

**CONTACTS FOR HEALTHY FOREST CREDIT INFORMATION****Department of Commerce**

• Healthy Forest certification requirements • certification forms • Healthy Forest program guidelines

Internet home page: [www.azcommerce.com](http://www.azcommerce.com)

Healthy Forest Program Administrator (602)771-1100.

**Department of Revenue**

• tax forms and instructions • information and assistance

Internet home page: [www.azdor.gov](http://www.azdor.gov)

Taxpayer assistance (602) 255-3381

From area codes 520 and 928, toll-free (800) 352-4090

Form Orders (602) 542-4260

**Recorded Tax Information**

Phoenix (602) 542-1991

From area codes 520 and 928, toll-free (800) 845-8192

**Hearing impaired TDD user**

Phoenix (602) 542-4021

From area codes 520 and 928, toll-free (800) 397-0256

**Credit eligibility requirements**

A.R.S. §§ 43-1076 and 43-1162 allow a business that operates a healthy forest enterprise to receive a nonrefundable credit against corporate and individual tax liabilities for taxable years beginning from and after December 31, 2004 through December 31, 2014. In order to obtain the healthy forest enterprise credit, the business must be a qualified healthy forest enterprise, as certified by the Department of Commerce. The business must provide a copy of its Department of Commerce certification to the Department of Revenue for approval before using the certification to obtain this credit. A taxpayer who claims an enterprise zone, military reuse zone, or defense contracting credit may not claim a credit under this section with respect to the same employees.

In general, a qualified Healthy Forest Enterprise is a business operation that enhances or sustains forest health, sustains or recovers watershed or improves public safety. A qualified Healthy Forest Enterprise must be primarily engaged in the business of harvesting, transporting or initial processing of qualifying forest products for commercial use. To obtain information regarding additional criteria for qualification, contact the Department of Commerce using the contact information shown above.

The credit is based on the net increase in the number of qualified employment positions created and filled by businesses operating healthy forest enterprises. The credit itself is computed using the wages of qualified employees of the business and the net increase in the number of qualified employment positions. Positions occupied by employees that meet the following criteria are considered qualified employment positions.

*Note: The business must employ at least three new employees in qualified employment positions in the first taxable year in which the credit is claimed.*

**EMPLOYEES IN QUALIFIED POSITIONS**

1. Must be Arizona residents on their hire date.
2. Must be permanent, full-time employees in positions that require at least 1,550 hours per year. The 1,550 hour requirement does not include overtime hours. If forest closures or weather conditions beyond the taxpayer's control result in a shorter period, this would not disqualify the employee so long as the position is still permanent and full-time, and all other qualifications are met.
3. Must have duties that primarily involve or directly support the harvesting, transporting or the initial processing of qualifying forest products for commercial use.
4. Must be compensated at wages equal to or greater than the wage offer of the county, as computed annually by the Department of Economic Security research administration division.
5. Cannot have been employed by the business within the twelve months preceding their hire date.
6. Must have been employed for at least ninety days during the first taxable year. An employee who is hired during the last 90 days of the taxable year shall be considered a new employee during the following taxable year.
7. Must have employer-provided health insurance coverage, a portion of which must be paid for by the employer. The employer must pay for at least twenty-five percent of the premium or membership cost of the insurance program in the third year the employer claims the credit for healthy forest enterprises. The employer must pay at least forty percent of this cost in the fourth year it claims the credit, and at least fifty percent of the cost in the fifth year it claims the credit.

**Computing the amount of credit allowable**

The number of qualified employment positions on which the credit can be computed cannot exceed 200 per year per **taxpayer**. For example, if a taxpayer has several healthy forest enterprises, the taxpayer would add up the net increase in qualified employment positions for all enterprises and compute the credit on that number or 200, whichever is the lesser amount. If the net increase is being computed for a group of corporations filing a combined or consolidated Arizona corporate income tax return, that group is considered a single taxpayer and therefore entitled to use no more than 200 positions for its credit calculation. Co-owners of the same enterprise(s) are similarly limited to the lesser of the net increase in qualified employment positions or 200. Each co-owner would get a pro rata share of the credit. Therefore, although a taxpayer may have more than 200 filled qualified employment positions, the taxpayer must select which of those positions should be used for computing the allowable credit.

The same employees who are used to compute the first year credit are used to compute the second and third year credits.

Once the taxpayer has determined which employees it will use to compute the credit, the credit amount allowed per employee is applied. The credit amount per employee depends on the employee’s year of employment, as follows.

**First year employees:** The lesser of \$500 or one-fourth of the taxable wages paid to an employee in a qualified employment position in the first year or partial year of employment.

**Second year employees:** The lesser of \$1,000 or one-third of the taxable wages paid to an employee in a qualified employment position in the second year of continuous employment.

**Third year employees:** The lesser of \$1,500 or one-half of the taxable wages paid to an employee in a qualified employment position in the third year of continuous employment.

*The number of qualified employment positions determined in the first year will never increase in the second or third year. Only the same positions that were qualified in the first year can be used to compute the credits in the two subsequent years.*

**Specific Instructions**

All completed credit forms must be attached to the tax return when it is filed.

**PART 1 - BUSINESS INFORMATION**

**Lines 1 and 2**

Enter the name and taxpayer identification number of the Healthy Forest Enterprise. For a corporation, partnership, or an S corporation, use the taxpayer's employer identification number (“EIN”). For an individual, use the taxpayer’s social security number or an IRS individual taxpayer identification number. Indicate the period covered by the taxable year.

All returns, statements, and other documents filed with the department require a taxpayer identification number. Taxpayers that fail to include their taxpayer identification number may be subject to a penalty.

**PART II - AVERAGE NUMBER OF FULL-TIME EMPLOYEES**

Use these lines to complete the difference in the average number of full-time employees that worked for the Healthy Forest Enterprise in this taxable year and the average for the immediately preceding taxable year. The following worksheet can be helpful in figuring the average. The column for each year corresponds to lines 3 and 4 on page one of form 332. On lines 1 through 12 of the worksheet, enter the number of full-time employees employed at the end of the each month of the year indicated. If the enterprise was not in operation in the immediately preceding taxable year, that year’s average is zero. Once the schedule has been completed, enter the results on page one of the Form 332.

Average number of Full-Time Employees Worksheet			
		Line 3 Current Taxable Year	Line 4 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 Healthy Forest Enterprise was in business.		
15	Average – Divide the amount on line 13 by the amount on line 14.		

**Line 5 – Net Increase in Number of Full Time Employees**

Subtract the amount on line 4 from the amount on line 3. If the result contains a decimal, enter the whole number only – do not round up. This is the net increase in the average number of full-time employees. If the result is zero, the enterprise cannot claim a Healthy Forest income tax credit for qualified employment positions created during the current taxable year. If the amount is greater than zero, enter the result here and in Part III, line 7.

**PART III - NET INCREASE IN QUALIFIED EMPLOYMENT POSITIONS**

**Lines 6 through 8**

Enter the total number of filled qualified employment positions created during the current taxable year on line 6. The business must employ at least three new employees in qualified employment positions in the first taxable year it claims the credit. If a qualified employment position is filled during the last 90 days of the taxable year, it is considered 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.

On line 8, enter the lowest of the numbers on lines 6 or 7.

**PART IV - LIMITATION ON NUMBER OF QUALIFIED EMPLOYMENT POSITIONS**

Compare the amounts on lines 8 and 9. Enter the lower number on line 10. This is the maximum number of positions on which you may compute the credit.

Before completing lines 11 through 14, Part V of Arizona Form 332, complete the Arizona forms 332-1 and 332-2. Use additional sheets if necessary.

Alternative formats prescribed by the Department may also be used. For example, the department will accept a hard copy spreadsheet that contains all the requested information or the information may be compiled with a spreadsheet program such as Microsoft Excel and submitted on a 3½" diskette, CD-ROM, or DVD-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, DVD-ROM, or diskette should attach a statement to Form 332 in the tax return stating that the information is being separately submitted in that form. The Forms 332-1 and 332-2 submitted on CD-ROM, DVD-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, DVD-ROM, or diskette should be labeled as Forms 332-1 and 332-2, with the taxpayer's name, federal identification number and taxable year listed. Send the information directly to:*

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

**Form 332-1 Qualifying Employees**

List each employee who is a qualified employee. List each employee's name, social security number, and the date each employee was hired. You must also enter the information requested in columns (d) through (f). If an employee's job duties do not involve or directly support the harvesting, transporting or initial processing of qualifying forest products in a qualified project, the employee is not in a qualified employment position. Employees that are not in qualified employment positions do not have to be listed on Form 332-1 or Form 332-2, and will not be used to compute the credit.

**Form 332-2 – Qualifying Employees for which you are taking a credit.**

Complete the requested information for each employee in a qualified employment position for whom you are taking the credit. Utilize Forms 332-1 and 332-2 to complete Part V, lines 11 through 14 on page one of Form 332.

**PART V - CREDIT CALCULATION FOR QUALIFIED EMPLOYMENT POSITIONS**

**Line 11 – Column a**

Enter the number of qualifying net new employees from Form 332-2, line 11, column (c)1. This number cannot exceed the number shown on line 10, Part IV of the Form 332.

**Line 11 – Column b**

Enter the total allowable wages for qualifying first year employees from Form 332-2, line 11, column (e)1.

**Line 11 – Column d**

Multiply the amount entered on line 11, column (b) by the percent shown on line 11, column (c). Enter the resulting amount on line 11, column (d). This is the allowable credit for qualifying new employees.

**NOTE:** For 2005, you will not have any previously qualified employees in the second or third consecutive years of employment.

**Line 12 – Column a**

Enter the number of previously qualified employees in the second year of continuous employment from Form 332-2, line 11, column (c)2.

**Line 12 – Column b**

Enter the total allowable wages for qualifying second year employees from Form 332-2, line 11, column (e)2.

**Line 12 – Column d**

Multiply the amount entered on line 12, column (b) by the percent shown on line 12, column (c). Enter the resulting amount on line 12, column (d). This is the allowable credit for previously qualified employees in their second year of continuous employment.

**Line 13 – Column a**

Enter the number of previously qualified employees in the third year of continuous employment from Form 332-2, line 11, column (c)3.

**Line 13 – Column b**

Enter the total allowable wages for qualifying third year employees from Form 332-2, line 11, column (e)3.

**Line 13 – Column d**

Multiply the amount entered on line 13, column (b) by the percent shown on line 13, column (c). Enter the resulting amount on line 13, column (d). This is the allowable credit for previously qualified employees in their third year of continuous employment.

**PART VI - S CORPORATION CREDIT  
ELECTION****Line 15**

This part of the form must be completed by the S corporation in order for the S corporation or its shareholders to claim the healthy forest enterprise credit for qualified employment positions. The S corporation must make an irrevocable election to either claim the credit itself 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 on the form 120S.

If the S corporation elects to pass the credit through to its shareholders, it must also complete lines 16 through 18.

**Lines 16 through 18**

S corporations must complete Form 332, Parts I through VI. The S corporation must complete part VI, lines 16 through 18, separately for each shareholder. Each shareholder may claim only a pro rata share of the credit based on the shareholder's ownership interest in the S corporation. The S corporation must furnish each shareholder with a copy of the completed Form 332.

**Part VII - PARTNER'S SHARE OF THE CREDIT****Lines 19 through 21**

Partnerships must complete Form 332, Parts I through V and Part VII. The partnership must complete part VII, lines 19 through 21, separately for each partner. Each partner may claim only a pro rata share of the credit based on the partner's ownership interest in the partnership. The partnership must furnish each partner with a copy of the completed Form 332.

**PART VIII - TOTAL AVAILABLE CREDITS****Line 22**

Individuals, corporations, or S corporations that are claiming the credit, enter the amount from Part V, line 14, column (d). S corporation shareholders, enter the amount from Part VI, line 18. Partners of a partnership, enter the amount from Part VII, line 21.

Corporations, also enter the total available credit on Arizona Form 300, Part I, line 15.

Individuals, also enter the total available credit on Arizona Form 301, Part I, line 19.