

## **Upcoming Changes to Select Arizona Tax Incentives: Part 1**

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In this edition of SALT From My Saddle, Busby discusses important changes that will affect Arizona income tax credits for creating quality jobs, investing in facilities, and conducting research in the state. In part two, Busby will explain related changes to the state's property tax incentives and its mechanism for funding the cost of public infrastructure improvements that benefit manufacturing facilities.

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

<sup>1</sup>Laws 2017, Ch. 182.

### 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.<sup>2</sup> 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 the 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 the credits, an urban area is one located in a city or town with a population of 50,000 or more that is 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 5 jobs that pay at least the county median wage.<sup>3</sup>

Effective January 1, 2018, businesses in urban areas that create a least 25 net new jobs may qualify for one of those credits by making minimum investments and paying wages at the following percentages of the county median wage.<sup>4</sup> If the investment is at least \$5 million, the wages must be 100 percent of the county median; if the investment is at least \$2.5 million, the wages must be 125 percent of the median; if the investment is at least \$1 million, the wages must be 150 percent of the median; and if the company makes an investment of

<sup>2</sup>Ariz. Rev. Stat. Ann. section 43-1074 (individual); Ariz. Rev. Stat. Ann. section 43-1161 (corporate); and Ariz. Rev. Stat. Ann. section 20-224.03 (insurance premium).

<sup>3</sup>Ariz. Rev. Stat. Ann. section 41-1525(B).

<sup>4</sup>Laws 2017, Ch. 182, section 1.

only \$500,000, the wages at issue must be at least 200 percent of the county median.

Likewise, effective January 1, 2018, businesses in rural locations that create at least 5 net new jobs may qualify for one of those credits by making minimum investments and paying wages at the following percentages of the county median. If the investment is at least \$1 million, the wages must be 100 percent of the county median; if the investment is at least \$500,000 the percentage rises to 125 percent; and if the company makes only a \$100,000 investment, the wages must be 150 percent of the county median.

S.B. 1416 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.<sup>5</sup>

### 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. Those credits are worth as much as \$150 million per taxpayer over five years. Any portion of those credits that cannot be used to offset income taxes is refundable.<sup>6</sup>

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 it even if the credit is later repealed or terminated.<sup>7</sup>

### State'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 that credit is increased from 20 percent to 24 percent for increased expenditures of \$2.5 million or less. For increased expenditures of more than \$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 pre-2018 levels.<sup>8</sup> ■

<sup>5</sup> *Id.*

<sup>6</sup> Laws 2012, Ch. 343. For additional information, see Busby, "Two Arizona Tax Credits Designed to Attract Big Business," *State Tax Notes*, Nov. 21, 2016, p. 609.

<sup>7</sup> Laws 2017, Ch. 182, sections 8 (individuals) and 9 (corporations).

<sup>8</sup> Laws 2017, Ch. 182, sections 7 (individuals) and 10 (corporations).