



Upcoming Changes to Select Arizona Tax Incentives: Part 1

In this month’s state and local tax (SALT) column, Busby highlights important changes that will affect Arizona income tax credits for creating quality jobs, investing in facilities and conducting research in the state. In the second part of this two-part series, Busby will highlight related changes to the state’s property tax incentives and its mechanism for funding the cost of public infrastructure improvements that benefit manufacturing facilities.

As a result of S.B. 1416, which Arizona Gov. Doug Ducey (R) signed into law on May 22, several important changes that will benefit individuals or businesses that make qualifying investments in new jobs, facilities and research in Arizona will go into effect on January 1, 2018.

Credits for Creating Jobs

Arizona allows individual and corporate income tax credits, as well as an insurance premium tax credit, of up to \$9,000 for each net qualified employment position created, subject to minimum requirements for capital investment and job creation. S.B. 1416 extended the credit to qualifying businesses that locate in the state before July 2025 (the previous requirement was before July 2017).

Until January 1, 2018, to qualify for this credit in an urban area, one must make at least a \$5 million capital investment and create at least 25 jobs that pay at least the county median wage. For purposes of these credits, an urban area is one located in a city or town with a population of 50,000 or more that is located in a county with a population of 800,000 or more. In other areas, until January 1, 2018, one must make at least a \$1 million capital investment and create at least five jobs that pay at least the county median wage.

Effective January 1, 2018, businesses in urban areas that create at least 25 net new jobs may qualify for one of these credits by making minimum investments and paying wages at the following percentages of the county median wage:

Investment	Wage
\$5,000,000	100%
\$2,500,000	125%
\$1,000,000	150%
\$ 500,000	200%

Likewise, effective January 1, 2018, businesses in rural locations that create at least five net new jobs may qualify for one of these credits by making minimum investments and paying wages at the following percentages of the county median wage:



by James G. Busby, Jr., CPA

James G. Busby, Jr., CPA, is a state and local tax attorney at The Cavanagh Law Firm. Busby previously worked in the SALT departments at Arthur Andersen and Deloitte & Touche. Before entering private practice, Busby was in charge of all transaction privilege (sales) tax audits at the Arizona Department of Revenue. If you have any questions, please contact the author. He can be reached at (602) 322-4146 or JBusby@CavanaghLaw.com.

Investment	Wage
\$1,000,000	100%
\$ 500,000	125%
\$ 100,000	150%

S.B. defined “rural location” as a location within tribal boundaries or in a city or town with a population of less than 50,000, or a county with a population of less than 800,000.

Credits for Investments in Facilities

Effective January 1, 2013, Arizona established individual and corporate income tax credits for expanding or locating qualified manufacturing, research, or headquarters facilities in Arizona. These credits are worth as much as \$150 million per taxpayer over five years. Any portion of these credits that cannot be used to offset income taxes is refundable.

S.B. 1416 added a provision to protect businesses that invest in qualified facilities such that, as long as the Arizona Commerce Authority preapproves

the business’s credit, the business may claim all five annual installments of the credit even if the credit is subsequently repealed or terminated.

Arizona’s Research Credits

Arizona offers individual and corporate income tax credits for increased investments in qualified research expenses over base amounts as determined under IRC section 41. Under S.B. 1416, for tax years 2018 through 2021, the amount of this credit is increased from 20 percent to 24 percent for increased expenditures of \$2.5 million or less. For increased expenditures of over \$2.5 million, the credit is increased from \$500,000 plus 11 percent of any amount exceeding \$2.5 million to \$600,000 plus 15 percent of any amount exceeding \$2.5 million. Beginning with tax year 2022, the amount of the credit will revert to the pre-2018 levels. ■