

2014 Credit for Employment of TANF Recipients

Phone Numbers

For information or help, call one of the numbers listed:

Phoenix (602) 255-3381
From area codes 520 and 928, toll-free (800) 352-4090

Tax forms, instructions, and other tax information

If you need tax forms, instructions, and other tax information, go to the department's website at www.azdor.gov.

Income Tax Procedures and Rulings

These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our website and click on *Legal Research* then click on *Procedures* or *Rulings* and select a tax type from the drop down menu.

Publications and Brochures

To view or print the department's publications and brochures, go to our website and click on *Publications*.

General Instructions

Arizona law provides a nonrefundable credit for employers that employ recipients of Temporary Assistance for Needy Families (TANF). TANF is assistance granted under Section 403 of Title IV of the Social Security Act, as it exists after August 21, 1996.

The credit for employing TANF recipients is equal to:

1. One-fourth of the taxable wages paid to each qualified employee in the first year or partial year of employment, not to exceed \$500 per net new employee.
2. One-third of the taxable wages paid to each previously qualified employee in the second year of continuous employment, not to exceed \$1,000 per net new employee.
3. One-half of the taxable wages paid to each previously qualified employee in the third year of continuous employment, not to exceed \$1,500 per net new employee.

You cannot take a deduction for the same wages for which you claim a credit. For more information, see the instructions under "*Other Additions to Income*" for the income tax return you will file.

You cannot claim this credit for any position that is *eligible* for any other Arizona employment credit based on wages paid.

If the allowable credit exceeds your income tax liability, you may carry over any unused amount for up to five consecutive taxable years.

This credit is available to individuals, corporations, and S corporations. A partnership may pass the credit through to its partners. An S corporation may pass the credit through to its shareholders.

This credit is also available to an exempt organization that is subject to corporate income tax on unrelated business taxable income (UBTI). The credit must result from the activities that generate UBTI.

For more information on this credit, see the department's brochure, Pub 708, *Credit for Employment of Recipients of Temporary Assistance for Needy Families*.

Line-by-Line Instructions

Enter your name and Social Security Number (SSN) as shown on Arizona Forms 140, 140PY, 140NR, or 140X.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for an individual is the taxpayer's SSN or an Internal Revenue Service (IRS) individual taxpayer identification number (ITIN). Taxpayers that fail to include their identification number may be subject to a penalty.

Part 1 - Business Information

Lines 1 through 3 -

On lines 1, 2, and 3, enter the name, address, and employer identification number (EIN) of the business that employs qualifying employees.

Part 2 - Net Increase in Qualified Employment Positions

Lines 4 and 5 -

This credit is based on net increases in qualified employment positions. You must determine the net increase in the number of qualified positions by comparing the average number of qualified employment positions during the taxable year with the immediately preceding taxable year. This comparison is based on the report that you submit to the Arizona Department of Economic Security for unemployment purposes. The worksheet following the instructions for line 5 is provided to help you determine the average number of qualified positions for lines 4 and 5.

Line 4 -

Enter the average number of qualified employment positions during the current taxable year.

A qualified employment position is a position that meets **all** of the following.

- The position must be classified as full-time employment.
- The position must provide health insurance coverage if the employer offers the coverage to other employees not on TANF.
- The position must provide compensation at least equal to the minimum wage or a wage comparable to that paid other employees not receiving TANF in the same job classification.
- The position must be listed on the report that you submit to the Arizona Department of Economic Security for unemployment purposes.

Line 5 -

Enter the average number of qualified employment positions during the immediately preceding taxable year. If the

business is a newly established business, the business would not have any qualified employment positions during the immediately preceding taxable year. A newly established business would have zero average employment positions during the immediately preceding taxable year. This business would enter zero on line 5.

If the business is an established business, the business must figure the average qualified employment positions of the immediately preceding taxable year using the worksheet below. Line 15 of the worksheet's immediately preceding taxable year column is the amount you should enter on line 5.

Complete the following worksheet to determine the average employment.

On lines 1 through 12 below, enter the number of qualifying employment positions the business had during each month of the current taxable year and the immediately preceding taxable year.

	Line 4 Column Current Taxable Year	Line 5 Column 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. <i>Add lines 1 through 12.</i>		
14. Total number of months during the taxable year in which you were in business.		
15. Average - <i>Divide the number on line 13 by the number on line 14. Do not round the quotient.</i>		

Line 6 - Net Increase in the Number of Qualified Employment Positions

Subtract line 5 from line 4. If this amount is less than one, enter zero. If this amount contains a decimal, round **down** to the next whole number. This is your net increase in qualified employment positions.

NOTE: *If the amount shown on line 6 is zero or less, you may not claim this credit for qualified employees hired during the year.*

Line 7 -

You cannot take this credit for any position that is *eligible* for any other Arizona employment credit based on wages paid. On line 7, enter the number of positions on line 6 that are eligible for any other income tax credit under Arizona law.

Line 8 -

Subtract line 7 from line 6. This is the maximum number of new employment positions for which you may claim a credit for employees in their first year of employment.

Part 3 - Qualifying New Employees

Line 9 -

Enter the total number of new employees hired during the year.

Line 10 - Qualified New Employees

Enter the number of employees shown on line 9 who are qualified employees.

A qualified employee is an employee who meets **all** of the following criteria.

- The employee is a resident of Arizona.
- The employee was a recipient of TANF at the time he or she was hired. The employer should obtain documentation from the employee substantiating that the employee was a TANF recipient on the date of hire.
- The employee was employed for at least ninety days during the first taxable year. An employee hired with less than 90 days left in the taxable year is considered to be a new employee in the next taxable year. Periods when the employee's wages are subsidized under A.R.S. § 46-299 cannot be counted as employment time.
- The employee was not employed by the taxpayer within 12 months before the current date of hire.

Line 11 - Maximum Number of Qualifying Net New Employees

Enter the smaller of line 8 or line 10. This is the maximum number of qualifying net new employees for which you may claim a credit.

Part 4 - Credit Calculation for Qualified Employees

Lines 12 through 15 and Form 320-1 and Form 320-2

Important: *Before completing Part 4, lines 12 through 15 of Form 320, complete Form 320-1, and Form 320-2.*

Form 320-1 Qualifying Employees

List each employee who is a qualified employee. List each employee's name and social security number. Also, list the date each employee was hired. You must also answer the questions in columns (d) and (e).

Form 320-2 Qualifying Employees for Which You are Taking a Credit

List each qualifying employee from Form 320-1 for whom you are taking the credit. List the employees' names and

social security numbers. Complete columns (c) through (e), as instructed on the form.

Form 320

Line 12 - Column (a)

Enter the number of qualifying net new employees from Form 320-2, line 12, column c1.

NOTE: *The maximum number of qualifying net new employees entered on line 12, column (a), cannot exceed the number of qualified net new employees entered on line 11 (Part 3).*

Line 12 - Column (b)

Enter the maximum allowable wages for all of your qualifying first year employees from Form 320-2, line 12, column e1.

Line 12 - Column (d)

Multiply the amount entered on line 12, column (b), by the percent shown on line 12, column (c). Enter the result on line 12, column (d). This is the allowable credit for qualifying net new employees.

Line 13 - Column (a)

Enter the total number of previously qualified employees in the second year of continuous employment from Form 320-2, line 12, column c2.

NOTE: *The maximum number of previously qualified employees in the second year of continuous employment entered on line 13, column (a), cannot exceed the number of qualified net new employees entered on the 2013 Form 320, line 11 (Part 3).*

Arizona's statutes do not require that the employee who is claimed in the second year of continuous employment be the same employee who was claimed in the first year of employment. Therefore, if one of the originally claimed net new employees leaves employment in year two, the business can claim the second year credit for another previously qualified employee who is in the second year of continuous employment.

Line 13 - Column (b)

Enter the maximum allowable wages for all previously qualified employees in the second year of continuous employment, from Form 320-2, line 12, column e2.

Line 13 - Column (d)

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

Line 14 - Column (a)

Enter the total number of previously qualified employees in the third year of continuous employment from Form 320-2, line 12, column c3.

NOTE: *The maximum number of previously qualified employees in the third year of continuous employment entered on line 14, column (a), cannot exceed the number of qualified net new employees entered on the 2012 Form 320, line 11 (Part 3).*

Arizona's statutes do not require that the employee who is claimed in the third year of continuous employment be the same employee who was claimed in the second year of employment. Therefore, if one of the originally claimed net new employees leaves employment in year three, the business can claim the third year credit for another previously qualified employee who is in the third year of continuous employment.

Line 14 - Column (b)

Enter the maximum allowable wages for all previously qualified employees in the third year of continuous employment from Form 320-2, line 12, column e3.

Line 14 - Column (d)

Multiply the amount shown on line 14, column (b), by the percent shown on line 14, column (c). Enter the result on line 14, column (d). This is the allowable credit for previously qualified employees in their third year of continuous employment.

Line 15 -

- Add the amounts in column (a) on lines 12, 13 and 14; enter the total in column (a) on line 15.
The amount entered on line 15, column (a), is the total number of qualified employees for which you are claiming the credit.
- Add the amounts in column (d) on lines 12, 13 and 14; enter the total in column (d) on line 15.
The amount entered on line 15, column (d), is the total allowable credit for qualified employees for the current taxable year.

Part 5 - S Corporation Credit Election and Shareholder's Share of Credit

Line 16 -

The S corporation must complete this portion of the Form 320 in order for the S corporation or its shareholders to claim this credit. The S corporation must make an irrevocable election either to claim the credit or to 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 Arizona Form 120S.

Lines 17 through 20 -

If the S corporation elects to pass the credit through to its shareholders, it must also complete lines 17 through 20 for each individual shareholder.

S corporations must complete Form 320, Parts 1 through 5. The S corporation must complete Part 5, lines 17 through 20, 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.

Line 19 – Individual Shareholder's share of the Qualifying Wages used to compute the allowable current year credit.

An individual shareholder cannot take a subtraction for the same expenses for which the credit is claimed. If the shareholder claims the credit, the shareholder is required to add back the pro-rata portion of the total expenses used to compute the allowable current year credit.

Enter the shareholder's pro-rata share of the total amount of qualifying wages used to compute the allowable current year credit.

For example:

Arizona Form 320 line:	(b) Qualifying Wages
12. Net new employees...	\$15,000
13. Second-year employees...	\$27,000
14. Third-year employees...	<u>\$38,000</u>
Total Qualifying Wages	<u>\$80,000</u>
An individual shareholder has a 20% pro-rata share. The amount the S Corporation would enter on line 19 for this shareholder is \$16,000 (\$80,000 X 20%).	

Line 20 – Individual Shareholder's share of the Current Year Credit

Enter the individual shareholder's pro-rata share of the amount on Part 4, line 15, column (d).

The S corporation must furnish each shareholder with a copy of pages 1 and 2 of Form 320.

Each shareholder must complete Parts 7 and 8.

Part 6 - Partner's Share of Credit

Lines 21 through 23 -

Partnerships must complete Form 320, Parts 1 through 4. Then complete Part 6, lines 21 through 23, 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 pages 1 and 2 of Form 320.

Each partner must complete Parts 7 and 8.

Part 7 – Available Credit Carryover

Lines 24 through 29 -

Use Part 7 to figure your total available credit carryover from tax years 2009 through 2013. Complete lines 24 through 29 if you claimed the credit on a prior year return and the credit was more than your tax.

- In column (b), enter the credit originally computed for the taxable year listed in column (a).
- In column (c), enter the amount of the credit from that taxable year which you have already used.
- Subtract the amount in column (c) from column (b) and enter the difference in column (d).
- Add the amounts entered on lines 23 through 27 in column (d).

Enter the total on line 29, column (d).

Part 8 – Total Available Credit

Line 30 -

Individuals, corporations, S corporations claiming the credit, or exempt organizations with UBTI, enter the amount from Part 4, line 15, column (d). S corporation shareholders, enter the amount from Part 5, line 20. Partners of a partnership, enter the amount from Part 6, line 23.

Line 31 -

Enter the amount from Part 7, line 29, column (d).

Line 32 -

Add lines 30 and 31. Enter the total.

Individuals: Also, enter on Form 301, line 11, column (c).

Corporations, including S corporations that are claiming the credit and exempt organizations with UBTI: Also, enter on Form 300, line 8, column (c).

Individual Shareholders of an S Corporation: If you are claiming this credit, you must include the amount from Part 5, line 19, on your Arizona income tax return, under "Other Additions".