

2009 Income Tax Credit Review

**Joint Legislative Income Tax
Credit Review Committee**

December 10, 2009

JLBC

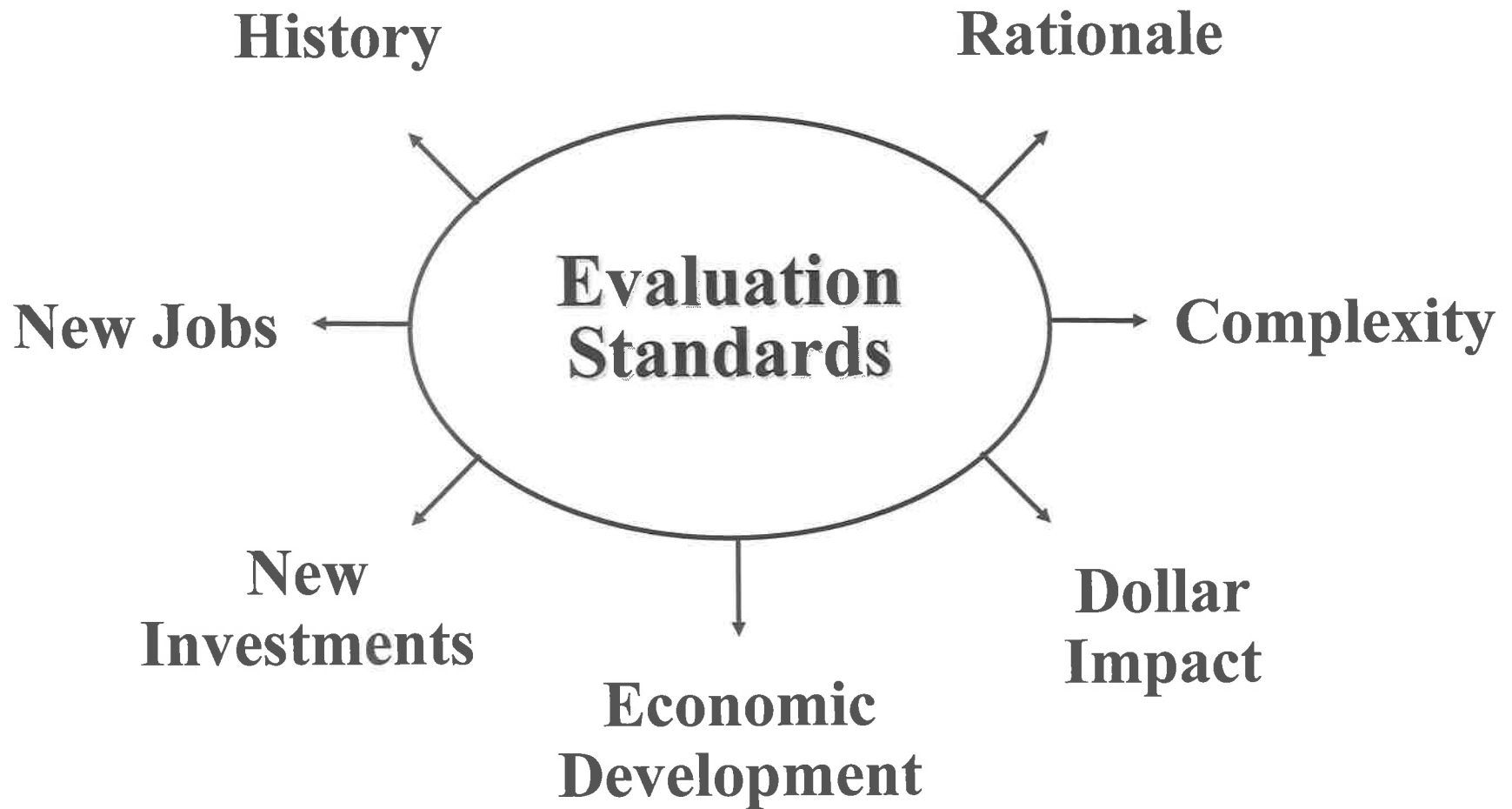
Joint Legislative Income Tax Credit Review Committee

- Annually reviews credits as determined in statute.
- This year's review includes:
 - Agricultural Pollution Control Equipment Credit
 - Agricultural Water Conservation System Credit
 - Healthy Forest Enterprise Credit
- Agricultural pollution and agricultural water conservation credits were last reviewed in 2004.

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.

Agricultural Pollution Control Credit

Summary

Cost – \$0 in tax year 2007 for the corporate credit and \$32,500 in tax year 2002 for the individual credit.

- 30 claims filed by individuals between 1999 and 2007.
- Number of claims by corporations were too few to report.

Purpose – mitigate costs incurred by farmers and ranchers to comply with environmental regulations.

Complexity – simple to use and administer.

Performance Measures – none in statute.

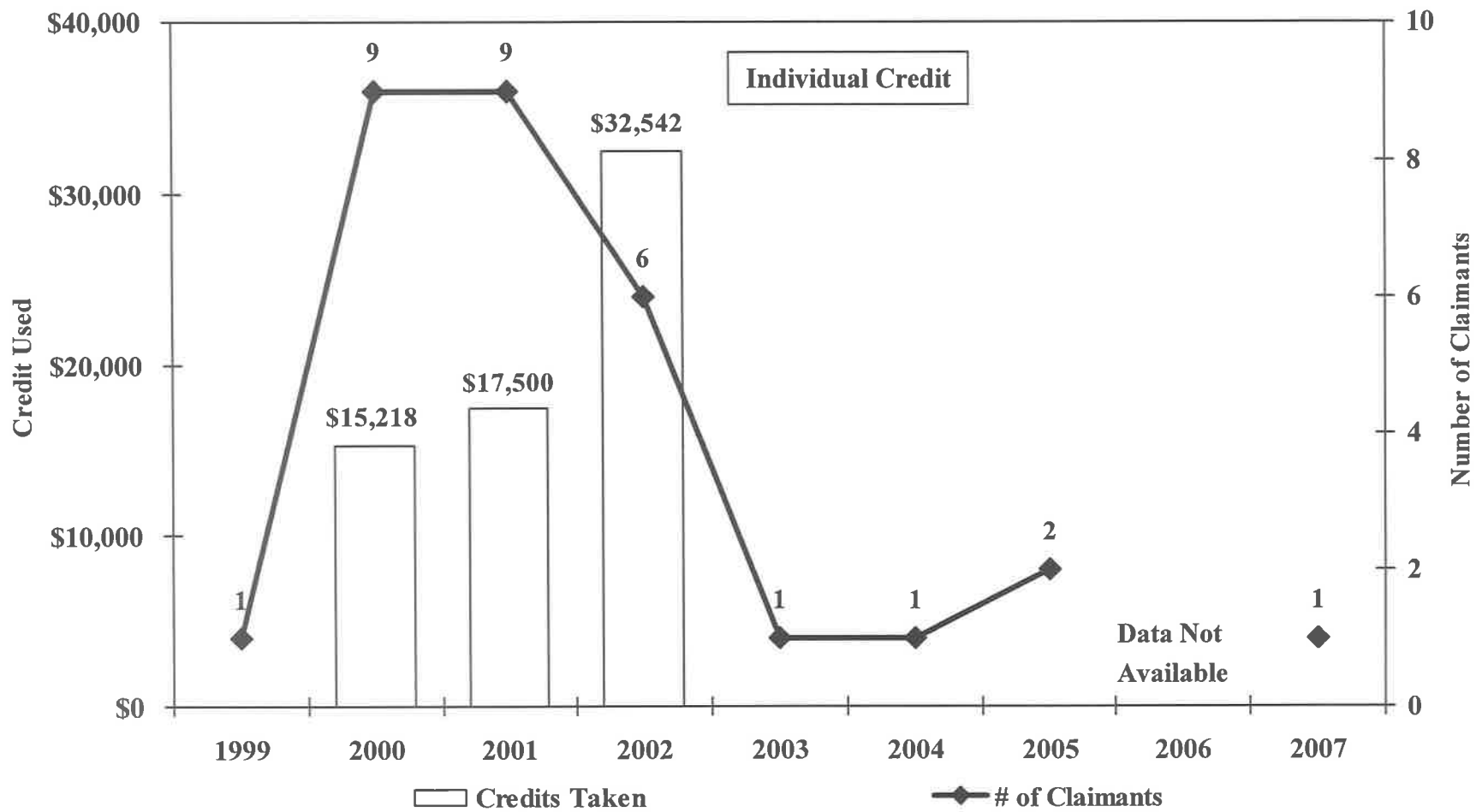
Agricultural Pollution Control Credit

Description of Credit

- The credit is for expenses incurred to acquire agricultural pollution control equipment.
- Example of equipment that may qualify for the credit is dust filters in cattle feed yards.
- The credit is equal to 25% of the cost of equipment up to a maximum of \$25,000.
- Credit is nonrefundable.
- Carry forward is 5 years.

Agricultural Pollution Control Credit

Amount of Credits Taken & Number of Claimants



Agricultural Pollution Control Credit

Benefits to the Arizona Economy

- Impact on the state's economy is likely negligible due to the limited use of the credit.
- Credit may have a small positive impact on the environment insofar as it induces taxpayers to reduce pollution that would not occur in the absence of the credit.

Agricultural Pollution Control Credit

Potential Performance Measures

- Type of equipment purchased and its related environmental impact.
- Number of other states where a taxpayer receives a comparable credit.
- Last reviewed in 2004.
 - Committee recommended the continuation of the credit with no changes or modifications.

Agricultural Water Conservation Credit Summary

Cost – \$1.7 million in tax year 2007.

- 130 claims filed by individual taxpayers in 2007.
- Corporate credit was repealed in 2000.

Purpose – mitigate costs incurred by farmers and ranchers to comply with water conservation requirements under the Groundwater Management Code.

Complexity – simple to use and administer.

Performance Measures – none in statute.

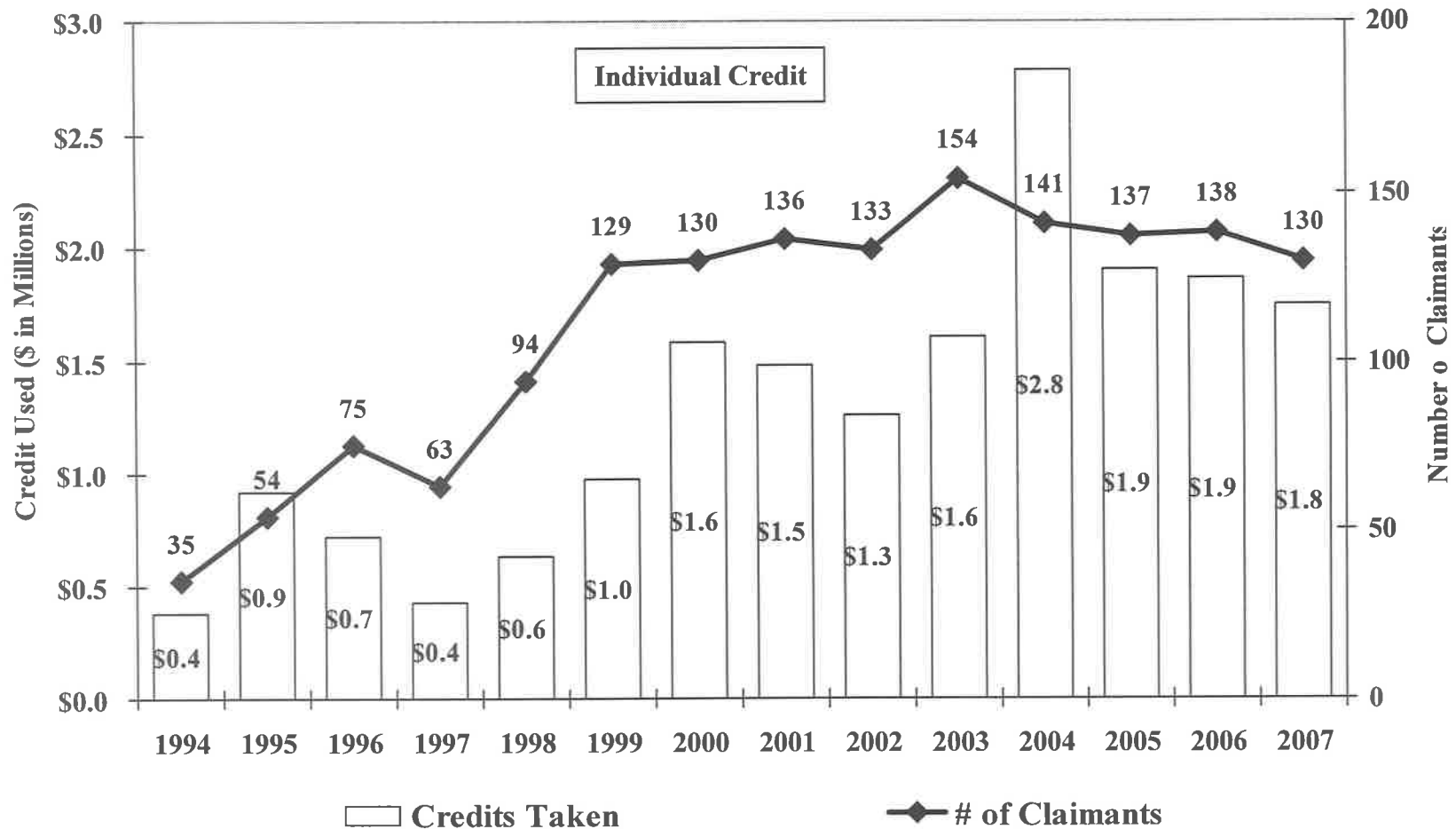
Agricultural Water Conservation Credit

Description of Credit

- The credit is equal to 75% of expenses for the purchase and installation of an agricultural water conservation system.
- Example of a water conservation system that may qualify for the credit is irrigation equipment, such as sprinklers, pipes, and water pumps.
- Taxpayer must have a conservation plan on file with the USDA to qualify.
- Credit is nonrefundable.
- Carry forward is 5 years.

Agricultural Water Conservation Credit

Amount of Credits Taken & Number of Claimants



Agricultural Water Conservation Credit

Benefits to the Arizona Economy

- Credit may enhance Arizona's competitiveness relative to other states by reducing cost of production.
- Credit may have a positive impact on the environment insofar as it induces taxpayers to reduce water usage that would not occur in the absence of the credit.
- No data is available to quantify potential impact on the state's economy.

Agricultural Water Conservation Credit

Potential Performance Measures

- Type of equipment purchased and the reduction in water usage as a result of the credit.
- Number of other states where a taxpayer receives a comparable credit.
- Last reviewed in 2004.
 - Committee recommended the continuation of the credit with no changes or modifications.

Healthy Forest Enterprise Credit

Summary

Cost – \$0 in tax year 2006 for the corporate credit and \$0 in tax year 2007 for the individual credit.

- Corporate credit claimed for the first time in 2007.
- No individual credits claimed between 2005 and 2007.

Purpose – provide incentive to help establish commercial enterprises that promote forest health and reduce the risk of wildfires.

Complexity – Not difficult to use but requires significant paperwork for application and reporting purposes.

Performance Measures – none in statute.

Healthy Forest Enterprise Credit

Description of Credit

- Credit is based on the net increase in the number of qualified employment positions created and filled.
- Amount of credit per employee depends on employee's wage and year of employment:
 - 1/4 of employee's wage in the 1st year of employment up to \$500
 - 1/3 of wage in the 2nd year of continuous employment up to \$1,000
 - 1/2 of wage in the 3rd year of continuous employment up to \$1,500
- Taxpayer cannot claim more than 200 qualified employment positions in any given tax year.

Healthy Forest Enterprise Credit

Description of Credit (continued)

- Business must employ at least 3 new full-time employees in “qualified employment positions” in the 1st year the credit is claimed.
- A qualified employment position is one that meets specific requirements related to residency, total hours worked, type of work, wage rate, and health insurance benefits.
- Business must also enter into a “memorandum of understanding” with the Dept. of Commerce.

Healthy Forest Enterprise Credit

Description of Credit (continued)

- Prior to using any tax incentive under the program, a business must first be approved (“certified”) by Commerce. (A total of 7 businesses certified in 2008.)
- Certified business must submit an annual report to Commerce and reapply for certification each year.
- Besides the tax credit, the program also offers other incentives related to use fuel, sales and property taxes.
- Credit is nonrefundable with a 5-year carry-forward.

Healthy Forest Enterprise Credit

Amount of Credits Taken & Number of Claimants

- No taxpayers claimed the corporate credit in 2005 and 2006.
- Corporate credit was claimed for the first time in 2007. However, there were too few claimants to allow DOR to release more information.
- No taxpayers claimed the individual credit in 2005, 2006, and 2007.
- Credit data for 2008 is not yet available.

Healthy Forest Enterprise Credit

Benefits to the Arizona Economy

- Impact on the state's economy is likely negligible due to the limited use of the credit.
- Certified businesses have indicated that the incentives program was an important factor in the decision to locate, expand, or remain in the state.

Healthy Forest Enterprise Credit

Potential Performance Measures

- Quantity of qualifying forest products harvested, processed, or transported for commercial use.
- Total statewide number of new jobs created as a result of the program.
- Number of states where a comparable credit is offered.