

Arizona Department of Commerce
ARIZONA ENTERPRISE ZONE PROPERTY RECLASSIFICATION

Program Guidelines¹
(effective July 1, 2006 - June 30, 2011)

Section 1. Overview

A business must be certified by the Arizona Department of Commerce (Commerce) as a “**Qualified Manufacturing Business**” or a “**Qualified Commercial Printing Business**” (A.R.S. § 41-1525.01), in order to have the county assessor’s office reclassify its real and personal property from Class 1 to Class 6 for primary tax assessment purposes.² The reclassification of property tax may last for five years as long as the business remains at the enterprise zone location, continues its manufacturing or commercial printing activities and ownership remains eligible.

To qualify for property reclassification, the business must:

- 1) Demonstrate it is engaged in manufacturing or commercial printing; **and**
- 2) Document eligibility as a small, minority- **or** woman-owned business; **and**
- 3) Document the business is independently owned and operated; **and**
- 4) Demonstrate it has completed the necessary investment in fixed assets at the zone location. The required investment is either; \$2 million, \$1 million or \$500,000 depending on the location of the facility.

Upon completion of 1, 2 & 3 above, Commerce will issue a Certificate of Eligibility. Upon completion of 4 above, Commerce will issue a Certificate of Investment. These two certificates may be applied for and issued simultaneously; however, both a Certificate of Eligibility and a Certificate of Investment are required to receive the property reclassification benefit.

Commerce accepts applications year round and determines eligibility for program benefits. Current legislation authorizes Commerce to certify businesses through June 30, 2011. **For certification in the next valuation year, an application must be submitted to Commerce by October 1st of the prior year.** For example, if a business applies on or before October 1, 2007, Commerce will certify the business for the valuation year beginning January 1, 2008.

To be eligible for reclassification, the appropriate investment in fixed assets must have been **made by the qualified business** after December 31, 2000, and prior to January 1st of the year for which it is requesting reclassification. The fixed-asset investment needs be made only once to initiate the property tax reclassification but **the business must apply for re-certification to Commerce annually to maintain eligibility.**

¹ These guidelines are provided to assist applicants. In case of conflict between what is presented here and the Arizona Revised Statutes, the statutes shall prevail. See A.R.S. §§ 41-1525.01, 42-12006, 42-15006 and Senate Bill 1074, which has an effective date of September 21, 2006.

² Arizona has both primary and secondary property tax assessments. Under A.R.S § 42-12006(4), reclassification of property applies only to primary taxes, changing the property from class 1 (25% assessment ratio prior to 2006) to class 6 (5% assessment ratio). For more information, contact the Office of the County Assessor. Starting in 2006, the assessment ratio for class 1 property will be reduced 1% each year until reaching 20% in 2011.

Section 2. Eligibility Requirements for Business Activities

For the purposes of this program, **more than 50 percent of the business activity at the enterprise zone location must be manufacturing or commercial printing** measured either by the number of employees assigned to the manufacturing or commercial printing activities or the square footage of the facility used for the manufacturing or commercial printing activities.

"Manufacturing" means fabricating, producing or manufacturing products, wares or articles for use from raw or prepared materials, imparting to those materials new forms, qualities, properties and combinations. A.R.S. §41-1525.01(N)(6)

"Commercial printing" means producing printed product through a lithographic or flexographic process, from material cut to press size on the premises, transferred with pressure and finished with a process that may include scoring, folding, die cutting, gluing, stamping, embossing or packaging. A.R.S. §41-1525.01(N)(2)

Determination as to whether a business qualifies as a manufacturer or commercial printing business will be based on the information provided in the application for certification, to which the applicant attests in the certification affidavit. Commerce may consult the Arizona Department of Revenue when determining eligibility. Additionally, Commerce may make site visits to verify the business activities. Guiding eligibility decisions will be:

1) Existing case law and administrative hearing rulings

For example, an administrative law judge has ruled that a certain kind of recycler does not meet the Enterprise Zone Program definition of manufacturing. Information from that and other relevant hearings will be used in the eligibility determination.

2) Common understanding

To meet the "common understanding" standard, a particular business operation, if described to a number of individuals, would be recognizable as a manufacturing or commercial printing operation.

3) Program history

Historically, mining, logging, ranching, farming (including hydroponics), some food processing, recycling, construction, smelting, refining, job printing, tire re-treading, ice production and concrete production were not considered manufacturing or commercial printing for the purposes of the Enterprise Zone Program. These prior determinations will be taken into consideration during eligibility decisions.

4) North American Industry Classification System

The North American Industry Classification System (NAICS) was developed as the standard for use by Federal agencies in classifying business establishments for research purposes. The system allows for a high level of comparability in grouping businesses. The NAICS code for manufacturers and commercial printers usually is a six digit number beginning with "3". If the primary business activity at the zone location is described by a NAICS code in either of these sectors, the business may be eligible for the Enterprise Zone Program.

Section 3. Eligibility Requirements for Small, Minority- or Woman-Owned Businesses

In addition to being a qualified manufacturer or commercial printer, a business must be either small, minority- or woman-owned as defined under A.R.S. § 41-1525.01(N).

To qualify as “small” a business may use one of two measures to document eligibility:

1. **Employ fewer than 100 full-time employees at the location in the enterprise zone.** To document the number of full-time employees at the location, the business must submit a copy of the business’ current Arizona Unemployment Tax & Wage Report (UCO 18) filed with the Arizona Department of Economic Security for the most recent quarter. If form UCO 18 is not yet filed because the business is new, contact Commerce for information regarding alternative documentation. After initial certification, a qualified business is eligible even if it grows beyond the initial size standards.

OR

2. **Have gross annual receipts of less than \$4 million company-wide in the last fiscal year.** To document gross receipts, the business must submit a copy of an audited financial statement or, if an audited statement is not available, a financial statement prepared by a C.P.A. for the most recent fiscal year. After initial certification, a qualified business is eligible even if it grows beyond the initial size standards.

To qualify ***on the basis of being woman- or minority owned*** a business must submit a copy of the certification obtained from the Arizona Department of Transportation, Maricopa County, the City of Phoenix or Pima County. (Allow 30 to 90 days for this process.) If a woman or minority ownership certificate is not available, the business may submit documentation verifying the ownership from its attorney, its certified public accountant and a qualified official of the applicant’s local political subdivision. Contact Commerce for more information regarding the documentation acceptable for this purpose.

Section 4. Eligibility Requirements for “Independently Owned and Operated” Businesses

An applicant business must also be independently owned and operated. Due to complex ownership structures we encourage the business to contact Commerce for guidance regarding eligibility. **“Independently owned and operated”** means not more than 50 percent of the ownership interest in the small manufacturing or small commercial printing business is held by another entity unless the final ownership of the entity is family owned or closely held. A.R.S. § 41-1525.01(N)(5)

“Closely held” means five or fewer individuals own more than fifty percent of the ownership interest in the company, corporation or partnership. A.R.S. § 41-1525.01(N)(1)

“Family owned” means more than fifty percent of the ownership interest in the company, corporation or partnership is owned by members of the same family. A.R.S. § 41-1525.01(N)(3)

To document compliance with the “independently owned and operated” requirement the applicant business must have an officer of the business complete and sign the Statement of Ownership, which is part of the application package. Additional information such as an ownership chart may be requested to satisfy this requirement. The ownership chart must include the names of all parent or holding companies of the applicant business and the percentage of ownership held.

Section 5. Obtaining a Certificate of Eligibility

An applicant business must demonstrate it has met the requirements identified in Sections 2, 3 & 4 of this program guideline to obtain a Certificate of Eligibility. This certificate is valid for up to 90 days. If the business appears to have changed materially prior to the completion of investment or if the certificate expires, Commerce may require the business to again verify eligibility.

A business may apply for the Certificate of Investment from Commerce at the time it applies for the Certificate of Eligibility or after the Certificate of Eligibility has been awarded. However, both a Certificate of Eligibility and a Certificate of Investment are required to receive the property reclassification benefit.

Note: The State of Arizona offers four years of additional depreciation (accelerated depreciation) on most commercial or industrial equipment. Some companies may choose not to seek property reclassification during the early years of the five-year certification period because accelerated depreciation provides a greater tax advantage than the Enterprise Zone Program. Once property is reclassified to class six, it is no longer eligible for accelerated depreciation for that tax year. If the business chooses accelerated depreciation for a tax year the business loses one year of its property reclassification benefit. If a business knows it will take advantage of accelerated depreciation, it might be in its best interests to delay application for property tax reclassification until the year before it plans to switch to enterprise zone tax benefits. Please consult your accountant or tax professional to determine whether to initiate reclassification.

Section 6. Obtaining a Certificate of Investment

The population of the area where a business is located determines the amount of required investment for eligibility. Population data from the decennial census will be used when determining the required investment amount. To be certified for property reclassification, a business must make an investment in fixed assets as follows:

1. For businesses located within Maricopa or Pima Counties the required investment is \$2 million. Unless the facility is more than 25 air miles from the corporate limits of Phoenix or Tucson:

and in a city of less than 15,000 population	\$500,000
and in a city of 15,000 to 80,000 population	\$1,000,000
and in a city with population over 80,000	\$2,000,000

2. For businesses located in any other County:

and in a community of less than 15,000 population	\$500,000
and in a community of 15,000 to 80,000 population	\$1,000,000
and in a community with population over 80,000	\$2,000,000

The Certificate of Investment indicates that the necessary investment in fixed assets has been **made by the qualified manufacturing business or qualified commercial printing business** after December 31, 2000 and prior to January 1st of the year for which it is requesting reclassification. Ownership of all assets must be in the name of the qualified business or an affiliate with ownership that is at least 75% identical to that of the applicant business. The Certificate of Investment is valid for five valuation years as long as the business otherwise maintains eligibility.

For the purposes of this program “**fixed asset**” means property that is used in operating a business, such as furniture, land, buildings and machinery, and that is not ordinarily converted into cash after they are declared fixed assets. A.R.S. 41-1525.01(N)(4)

To receive this certification, the applicant business must submit documentation of the required fixed asset investment made at the enterprise zone location. Generally, copies of paid invoices and cancelled checks will suffice. Other documentation may include: a real estate settlement sheet, county affidavit of property value, Arizona business property statement, copies of capital leases for equipment, or a Federal IRS Form 4562 and all supporting schedules that identify, at a minimum, the piece of equipment, the date acquired and the cost.

Section 7. Next Steps – After Initial Certification

Once Commerce determines a business is qualified it will issue a Certificate of Eligibility and a Certificate of Investment to the business. The qualified business must present a written request and copies of both certificates to the Office of the County Assessor in which the business is located no later than December 10th of each year to receive the property reclassification benefit for the next valuation year. Upon receipt of these certificates, the assessor’s office will reclassify all real and/or personal property to Class 6 for primary tax assessment purposes. Different divisions in the county assessor's office administer real and personal property, so the business will have to send its request for reclassification and copies of the certificates to both divisions, if it wants both types of property to be reclassified.

Section 8. Re-Certification

Each year, after initial certification, the business must apply for re-certification with Commerce by October 1st in order to maintain its eligibility for reclassification. If a qualified business fails to timely apply for re-certification or is no longer eligible, Commerce shall notify the Office of the County Assessor and the Arizona Department of Revenue and all property shall revert to Class 1 for that tax year or permanently, whichever is applicable.

Once Commerce determines a business is qualified it will issue a new Certificate of Eligibility to the business. The qualified business must present a written request and a copy of the new certificate to the Office of the County Assessor in which the business is located no later than December 10th of each year to receive the property reclassification benefit for the next valuation year. Upon receipt of the new certificate, the assessor’s office will reclassify all real and/or personal property to Class 6 for primary tax assessment purposes. Different divisions in the county assessor's office administer real and personal property, so the business will have to send its request for reclassification and a copy of the certificate to both divisions, if it wants both types of property to be reclassified.

Section 9. Other Provisions

- 1) If the enterprise zone in which a certified business is located expires or is terminated or if the Enterprise Zone program expires or is terminated, the business can receive the remainder of its five-year certification, as long as it otherwise maintains eligibility.
- 2) The law requires Enterprise Zone Property Reclassification Applications and Re-certifications to be submitted to Commerce by October 1st of each calendar year to be eligible for reclassification in the next valuation year. For manufacturers or commercial printers already certified, failure to timely report will result in loss of the property tax benefit for the next valuation year. For new applicants the benefit will be delayed until the next valuation year.
- 3) Property can receive only one five-year term of reclassification, whether or not the business takes advantage of the program. Once property is reclassified it is not longer eligible for reclassification at that site.
- 4) If a business has more than one location and can demonstrate eligibility for each location, Commerce may certify both locations simultaneously or consecutively.
- 5) If a certified manufacturing business or commercial printing business moves from the certified location, Commerce shall revoke its certification. The manufacturing business or commercial printing business may re-apply for certification, but only for the remainder of the original 5 years, if it makes a new minimum investment at a new enterprise zone location.
- 6) A certified business may lease excess land or building space to another business without losing its certification if the certified business provides documentation to Commerce showing the name of its lessee, a description of the lessee's business activity, and that manufacturing or commercial printing activity at the enterprise zone location continues to exceed 50% of the total activity. If the manufacturing or commercial printing activity at the enterprise zone location does not exceed 50% of the total activity, Commerce shall revoke the business certification and notify the County Assessor.
- 7) If the applicant business is leasing property for its operations,
 - a. Commerce will certify the entire parcel if the business is utilizing the entire facility and can demonstrate that more than 50% of the activity at the facility is manufacturing or commercial printing.
 - b. Commerce will certify only the portion of the facility being used by the business if the business can demonstrate that more than 50% of the activity in its portion of the facility is used for manufacturing or commercial printing.
- 8) If the certified business leases property at a certified enterprise zone location to an affiliate, Commerce shall not certify the affiliate at the same location.

- 9) In accordance with A.R.S. § 23-214 (b) and § 35-397, all applicant employers must be participating in the E-Verify program in order to receive enterprise zone income tax credits. Secondly, pursuant to the above statutes, by signing this application, the applicant is certifying that the business does not have scrutinized business operations in Iran or Sudan and is not otherwise lawfully precluded from participating in any public funding activity with any Federal, State or Local Government. Signing the application without disclosing all pertinent information about business investments and business operations in Iran or Sudan shall result in rejection or cancellation of the application. The State may also exercise any other remedy available by law.

Return applications and documentation to:
Arizona Department of Commerce
Enterprise Zone Program
1700 West Washington, Suite 600
Phoenix, AZ 85007
Phone: 602-771-1154 Fax: 602-771-1208