Two Arizona Income Tax Credits Designed to Attract Big Business

by James G. Busby, Jr., CPA

This month's state and local tax (SALT) column addresses two Arizona income tax credits meant to attract or expand big business operations and summarizes some of the recent changes to these credits.

In recent years, Arizona enacted two new individual and corporate income tax credits in hopes of attracting high quality employment opportunities for its citizens in manufacturing and research and development positions, as well as to attract more headquarter and "international operations center" facilities. The first credit is worth up to $150 million per taxpayer over five years, while the other credit is worth as much as $25 million per taxpayer over five years.

Credit for Qualified Facilities

Effective January 1, 2013, Arizona established new, individual and corporate income tax credits for expanding or locating qualified manufacturing, research, or headquarters facilities in Arizona. These credits are to be claimed over five consecutive years in equal installments. If any portion of these credits cannot be used to offset income taxes, it is refundable.

According to the legislative purpose clause, these credits are intended "to encourage business investment that will produce high quality employment opportunities for citizens of this state and enhance the position of this state as a center for corporate headquarters, commercial research and manufacturing."

Among other things, to qualify for these credits, taxpayers must invest in a new qualifying facility or expand an existing qualified facility in the state, and produce new full-time employment positions at the facility.

Effective August 6, 2016, taxpayers only have to pay at least 65 percent of the cost of all net new full-time employees' health insurance costs instead of 85 percent of such costs. For qualified facilities located in counties outside Maricopa and Pima counties, the requirement that at least 51 percent of the net new full-time employment positions at the facility pay a wage that equals or exceeds 125 percent of the median annual wage for production occupations in this state was reduced to 100 percent of that amount.

Other than the requirement that taxpayers who qualify for one of these credits by relocating an existing facility in the state must make an additional capital investment of at least $250,000, there is no minimum investment required to claim these credits. Rather, the credits are for 10 percent of the lessor of the total qualifying investment in the facility or $200,000 for each qualifying net new full-time employment position created at the facility.

Taxpayers who want to claim these credits must apply to the Arizona Commerce Authority, and they may not claim one of these credits and the credit for expanding or locating qualifying renewable energy operations in the state (not to be confused with the credit described below for companies' investments in renewable energy facilities that produce electricity for use in their own manufacturing operations or for use in their own international operations centers).

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The amount of these credits, plus the amount of individual and corporate income tax credits for expanding or locating qualifying renewable energy operations in the state (again, not to be confused with the credit described below), may not exceed $30 million per taxpayer, or $70 million in aggregate, in any calendar year.

Credit for Renewable Energy Facilities for Self-Consumption

The other credits went into effect on July 24, 2014. They are non-refundable individual and corporate income tax credits that may be carried forward for up to five years. Manufacturers and lessors that lease qualifying facilities to manufacturers qualify for these credits. The manufacturer or lessor must invest at least $300 million in new renewable energy facilities that produce electricity using renewable energy resources primarily for self-consumption in the manufacturer's own manufacturing processes.

In 2015, these credits were extended to include companies that operate "international operations centers" and lessors that lease qualifying facilities to international operations centers. To qualify as an international operations center, one generally must invest at least $100 million in new capital assets per year for 10 consecutive years for a total capital investment of at least $1.25 billion within 10 years. Then, to qualify for one of these credits as an international operations center, a company must invest at least $100 million in one or more new renewable energy facilities in the state that produce electricity using renewable energy resources and use at least a portion of the electricity for self-consumption in the companies' own international operations center.

Effective January 1, 2015, the amount of these credits was increased from $1 million per facility to $5 million per facility annually for five years — with a cap of $5 million per taxpayer per year and an overall cap of $25 million for taxpayers and their affiliates who use the electricity in an international operations center.

International operations centers must be certified by the Arizona Commerce Authority, and all taxpayers who seek these credits must apply to the Department for precertification and then for final certification after their renewable energy facility becomes operational. The Department may not authorize more than $10 million of these credits per calendar year on a first-come, first-serve basis, and taxpayers may not claim both this credit and the credit for expanding or locating qualifying renewable energy operations in the state. Taxpayers who fail to make the required investment, who fail to receive final certification from the Department, or whose certification as an international operations center gets revoked by the Arizona Commerce Authority may not claim any further credits, and generally must reimburse the state for the amount of credit previously received. ■