

## 2017 Credit for New Employment

### CONTACTS FOR CREDIT FOR NEW EMPLOYMENT

#### Arizona Commerce Authority

•Application forms •Program guidelines

Website: [www.azcommerce.com](http://www.azcommerce.com)

Program Manager (602) 845-1200

#### Arizona Department of Revenue

•Tax forms and instructions •Information and assistance

Website: [www.azdor.gov](http://www.azdor.gov)

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

### General Instructions

Arizona Revised Statutes (A.R.S.) §§ 43-1074 and 43-1161 provide nonrefundable individual and corporate income tax credits for net increases in qualified employment positions in Arizona at a business location in Arizona. No more than 10,000 first year qualified positions for all taxpayers shall be allowed annually. The 10,000 qualified position cap is administered by the Arizona Commerce Authority (Commerce).

This credit is available to individuals, corporate taxpayers, partners in a partnership (except trust and estate partners), and to shareholders of an S corporation (except trust and estate shareholders). Exempt organizations subject to unrelated business taxable income (UBTI) may claim this credit if the credit results from activities that generate UBTI.

Trusts and estates, with the exception of grantor trusts, cannot claim this credit either directly or as a pass through. A grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. As a result, the grantor may claim the credit. The total of the credits may not exceed the amount that would have been allowed for a sole owner of the business.

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.

**Note for Form 120 filers:** *Taxpayers filing on a combined or consolidated basis are considered to be a single taxpayer for the purposes of the credit for new employment.*

If the documents required to be filed with Commerce or the Arizona Department of Revenue (Revenue) are not timely filed or contain materially false information, the taxpayer is ineligible for the credit for new employment (including second and third year credits, and carryovers) and is subject to recovery of the amount of tax credits allowed in preceding taxable years based on the false information, plus penalties and interest.

The credit for new employment is in lieu of the following credits, with respect to the same employment positions:

- The Military Reuse Zone credit, claimed on Form 306;
- The employment credit for Healthy Forest Enterprises, claimed on Form 332; and
- The credit for Renewable Energy Industry, claimed on Form 342.

To qualify for the credit for new employment, the owner must either:

- Invest at least \$5 million of capital investment and create at least 25 new qualified employment positions within the exterior boundaries of a city or town in Arizona that has a population of fifty thousand and that is located in a county that has a population of eight hundred thousand persons or more.
- Invest at least \$1 million of capital investment and create at least 5 new qualified employment positions in any other location in Arizona.

To qualify for the credit for new employment, the qualified employment positions must meet the following requirements:

- Consist of at least 1,750 hours per year of permanent employment.
- The job duties are performed primarily at the location or locations of the business in Arizona.
- The employment provides health insurance coverage for the employee where the employer pays 65% of the premium or membership cost.
- The employer pays at least equal to the median wage by county as computed annually by Commerce.

The credit for new employment for qualified employment positions is equal to:

- \$3,000 for each Arizona employee in a qualified employment position in the first year or partial year of employment;
- \$3,000 for each Arizona employee in a qualified employment position for the full taxable year, in the second year of continuous employment;
- \$3,000 for each Arizona employee in a qualified employment position for the full taxable year, in the third year of continuous employment.

The credit is limited to 400 first year employees, per taxpayer, in any taxable year. The credit is allowed for second and third year employees only for qualified employment positions for which a credit was claimed and allowed in the first year.

**NOTE:** *If a full-time employee in a qualified employment position left during the second or third taxable year that a credit for that position is being claimed, the employee may be replaced with another new full-time employee in the same employment position and the new employee will be treated as being in their second or third full year of continuous employment if (1) the total time the qualified employment position was vacant from the date the position was originally filled to the end of the current tax year totals 90 days or less, and (2) the new employee meets all of the same requirements the original employee was required to meet. However, only one credit can be claimed for one employee for each qualified employment position, even if there was more than one replacement for the same position during the taxable year.*

If the allowable tax credit exceeds the taxes otherwise due on the claimant's income, 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.

**Reporting requirements:** Include a copy of the Certification received from Commerce stating that the taxpayer timely complied with the reporting requirements for that agency and indicating the number of positions certified for the taxable year. A taxpayer must timely comply with the reporting requirements of both Revenue and Commerce in order to claim the credit. Do not use the 2017 Forms 345 and 345-1 to claim the credit for new employment for prior taxable years.

**Aggregate summary:** Complete one Form 345, 345-1, and 345-2 for each business location. Taxpayers having multiple business locations must complete an aggregated summary Form 345. Do not complete aggregate summaries of Forms 345-1 and 345-2.

Taxpayers filing an aggregated Form 345 do NOT need to complete Part 1 - Business Information.

Include the Forms 345, 345-1, and 345-2 for each business location with the aggregated Form 345.

**Specific Instructions**

Complete the name and taxpayer identification number (TIN) section at the top of the form. Indicate the period covered by the taxable year. Include the completed form and all supporting documentation with the tax return.

All returns, statements, and other documents filed with the department require a TIN. The TIN for a corporation, an exempt organization with UBTI, an S corporation, or a partnership is the taxpayer's employer identification number (EIN). The TIN for an individual is the taxpayer's Social Security Number (SSN) or an Internal Revenue Service individual taxpayer identification number. Taxpayers that fail to include their taxpayer identification number (ITIN) may be subject to a penalty.

**NOTE – To claim this credit:**

- **Individual taxpayers**, complete this credit form and Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture. *Include both completed forms with your tax return.*
- **C corporations, S corporations claiming this credit at the corporate level, and exempt organizations with UBTI**, complete this credit form and Arizona Form 300, Nonrefundable Corporate Tax Credits and Recapture. *Include both completed forms with your return.*
- **S corporations electing to pass this credit through to its shareholders**, complete this credit form and Arizona Form 300, Nonrefundable Corporate Tax Credits and Recapture. *Also, complete Form 345-S for each shareholder of the S corporation. Provide each shareholder a copy of his or her completed Form 345-S. Include Form 300, Form 345, and one copy of each completed Form 345-S with your return.*
- **Partnerships**, complete this credit form. *Also, complete Form 345-P for each partner of the partnership. Provide each partner a copy of his or her completed Form 345-P. Include Form 345 and one copy of each completed Form 345-P with your return.*

**Part 1 - Business Information**

**Lines 1 through 3 -**

On lines 1, 2, and 3, enter the name, address, and EIN of the business location.

**Line 4a and Line 4b -**

Answer the questions on line 4a and line 4b. If the business is an LLC, a partnership, or an S corporation, be sure to include a schedule that lists ownership information including: name, address, TIN, and ownership percentage at the end of the tax year. Include the schedule immediately after Form 345, but before the Forms 345-1.

Complete Forms 345-1 and 345-2 before completing the rest of Form 345.

**FORM 345-1**

Complete a Form 345-1 for each employee at the business location, WHETHER OR NOT THE EMPLOYEE IS IN A QUALIFIED EMPLOYMENT POSITION.

**NOTE:** A.R.S. § 41-1525(E)(2) provides for the information requested in the Form 345-1 to be submitted in a form prescribed by Revenue and may include electronic media. Revenue will accept a hard copy spreadsheet that contains all the requested information or the information may be submitted on electronic media as a Microsoft Excel spreadsheet on a CD-ROM or DVD. 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 or DVD should secure the CD-ROM or DVD in a hard case and include it with the tax return. Forms 345-1 submitted on CD-ROM or DVD 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 or DVD should be labeled as Form 345-1 with the taxpayer's name, EIN, and taxable year.

Taxpayers may password protect the CD-ROM or DVD and email the password separately to MediaLibrarian@azdor.gov. Include "Form 345-1" in the subject line of the email. In the body of the email, include the same information that is on the CD-ROM or DVD label. Revenue **will not** return or copy any media.

**CAUTION:** *The taxpayer substitutes the CD-ROM or DVD at its own risk and understands that the information may need to be provided to Revenue again at a later date if it is not accessible by Revenue for any reason.*

**NOTE:** *If a full-time employee in a qualified employment position left during the second or third taxable year that a credit for that position is being claimed, the employee may be replaced with another new full-time employee in the same employment position and the new employee will be treated as being in their second or third full year of continuous employment if (1) the total time the qualified employment position was vacant from the date the position was originally filled to the end of the current tax year totals 90 days or less, and (2) the new employee meets all of the same requirements as the original employee was required to meet. However, only one credit can be claimed for one employee for each qualified employment position, even if there was more than one replacement for the same position during the taxable year. See the example on page 3.*

**FORM 345-1, LINE 3a** - Check the applicable box for the credit year that you are claiming a credit for this employee.

**FORM 345-1, LINE 3b** - Check the applicable box to indicate whether this employee is a replacement of another employee who left a qualified employment position in the second or third year that you are claiming a credit.

**FORM 345-1, LINE 3c** - If the answer to line 3b is "Yes", check the applicable box on line 3c to indicate if the total time the position was vacant from the date the employment position was originally filled to the end of the current tax year totals 90 days or less.

**FORM 345-1, LINE 3d** - If the answer to line 3c is "Yes", enter the name of the replaced employee, his or her SSN, and termination date.

**Example:** ABC Company began operations on January 1, 2015 and hired Employee A, B, and C at a different time period for the same qualified employment position that qualifies for the credit for new employment. ABC Company is a calendar year filer.

<b>Employee</b>	<b>Hire Date</b>	<b>Termination Date</b>
Employee A	May 1, 2016	January 31, 2017
Employee B	March 1, 2017	October 31, 2017
Employee C	December 1, 2017	December 31, 2018

**Tax year 2016 (credit year 1):** ABC Company was eligible to claim a credit for Employee A for the qualified employment position.

**Tax year 2017 (credit year 2):** ABC Company is eligible to claim only one credit for one employee (Employee A, Employee B, **OR** Employee C) for the same qualified employment position. The total time the position was vacant from the date the position was originally filled to the end of the current taxable year totals 58 days (28 days in February plus 30 days in November), which is less than 90 days.

**Tax year 2018 (credit year 3):** ABC Company is eligible to claim a credit for Employee C.

**FORM 345-1, LINE 4a** - List the employee's current date of employment.

**FORM 345-1, LINE 4b** - If the employee was terminated before the end of the taxable year, list the employee's termination date.

**FORM 345-1, LINE 4c** - If the employee was terminated and was replaced by a new hire in the same qualified employment position, check the box for "Yes" and enter the name of the new hire, his or her SSN, and hire date.

**FORM 345-1, LINES 5a, 5b, 5c AND 5d** - Complete these lines if the employee was previously employed by the business (prior to the current employment), or relocated from out-of-state.

**FORM 345-1, LINE 6b** - Enter the number of hours actually worked by the employee. Include paid time off for holidays, vacation, or sick. Do not include bonuses or over-time.

**FORM 345-1, LINES 9a and 9b** - On line 9a, enter the total amount of the insurance premium or membership cost provided for the employee. If the business is self-insured, enter the total amount of a predetermined fixed cost for the employee for an insurance program that is payable whether or not the employee has filed claims. On line 9b, enter the total amount of the insurance premium or membership cost paid by the employer.

**FORM 345-1, LINES 11a and 11b** - Arizona's statutes do not require that the employee who is claimed in the second and third years of continuous employment be the same employee who was claimed in the first and second years of employment. Therefore, if one of the originally claimed new employees leaves employment, the business can claim the subsequent years' credits for another employee in a qualified employment position who is in the same year of continuous employment as the departed employee.

If the employee is being substituted for another employee, check the "Yes" box on line 11a, and enter the date of substitution on line 11b.

**FORM 345-2**

List each employee in a qualified employment position. Do not list employees that are not in qualified positions.

**FORM 345-2, COLUMN (d)**

Check this box to indicate the qualified employment positions for which the taxpayer is claiming the credit.

Generally, the number of second year credits claimed this taxable year cannot exceed the number of first year credits claimed in the prior taxable year. Similarly, the number of third year credits claimed this taxable year cannot generally exceed the number of second year credits claimed in the prior taxable year.

**FORM 345-2, LINE 24**

The totals on line 24 must include only the qualified employment positions for which the taxpayer is claiming the credit. These employees would be listed on lines that have a checkmark in column (d).

**FORM 345**

**Part 2 - Qualification for Credit and Credit Calculation**

**Line 5 -**

Did you receive Certification from the Arizona Commerce Authority (Commerce) for this credit? If "Yes", check the "Yes" box. Otherwise, check the "No" box.

**Line 6 -**

Are you claiming a pass through of this credit from a partnership and/or an S corporation? If "Yes", check the "Yes" box. Otherwise, check the "No" box.

**Line 7 -**

- If you answered “Yes” to the question on line 5 or on line 6, go to Part 3. Include a copy of all Form(s) 345-P and/or Form(s) 345-S with this form.
- If you answered “No” to the question on line 5 or on line 6, **STOP! YOU ARE NOT ELIGIBLE TO CLAIM THIS CREDIT.**

**Part 3 – Current Taxable Year’s Credit Calculation****Line 8 -**

In column (a), enter the number of employees in first year or partial year of employment in a qualified employment position, as certified by Commerce for the business for this taxable year. Multiply the number in column (a) by \$3,000 and enter the result in column (b).

**Line 9 -**

In column (a), enter the number of employees in the second year of continuous employment in a qualified employment position as certified by Commerce for the business for this taxable year. Multiply the number in column (a) by \$3,000 and enter the result in column (b).

**Line 10 -**

In column (a), enter the number of employees in the third year of continuous employment in a qualified employment position as certified by Commerce for the business for this taxable year. Multiply the number in column (a) by \$3,000 and enter the result in column (b).

**Line 11 -**

Enter the amount of this credit passed through from partnerships on Form(s) 345-P, line 3(c). If you received a pass through of this credit from more than one partnership, include a schedule indicating the amount of the credit passed through from each partnership.

**Line 12 -**

Enter the credit passed through from S corporations on Form(s) 345-S, line 3(c). If you received a pass through of this credit from more than one S corporation, include a schedule indicating the amount of the credit passed through from each S corporation.

**Line 13 -**

Add lines 8 through 12 in column (b). Enter the total. This is the current year’s credit for new employment.

**Part 4 - Partnerships**

A partnership claiming this credit *must* pass it through to its partners. Proceed to the instructions for completing Form 345-P on page 6.

- Complete Form 345-P for each partner.
- Provide a completed copy of Form 345-P to each partner.
- Include a copy of each completed Form 345-P with your tax return.
- Keep a copy of each completed Form 345-P for your records.
- Do not complete the remainder of this form.

Each partner is entitled to only a *pro rata* share of each credit based on the partner’s ownership interest in the partnership. The total of each credit allowed to all partners may not exceed the amount that would have been allowed for a sole owner.

**NOTE:** *Trusts and estates which are partners in a partnership are not eligible to claim these credits. However, the share of a partnership owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of these credits.*

**Part 5 - S Corporation Credit Election and Shareholder’s Share of Credit****Lines 14, 14a, & 14b -**

The S corporation must complete line 14, and line 14a, or line 14b. The S corporation must make an irrevocable election either to claim the current taxable year credit at the corporate level, or to pass the credit through to its shareholders. The S corporation election is made by:

- Entering the date the S corporation taxable year ends in the box provided.
- Checking the box on line 14a electing to claim the current year taxable credit at the corporate level; or,
- Checking the box on line 14b electing to pass the current taxable year credit through to its shareholders.
- The election statement must be signed by an officer of the S corporation who is also a signatory to Arizona Form 120S.

If the S corporation elects to claim the credit at the corporate level, continue to Part 6.

If the S corporation elects to pass this credit through to its shareholders, proceed to the instructions for completing Form 345-S on page 6.

If passing this credit through to the shareholders:

- Complete Form 345-S for each shareholder.
- Provide a copy of completed Form 345-S to each shareholder.
- Include a copy of each completed Form 345-S with your tax return.
- Keep a copy of each completed Form 345-S for your records.

Each S corporation shareholder is entitled to only a *pro rata* share of pass-through credit based on ownership interest in the S corporation. The total of the credit allowed to all shareholders may not exceed the amount that would have been allowed for a sole owner.

**NOTE:** *Trusts and estates which are shareholders of an S corporation are not eligible to claim these credits. However, the share of an S corporation owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of these credits.*

**Part 6 – Available Credit Carryover**

**S corporations**, if this credit was claimed at the corporate level in a prior taxable year and there is a carryover amount available, complete Part 6.

Use Part 6 to figure your total available credit carryover from prior taxable years. Complete lines 15 through 20 if you claimed the credit on a prior year's return and the credit exceeded your tax liability.

**Line 15 -**

Enter the taxable years from which you are carrying over the credit in columns (a) through (e).

**Line 16 -**

Enter the credit originally computed for the taxable year indicated in columns (a) through (e).

**Line 17 -**

Enter the amount of the credit from the taxable year indicated in columns (a) through (e) that was used in a prior taxable year.

**Line 18 -**

Subtract columns (a) through (e) of line 17 from columns (a) through (e) of line 16. Enter the difference in each column. This is your tentative credit carryover amount.

**Line 19 -**

Enter the amount of the credit from the taxable year indicated in columns (a) through (e) that is disallowed because the business changed ownership.

**Line 20 -**

Subtract columns (a) through (e) of line 19 from columns (a) through (e) of line 18. Enter the difference in each column.

**Line 21 -**

Add the amounts from columns (a) through (e) on line 20. Enter the total. This is the total credit for new employment carryover from prior taxable years.

**Part 7 - Total Available Credit****Line 22 -**

*Individuals, C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI* - enter the amount from Part 3, line 13, column (b).

*Partnerships*, enter "0".

*S corporations that elected to pass the current year credit through to shareholders*, enter "0".

This is the current year's credit for new employment.

*Individuals* – Also, enter this amount on Form 301, Part 1, line 26, column (a).

*C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI* – Also, enter this amount on Form 300, Part 1, line 20, column (a).

**Line 23 -**

*Individuals, C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI* - enter the amount from Part 6, line 21. This is the total available credit carryover for new employment.

*Individuals* – Also, enter this amount on Form 301, Part 1, line 267, column (b).

*C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI* – Also, enter this amount on Form 300, Part 1, line 20, column (b).

**Line 24 -**

*Individuals, C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI* - add line 22 and line 23. Enter the total. This is the total available credit for new employment for qualified employment positions that may be applied to the current year's tax liability.

*Individuals* - enter the total. Also, enter the total on Form 301, Part 1, line 26, column (c).

*C corporations, S corporations that elected to claim the credit at the corporate level, and exempt organizations with UBTI* – enter the total. Also, enter the total on Form 300, Part 1, line 20, column (c).

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**Form 345-P,  
Partner's Portion of the Credit**

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Enter the taxable year for which this credit is being passed through to your partners.

Complete Form 345-P for each partner of the partnership, *except for* trust or estate partners. However, a partnership ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The partnership must furnish each partner with their completed copy of Form 345-P, including additional schedules as needed.

**Part 1 - Distribution of the Credit**

**To distribute the credit to the partners of the partnership (complete lines 1 through 3):**

**Line 1**

Enter the partnership name and EIN in the spaces provided.

**Line 2**

Enter the partner's name and TIN in the spaces provided.

**Line 3a**

Enter the amount of this credit from Form 345, Part 3, line 13.

**Line 3b**

Enter the partner's ownership percentage.

**Line 3c**

Multiply line 3(a) by line 3(b) and enter the result.

**This is the partner's portion of this credit.**

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**Form 345-S, S Corporation  
Shareholder's Portion of the Credit**

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Enter the taxable year for which this credit is being passed through to your shareholders.

Complete Form 345-S for each shareholder of the S corporation, *except for* trust or estate shareholders. However, an S corporation ownership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the grantor. The grantor may claim his or her share of the credit.

The S corporation must furnish each shareholder with a completed copy of Form 345-S, including additional schedules as needed.

**Part 1 - Distribution of the Credit**

**To distribute the credit to the S corporation shareholders (complete lines 1 through 3):**

**Line 1**

Enter the S corporation name and EIN in the spaces provided.

**Line 2**

Enter the shareholder's name and TIN in the spaces provided.

**Line 3a**

Enter the amount of this credit from Form 345, Part 3, line 13.

**Line 3b**

Enter the shareholder's ownership percentage.

**Line 3c**

Multiply line 3(a) by line 3(b) and enter the result.

**This is the shareholder's portion of this credit.**