

2007 Income Tax Credit Review

**Joint Legislative Income Tax
Credit Review Committee**

December 11, 2007

JLBC

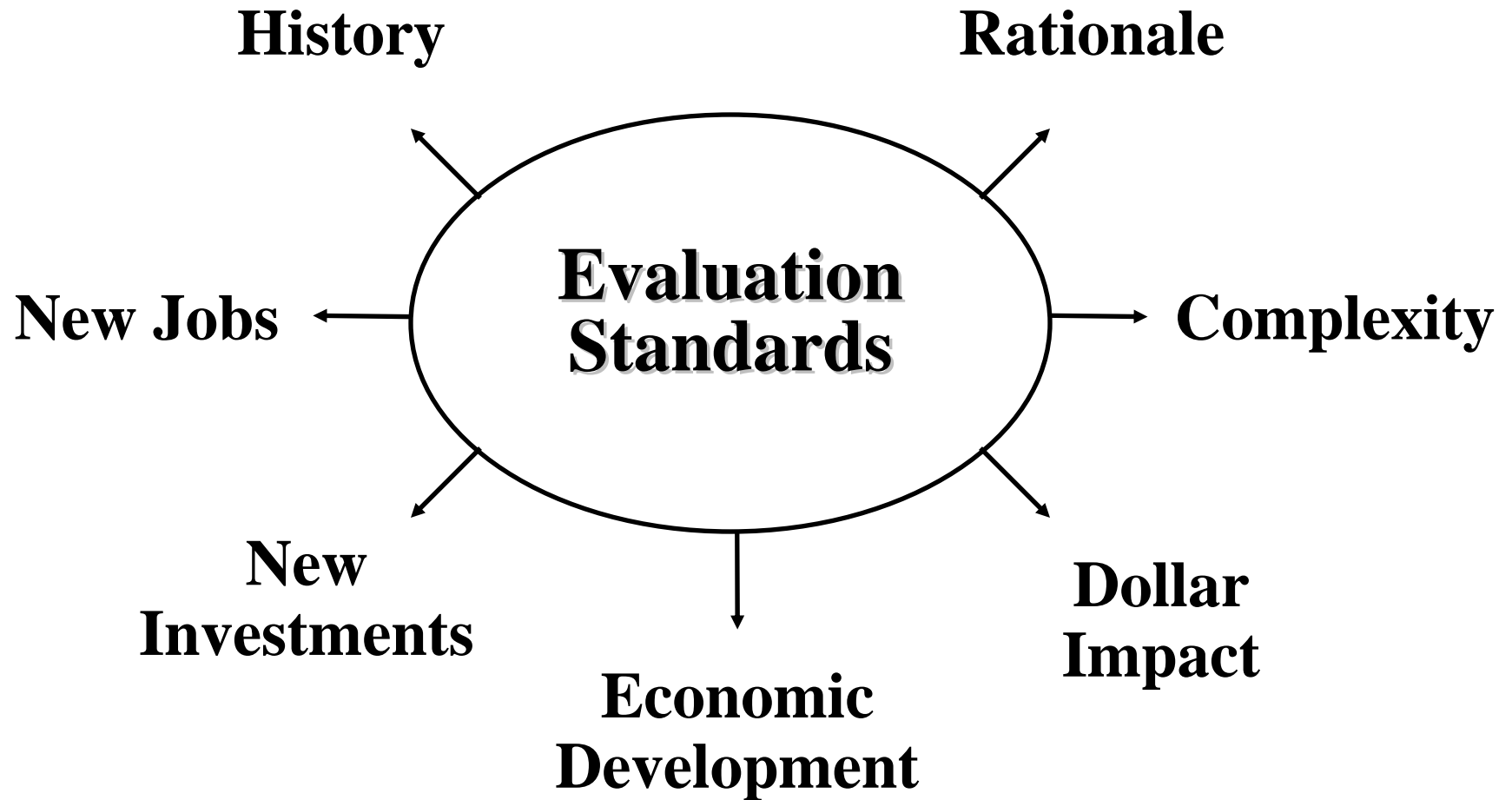
Joint Legislative Income Tax Credit Review Committee

- Annually reviews credits as determined in statute.
- This year's review includes:
 - Defense Contractor Credit
 - Military Reuse Zone Employment Credit
 - Environmental Technology Facility Credit

Role of the Committee

- Determine original purpose of tax credit.
- Establish standards for evaluating and measuring success or failure.
- Recommend changes.

Statute Provides Possible Standards



Issues Affecting Evaluation

- Confidentiality.
- Timeliness of data.
- Lack of performance measures.

Defense Contractor Credit Summary

Cost – \$1.9 million in tax year 2000, with a carry forward of \$33 million.

– In total, 6 taxpayers have claimed the credit since its inception.

Purpose – assist contractors in the transition from military to commercial markets.

Complexity – relatively easy to use. Tracking of employees by name can be burdensome.

Performance Measures – none in statute.

Defense Contractor Credit

Description of Credit

- Defense contractors can claim the credit for:
 - 1) Net increases in defense-related employment.
 - 2) Business property taxes paid.
- Credit is limited to companies that were certified by the Department of Commerce by 2001.
- Certification is only valid for 5 years. Thus, no initial credits can be claimed after TY 2006.
- Any unused portion of the credit can be carried forward until TY 2012.

Defense Contractor Credit

Description of Credit (cont.)

For *net increases in employment*, the credit is:

- \$2,500 for each FTE position created in the 1st year.
- \$2,000 for each FTE position in the 2nd year of existence.
- \$1,500 for each FTE position in the 3rd year of existence.
- \$1,000 for each FTE position in the 4th year of existence.
- \$500 for each FTE position in the 5th year of existence.
- \$0 after 5th year.

Defense Contractor Credit

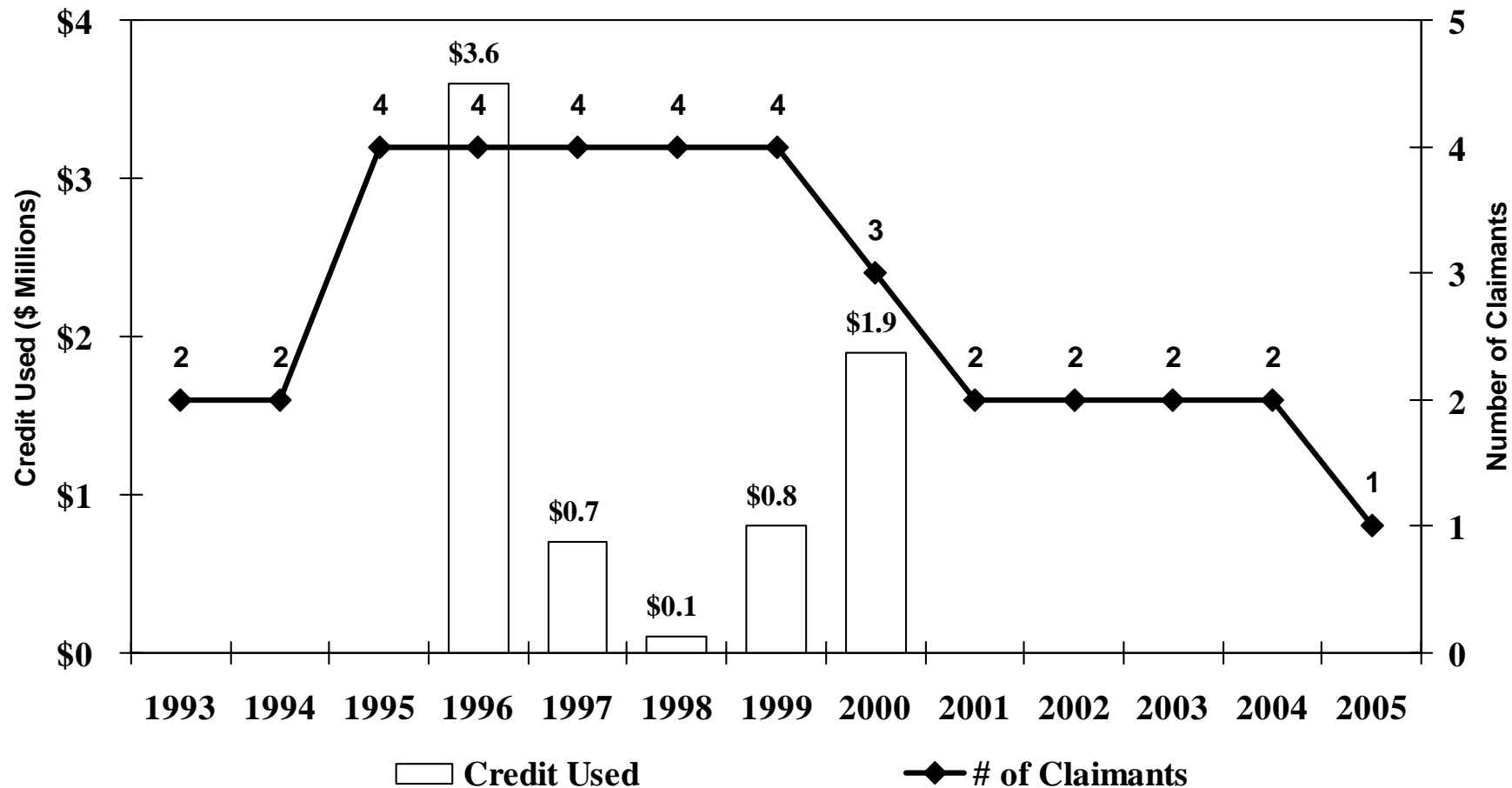
Description of Credit (cont.)

For *business property taxes paid*, the income tax credit is:

- 40% of the tax if more than 900 FTEs are created.
- 30% of the tax for between 601 and 900 FTEs.
- 20% of the tax for between 301 and 600 FTEs.
- 10% of the tax for up to 300 FTEs.
- New credits can only be claimed during the 5-year certification period.

Defense Contractor Credit

Amount of Credit Used & Number of Claimants



Defense Contractor Credit

Benefits to the Arizona Economy

- Incentive program may have benefited the Arizona economy insofar as it has succeeded in creating jobs that would not have occurred in the absence of the credit.
- However, actual benefits are unknown since no empirical evaluation of the credit has been conducted to date.

Defense Contractor Credit

Potential Performance Measures

- There may be no need for performance measures since no initial credits can be claimed after 2006.

Military Reuse Zone Employment Credit Summary

Cost – \$109,000 in tax year 2001, with a carry forward of \$22,000.

– In total, 5 taxpayers have claimed the credit since its inception.

Purpose – To encourage investment and job creation in the aviation and aerospace industries on former military bases.

Complexity – Not complex in administration and record keeping is not difficult.

Performance Measures – none in statute.

Military Reuse Zone Employment Credit

Description of Credit

- Credits are based on the number of full-time aviation and aerospace employees in a military reuse zone.
- There are 2 Military Reuse Zones; Williams Gateway Airport and the Goodyear Airport.
- Credits are certified by the Department of Commerce.
- There is a 5-year carry-forward period for credits, but they are not refundable.

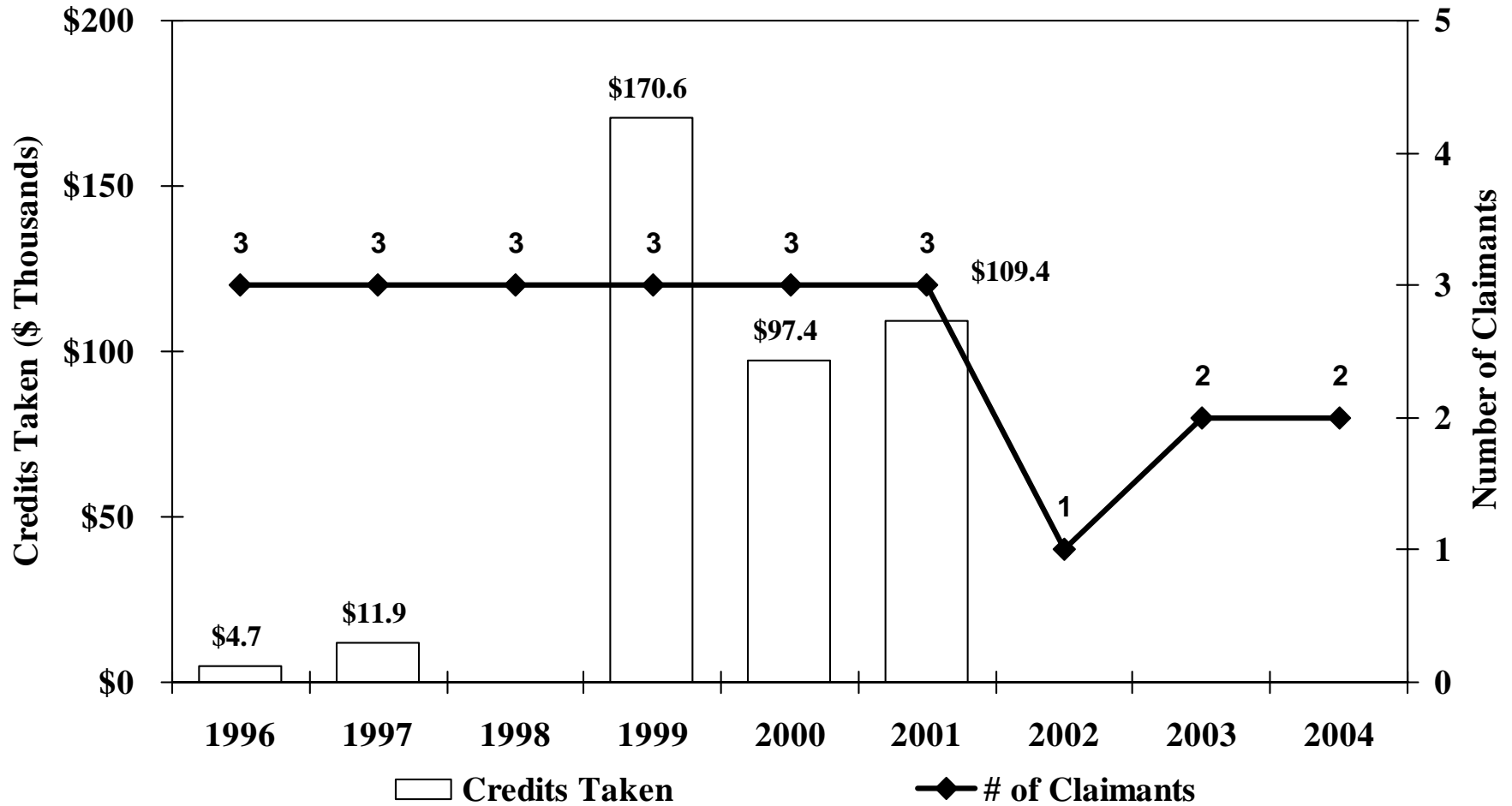
Military Reuse Zone Employment Credit

Description of Credit (cont.)

- The credit depends on the type of employee and their tenure.
- The two categories of full-time employees are:
 - Dislocated – civilian employees who previous had full-time permanent employment on the military facility
 - Non-Dislocated – employees who were not previously employed at the military facility
- For each Dislocated employee the credit is:
 - \$1,000 for 1 year of employment and grows by \$500 increments to \$3,000 by the fifth and final year of employment.
- For Non-Dislocated employees the credit is \$500 less than the Dislocated employee equivalent.

Military Reuse Zone Employment Credit

Amount of Credits Taken & Number of Claimants



Military Reuse Zone Employment Credit

Benefits to the Arizona Economy

- Incentive program may have benefited the Arizona economy insofar as it has succeeded in creating jobs that would not have occurred in the absence of the credit.
- Over 200 jobs have been created.
- However, actual benefits are unknown since no empirical evaluation of the credit as a whole has been conducted to date.

Military Reuse Zone Employment Credit

Potential Performance Measures

- For each corporation to report on the total number of jobs created as a result of the credit – this number is currently available from the Department of Commerce.

Environmental Technology Facility Credit Summary

Cost – \$1.1 million in tax year 2001, with a carry forward of \$36 million.

– In total, 7 taxpayers have claimed the credit since its inception.

Purpose – To encourage construction of environmental technology manufacturing or processing facilities.

Complexity – Certification process is not complex, but tracking asset values can be difficult.

Performance Measures – none in statute.

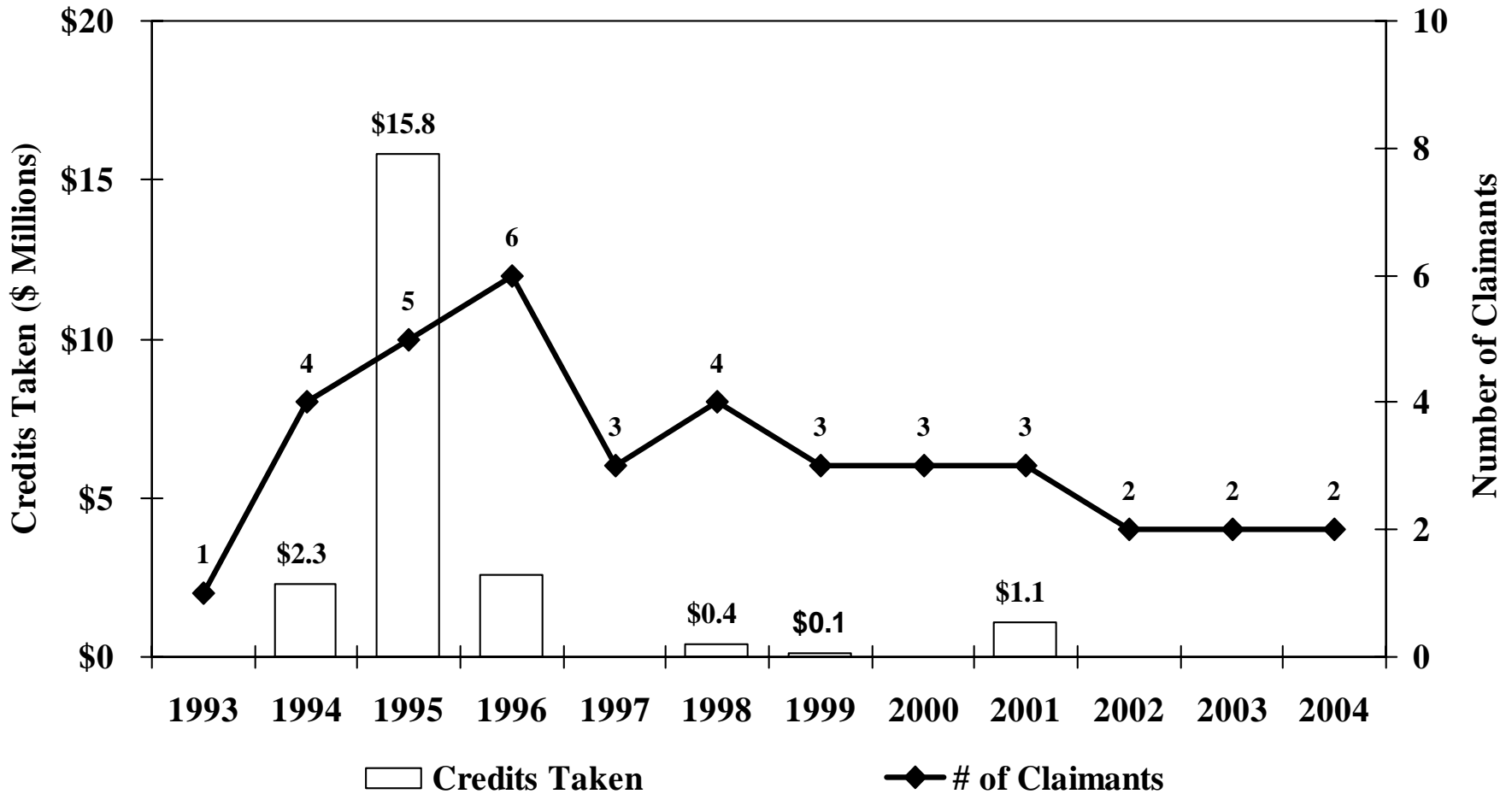
Environmental Technology Facility Credit

Description of Credit

- The credit is equal to 10% of plant construction costs in a tax year, not exceeding 75% of the taxpayers liability.
- Taxpayers must have been certified by the Department of Commerce by 1996.
- Credits must be claimed within 10 years of beginning construction.
- 15 year carry-forward.

Environmental Technology Facility Credit

Amount of Credits Taken & Number of Claimants



Environmental Technology Facility Credit

Benefits to the Arizona Economy

- More than \$980 million in qualified plant construction has occurred in the state.
- A total of 1,500 jobs have been created or retained due to the new construction.
- 8 businesses have qualified for the credit, and 7 have begun construction.

Environmental Technology Facility Credit

Potential Performance Measures

- For each corporation to report on the number of jobs created and total investment generated by the credit – this information is currently available from the Department of Commerce.