

Arizona Enterprise Zone Program Summary

(Established under A.R.S. §§41-1521 through 41-1528)

The primary goal of the Arizona enterprise zone program is to improve the economies of areas in the state with high poverty or unemployment rates. The program does this by enhancing opportunities for private investment in certain areas that are called enterprise zones. Enterprise zones are designated by the Arizona Department of Commerce.

Increased investments in such areas tend to strengthen property values (or keep property values from falling), and encourage quality job creation to promote the vitality of the local economies. ***The following is a brief summary of the two incentives provided under the Enterprise Zone program.***

Income or Premium Tax Credits

Arizona statutes provide for an income and premium tax credit for ***net increases in qualified employment positions*** at a site located in an enterprise zone - except for those at a business location where more than 10% of the activity is the sale of tangible personal property. Three types of retail are unlimited and may constitute any percentage of the retail business activity without causing ineligibility:

- a) Food and beverage for consumption on the premises solely by employees and occasional guests of employees at the location
- b) Promotional products displaying the company logo or trademark
- c) Products sold to company employees

Tax credits may total up to \$3,000 per qualified employment position over three years for a maximum of 200 employees in any given tax year. A qualified employment position:

- Is a full-time permanent job (1,750 hours per year),
- Pays an hourly wage above the "Wage Offer by County" (currently between \$7.18 and \$14.76 depending on the county in which the business is located),
- Offers health insurance to employees for which the employer pays at least 50 percent,
- Must work at least 90 days in the first tax year, and
- Cannot have worked for the employer within 12 months from current date of hire.

The enterprise zone credits for qualified employment positions are equal to:

- First year: one-fourth of wages paid to an employee up to \$500
Second year: one-third of wages paid to each previously qualified employee up to \$1,000
Third year: one-half of wages paid to each previously qualified employee up to \$1,500

35% of the net new eligible employees on whom the business is claiming a credit must live within an enterprise zone in the same county as the business on the date of hire. If the allowable enterprise zone credit exceeds the income or premium tax liability, any unused amount may be carried forward for up to five taxable years, providing the business remains in the enterprise zone. A business that claims a healthy forest or military reuse zone credit may not claim an EZ tax credit with respect to the same employee.

All applications must be submitted to the Arizona Department of Commerce the earlier of six months after the applicant's fiscal year ends or before the applicant files their tax documents with the Arizona Department of Revenue. An application is considered to be filed and received by Commerce according to the date shown by the postmark or other official mark of the United States mail. Commerce also accepts documents via hand delivery and courier. Failure to timely report and certify to the Arizona Department of Commerce disqualifies the taxpayer from the tax credit.

Property Tax Benefits

Property reclassification is available for ***qualified manufacturing businesses or commercial printing businesses*** in an enterprise zone. A manufacturer or commercial printer in an enterprise zone **is eligible for an assessment ratio of 5 percent on all personal and real property (for primary tax purposes only) in the zone for five years if it is:**

- Either minority-owned, woman-owned or small (a small business has fewer than 100 employees or gross sales of \$4 million or less), and
- Independently owned and operated (not owned more than 50% by another company unless the ultimate ownership is primarily family owned or closely held), and
- Makes an investment in fixed assets at the zone of \$500,000, \$1 million or \$2 million, depending upon the location of the facility. The investment can be aggregated from 1/1/2001 as long as the zone was in place during that time.

The law requires that company reports be filed with the Arizona Department of Commerce by October 1st of each calendar year to be eligible for reclassification in the next valuation year. Commerce accepts official postmarks from the United States mail as well as couriered and hand delivered documents as proof of timely submittal. For applicants already certified, failure to timely report will result in loss of the property tax benefit. For new, eligible applicants the benefit will be delayed until the next valuation year. At the end of the five-year reclassification period the property reverts to the standard assessment ratio.

The **definition of manufacturing** is set forth in the statute:

"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. Manufacturing does not include generating electricity at a facility assessed..."

The **definition of commercial printing** is set forth in the statute:

"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..."