifying forest production in a subsequent year to establish a new position on the Credit Authorization List.

Section 7. Application Processing and Placement on the Credit Authorization List.

1. Applications must be sent by United States Postal Service Express Mail with an Origin Accepted date of January 2 through January 31. Applications can be sent during this period in 2022 through 2031. If the due date of the Application falls on a Saturday, Sunday or legal holiday, the Application shall be considered timely if postmarked on the next business day.

EXAMPLE: January 31, 2026 falls on a Saturday. An Application postmarked on February 2, 2026 would be considered timely.

2. Only Applications sent through the United States Postal Services Express Mail will be accepted. No applications will be accepted through any other delivery methods.
3. All Express Mail Applications should be sent to:
Arizona Department of Revenue
Healthy Forest Production Tax Credit Program

Office of Economic Research & Analysis
P.O. Box 29099
Phoenix, Arizona 85038

4. Each Initial Application will be assigned a placement number that reflects the date and time on the Express Mail label.
5. Every Initial Application submitted by Express Mail dated from January 2 through January 31 will be placed on the Credit Authorization List in the order of date and time on the Express Mail label. If multiple Applications have the same date and time on their Express Mail label, they will be put in order through a process of a random, blind draw.
6. Every complete Renewal Application with a timely Express Mail date will serve to maintain the taxpayer's previously established place on the Credit Authorization List.
7. If the Application is reviewed and determined to be invalid or in some way not eligible for the credit, the Application will be removed from the Credit Authorization List. *APPLICATIONS THAT DO NOT INCLUDE ALL REQUIRED INFORMATION ARE INVALID AND WILL NOT BE ACCEPTED.*
8. If the Initial Application is reviewed and determined to be a valid Application eligible for a credit, the Application will receive a position on the Credit Authorization List that will be maintained from year to year if timely, complete Renewal Applications continue to be received. The numerical position on the Credit Authorization List may shift if other Applications received prior to this one drop from the list.

EXAMPLE: Taxpayer A received the first position on the Credit Authorization List established in 2022 for production year 2021. Taxpayer A continued to process qualifying forest products in 2022. Taxpayer A submits a Renewal Application for credit for the 2022 Production Year in late January 2023. The Renewal Application received later in January in a year after the placement position on the Credit Authorization List is established does not affect the placement position initially established.

EXAMPLE: Taxpayer C received the third position on the Credit Authorization List established in 2022 for production year 2021. Taxpayer D received the fourth position on the Credit Authorization List for the same year. Taxpayer C fails to submit an application in 2023 for production year 2022. Therefore, Taxpayer C is removed from the Credit Authorization List and Taxpayer D moves into the third position.

9. To maintain the position on the Credit Authorization List, the taxpayer must submit a timely and complete Renewal Application in each of the subsequent calendar years.
10. If a taxpayer is removed from the Credit Authorization List, the taxpayer may establish a new position on the Credit Authorization List in a subsequent year by submitting a timely Initial Application. That new position on the Credit Authorization List will be further down the list, in an order relative to other Initial Applications received in the same Application Year.

EXAMPLE: Taxpayer H was eighth on the Credit Authorization List for the first three years in which they were eligible. For the fourth year, Taxpayer H failed to file a complete or timely application. Taxpayer H was removed from the Credit Authorization List for year four. For the fifth year in which the taxpayer was eligible, Taxpayer H submitted a timely and complete Initial Application and received the fourteenth spot on the Credit Authorization List.

11. The available credit will be allocated to taxpayers according to the position on the Credit Authorization List. Given the credit limitation of \$2 million per calendar year and the individual taxpayer limitation of \$500,000 per year, it is possible the first four taxpayers on the Credit Authorization List may be the only taxpayers that receive a Certificate. The remaining taxpayers will retain their position on the Credit Authorization List and may or may not be allocated income tax credit depending on the credit allocated to taxpayers holding a higher position on the Credit Authorization List.
12. Even If the first few taxpayers on the Credit Authorization List are allocated the maximum \$2 million in credit for a calendar year, the credit is allocated each calendar year based on the tons of qualifying forest products the taxpayer processes in a given production year. Thus, a taxpayer may be allocated a credit in a subsequent year if those taxpayers holding a higher position number process less qualifying forest products.
13. If a taxpayer is placed on the Credit Authorization List and, if approved for the full amount of credit based on the number of tons processed would exceed the \$2 million dollar credit limit, ADOR will approve only the remaining credit amount that would not exceed the \$2 million credit limit.

Section 8. Appeal Process

If ADOR denies approval or approves less credit than the amount requested on an Application, the taxpayer may appeal the decision in accordance with A.R.S. Title 41, Chapter 6, Article 10. The taxpayer may appeal this decision; however, the denial prohibits the taxpayer from claiming a tax credit under this program unless the appeal is successful.

If ADOR denies approval or approves less credit than the amount requested on an Application, ADOR will reserve the amount of credit requested by the taxpayer from the credit limit, in the event that an appeal from the taxpayer is upheld. If the appeal is not upheld and a smaller amount of credit or no credit is certified by ADOR, the reserved credit amount will be allocated to the next eligible taxpayer(s) on the Credit Authorization List.

Section 9: Following Approval

ADOR will notify the taxpayer of approval of the Application, their placement on the Credit Authorization List and the amount of credit the company is entitled to claim. A Certificate of Approval will be transmitted to the taxpayer if the taxpayer is allocated credit. A letter, without the Certificate of Approval, will be issued to the taxpayer if they have been placed on the Credit Authorization List but were not allocated any credit due to the \$2 million calendar year limit.

When the taxpayer files its income tax return, a copy of the Certificate of Approval along with the Health Forest Enterprise Incentive Certification issued by the Arizona Commerce Authority must be included with Arizona Form 353. If the credit is being passed through to partners or shareholders, each partner or shareholder must include a copy of the Certificate of Approval with their income tax return along with Arizona Form 353. If the taxpayer's tax liability is less than the credit amount approved, the unused portion of the credit can be carried forward for five years. This is not a transferable or refundable credit.

Section 10. Definition of Terms

For purposes of applying for and maintaining eligibility for the Healthy Forest Production Tax Credit, the following terms are either defined by ADOR in rule or defined in A.R.S. §§ 43-1076.01 or 43-1162. If a term is not defined, the most commonly accepted meaning will apply. For purposes of this program:

1. "Application" means the ADOR form "Application for Approval of Health Forest Production Tax Credit" and all required attachments to demonstrate eligibility for the tax credit.
2. "Application Year" refers to the year in which application is made for processing qualifying forest products in a facility located in Arizona in the prior year. For example, qualifying forest products processed in 2021 has an application year of 2022.
3. "Processed" or "Processing" means any change in the physical structure of qualifying forest products removed from a qualifying project into a marketable commercial product or component of a product that has commercial value to a consumer or purchaser and that is ready to be used with or without further altering its form.
4. "Qualifying Forest Products" means qualifying forest products as defined in § 41-1516 that are sourced within Arizona.
5. "Qualifying Project" has the same meaning prescribed in section § 41-1516.

Arizona Department of Revenue
Healthy Forest Production Tax Credit Program
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Questions can be directed to Elaine Smith (602-716-6924) or Karen Jacobs (602-716-6923).