

**2005 Agricultural Pollution Control Equipment 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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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](http://www.azdor.gov)

**General Instructions**

ARS §§ 43-1081.01 and 43-1170.01 provide a nonrefundable tax credit for expenses that a taxpayer incurred during the taxable year to purchase agricultural pollution control equipment. The tax credit applies to taxable years beginning from and after December 31, 1998.

**To Qualify for the Credit:**

- The taxpayer must be involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products; AND

The taxpayer must purchase tangible personal property that is primarily used in the taxpayer's trade or business in Arizona to control or prevent pollution.

- Property eligible for the tax credit includes only that portion of the property directly used, constructed, or installed in Arizona to prevent, monitor, or reduce air, water, or land pollution.
- Qualifying property includes a portion of a structure, building, installation, excavation, machine, equipment, or device, and any attachment to, or addition to, or reconstruction, replacement, or improvement of that property.

Amounts that qualify for the credit must be includible in the taxpayer's adjusted basis for the property. The adjusted basis of any property for which the taxpayer has claimed a credit must be reduced by the amount of credit claimed for that property.

The amount of the credit is equal to 25 percent of the cost of the property. The maximum credit that a taxpayer may claim in a taxable year is \$25,000.

A credit allowed under ARS § 43-1081.01 or § 43-1170.01 (agricultural pollution control equipment) is in lieu of a credit under ARS § 43-1080 or § 43-1170 (pollution control credit) with respect to the same equipment or expense.

Co-owners of a business, 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 the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

If the allowable tax credit exceeds the taxes otherwise due or, if there are no taxes due, the amount of the credit not used to offset taxes may be carried forward for not more than five taxable years as a credit against subsequent years' income tax liabilities.

**Specific Instructions**

Complete the name and taxpayer identification number section at the top of the form. Indicate the period covered by the taxable year (in an MM/DD/YYYY format). Attach the completed form 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, S corporation, or a partnership 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.

**Part I - Schedule of Equipment and Calculation of Current Taxable Year's Credit**

**Lines 1 through 10 -**

**Column (a):** Enter the date that the property was placed in service in Arizona.

**Column (b):** Enter a brief description of the property used in the taxpayer's business in Arizona to control or prevent pollution.

**Column (c):** Enter the cost of that portion of the property directly used to reduce pollution.

If there are more than 10 items of qualifying property, complete additional schedules. Attach the completed schedules to Form 325.

**Line 11 -**

Add lines 1 through 10 in column (c) and enter the total.

**Line 12 -**

Enter the aggregate column (c) totals from additional schedules.

**Line 13 -**

Add lines 11 and 12 and enter the total. This is the total cost of all items of property for which the taxpayer is claiming the credit.

**Line 14 -**

Multiply line 13 by 25 percent and enter the result.

**Line 16 -**

Enter the lesser of line 14 or line 15. This is the allowable credit for the current taxable year.

**Part II - S Corporation Credit Election and Shareholder's Share of the Credit****Line 17 - S Corporation Credit Election**

S corporations must complete line 17. The S corporation must make an irrevocable election to either claim the credit or 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.

**Lines 18 through 20 -**

If the S corporation elects to pass the credit through to its shareholders, it must also complete lines 18 through 20.

The S corporation must complete Part I. Then, complete Part II, lines 18 through 20, separately for each shareholder. The S corporation must furnish each shareholder with a copy of the completed Form 325.

If the S corporation passes the credit through to its shareholders, it must notify each shareholder of the shareholder's pro rata share of the adjustment to income required by the difference between the federal depreciable basis and the Arizona depreciable basis of the property for which the credit is claimed. The S corporation must also notify the shareholder of the shareholder's pro rata share of any difference in gain or loss on the sale or other disposition of the property due to the difference in basis.

Each shareholder must complete Part IV and Part V.

**Part III - Partner's Share of Credit****Lines 21 through 23 -**

Partnerships must complete Part I. Then, complete Part III, lines 21 through 23, separately for each partner. The partnership must furnish each partner with a copy of the completed Form 325.

Each partner must complete Part IV and Part V.

**Part IV - Available Credit Carryover**

Complete Part IV only if the allowable agricultural pollution control equipment credit for prior taxable years exceeded the Arizona income tax liability for those taxable years. Since the credit applies only to taxable years beginning from and after December 31, 1998, there is no available credit carryover from taxable years beginning prior to January 1, 1999. Calculate the total available carryover of the agricultural pollution control equipment credit on page 2, Part IV, lines 24 through 29.

Enter the taxable years from which the credit is carried over in column (a) on lines 24 through 28. In column (b), enter the credit originally computed for that taxable year. In column (c), enter the amount of the credit from that taxable year which has already been used. Subtract the amount in column (c) from the amount in column (b) and enter the difference in column (d). Add the amounts entered on lines 24 through 28 in column (d). Enter the total on line 29, column (d).

**Part V - Total Available Credit****Line 30 -**

*Individuals and corporations (including S corporations that elected to claim the credit)* - Enter the current year's credit from Part I, line 16.

*S corporation shareholders* - Enter the credit from Part II, line 20.

*Partners of a partnership* - Enter the credit from Part III, line 23.

This is the current taxable year's agricultural pollution control equipment credit.

**Line 31 -**

Enter the amount from Part IV, line 29, column (d). This is the total available credit carryover.

**Line 32 -**

Add lines 30 and 31. This is the total available agricultural pollution control equipment credit which may be applied to the current taxable year's tax liability. Enter the total here and on Form 300, Part I, line 12, or Form 301, Part I, line 16.