

# Arizona Commerce Authority Military Reuse Zone Program

## Guidelines<sup>1</sup>

The Military Reuse Zone Program (MRZ) was established by the state legislature in 1992 to lessen the impact of military base closures. It includes targeted economic incentives for airport authorities, aviation or aerospace companies and insurers that either: creating new jobs, make capital investments or are located within an MRZ. In 1996, Williams Gateway Airport in Mesa became the first Military Reuse Zone; in 2002, the former U.S. Naval Air Facility in Goodyear, now known as the Phoenix/Goodyear Airport, was designated as a Military Reuse Zone.

During the 2000 legislative session, the statute was changed to allow the governor to extend a MRZ for a five-year period. Further extensions may be made by joint resolution of the legislature and the governor. In 2001 a requirement was added to be designated as a MRZ, a military base must have a runway of at least 8,000. Legislation was passed in 2002 adding further restrictions to the program. Key provisions are; prohibiting companies from taking MRZ tax credits on the same employee for whom tax credits were taken in the Quality Jobs or Defense Contractor program. The statute also prohibits the reclassification of property under both the Quality Jobs and MRZ program. In addition, insurers were added to the list of eligible companies providing premium tax credits as a benefit. Lastly it excluded electric generating plants from the definition of *manufacturer* for the purpose of reclassification or property. During the 2005 legislative session, the statute was changed to allow the governor to extend a MRZ for a ten-year period. Further ten-year extensions may be made by joint resolution of the legislature and the governor. In addition, clarification was made to the information Commerce receives from taxpayers and who is eligible to apply for benefits under the program.

- An eligible business wishing to claim benefits under the MRZ program must apply to the Arizona Commerce Authority (Commerce) prior to receiving the benefits. All the necessary forms can be downloaded from the Commerce website [www.azcommerce.com](http://www.azcommerce.com).
- Commerce is authorized to accept applications and determine eligibility of companies, insurers and airport authorities located in a designated MRZ.
- Commerce will issue a letter of certification for tax credits and property reclassification. The certification is valid for one year and must be renewed annually for up to five consecutive years. Failure to do so will result in revocation of benefits.
- Commerce will issue a letter of eligibility for transaction privilege tax exemption. Eligibility is valid for one qualified construction contract. A new letter of eligibility must be issued to receive additional exemptions. Failure to do so will result in denial of benefits.

## Benefits

Benefits for the MRZ program are available for taxable years beginning on or after January 1, 1996. The MRZ program offers three types of benefits:

- **Transaction Privilege Tax Exemption** - Exemption from transaction privilege tax on contracts for certain types of construction at an MRZ.
- **Tax Credits** - Arizona income/premium tax credits for up to five years for each net new job created, totaling up to \$7,500 per non-dislocated employee and up to \$10,000 per dislocated employee.
- **Property Reclassification** - Both real and personal property can be reclassified from class one (20% assessment ratio) to class six (5% assessment ratio), which may result in property tax savings of up to 75% for a period of five years.

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<sup>1</sup> These guidelines are provided to assist applicants. In case of conflict between what is presented here and the Arizona Revised Statutes, the statutes and the Arizona Administrative Code shall prevail. See A.R.S §§ 41-1531 through 1534; 42-12006(3); 42-15006(1); 42-5075(B)(4); 43-1079; and 43-1167.

## Eligibility

A qualified MRZ **company claiming new job income tax credits or property reclassification** must:

1. Be located in an MRZ;
2. Be primarily (more than 50%) engaged in:
  - providing aviation or aerospace services; **or**
  - manufacturing, assembling or fabricating aviation or aerospace products;
3. Enter into a Memorandum of Understanding with Commerce; **and**,
4. Report annually to Commerce.

A qualified MRZ **company claiming a transaction privilege tax exemption** must:

1. Have the construction work performed in the MRZ

A qualified MRZ **insurer claiming new job premium tax credits** must:

1. Be located in an MRZ;
2. Enter into a Memorandum of Understanding with Commerce;
3. Have a valid Certificate of Authority issued by the Arizona Department of Insurance; **and**
4. Report annually to Commerce.

A qualified MRZ **airport authority claiming a transaction privilege tax exemption** must:

1. Have construction work performed in the MRZ.

## Tax Credits

Income or premium tax credits are available for net increases in employment of either dislocated or non-dislocated employees. These tax credits can be used to off set tax liability incurred by the qualified MRZ company or insurer. In the **application** (and each year in the annual report), the taxpayer must establish employment goals for dislocated and non-dislocated employees for the next tax year. For purposes of setting the *initial* goals, the base tax year is the year prior to the first year the taxpayer shall claim tax credits.

A **dislocated employee** is an employee who had permanent full-time civilian employment at Williams Air Force Base or the U.S. Naval Air Facility prior to their closures and is now employed by a qualified MRZ company or insurer. A **non-dislocated employee** is an employee other than a dislocated employee who is now employed by a qualified MRZ company or insurer.

The following table indicates the amount of tax credits available per job:

Employment Year	Tax Credits Per <b>DISLOCATED</b> Employee	Tax Credits Per <b>NON-DISLOCATED</b> Employee
1st Year of Employment	\$1,000	\$500
2nd Year of Employment	\$1,500	\$1,000
3rd Year of Employment	\$2,000	\$1,500
4th Year of Employment	\$2,500	\$2,000
5th Year of Employment	\$3,000	\$2,500
<b>Maximum Total</b>	<b>\$10,000</b>	<b>\$7,500</b>

A qualified MRZ company or insurer that seeks job tax credits must submit a complete application to Commerce. Commerce will issue a letter of certification within 60 days of receipt of the application, notifying the company or insurer of its eligibility. Upon receipt of the letter, the company or insurer is eligible to request MRZ tax credits on its Arizona tax returns.

## Calculation of Credits

For specific instructions on determining the number of eligible employees or how to calculate the credits, see Arizona Department of Revenue **Form 306** at <http://www.azdor.gov/Forms.aspx>. A new Form 306 is issued for each tax year. Or see Arizona Department of Insurance **Form MZone** at <http://www.id.state.az.us/taxunit/index.html>. A new Form MZone is issued for each tax year.

## Limitations

A taxpayer who claims a defense contracting credit or a quality jobs credit may not claim the Military Reuse Zone credit with respect to the same employee. (A.R.S. §§ 43-1079(F) and 43-1167(F); (A.R.S. §§43-1074(F) and 43-1161(F))

An eligible company or insurer that relocates from elsewhere in Arizona to an MRZ may claim credits only on employment positions added after the relocation to the zone, unless the business or insurer maintains the original number of employees outside the zone. (A.R.S. §§ 43-1079(E) and 43-1167(E))

Co-owners of a business (including partners in a partnership, and shareholders of an S corporation) may each claim only the pro rata share of the tax credits allowed based on ownership interest. The total tax credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business. (A.R.S. §§ 43-1079(D) and 43-1167(D))

If a qualified company or insurer that is located in an MRZ has allowable tax credits that exceed its tax liability for that year, the unused balance can be carried forward for up to five years. The unused tax credits may be claimed any time during that period if the business remains in the MRZ.

## Property Tax Reclassification

Taxable property in an MRZ that is devoted to providing aviation or aerospace services or for manufacturing, assembling or fabricating aviation or aerospace products may be eligible for property tax reclassification by the county assessor. The reclassification is from class one (20% assessment ratio) to class six (5% assessment ratio). This reduction applies to both primary and secondary taxes for not more than five tax years (per A.R.S. §43-12006). However, any new addition or improvement to the property already reclassified qualifies for a separate five-year term of reclassification. As long as the business retains its MRZ eligibility, it may initiate additional five-year property reclassification(s) each year.

The qualified MRZ company must submit an application form, receive a letter of certification and enter into a memorandum of understanding with Commerce. After the business has received its letter of certification from Commerce, it must request, in writing, reclassification from the county assessor in which the company is located no later than December 10<sup>th</sup> of each year for the next valuation year. Separate offices handle real property and personal property, so both offices must be contacted.

## Transaction Privilege Tax Exemption

A prime contractor who has entered into a contract with a qualified MRZ company or airport authority for the construction, alteration, repair, addition, subtraction, improvement, movement, wrecking or demolition of any building, highway, road, railroad, excavation or other structure, project, development or improvement located in an MRZ may qualify for an exemption from the transaction privilege tax on specific contracts.

The qualified business or airport authority must submit an application form and receive a letter of eligibility from Commerce. Prior to starting work under the contract, the prime contractor must contact the Arizona Department of Revenue, Transaction Privilege Tax Audit Manager at 602-716-6545 to apply for a letter of qualification that allows the tax exemption.

## **Annual Reporting, Revocation of Benefits, Appeals**

1. An *Annual Report* must be filed with Commerce within 30 days of filing a state tax return for the preceding taxable year. The report should verify the amount of tax credits claimed, used and carried forward, the amount of transaction privilege tax exempted and the amount of property tax reduction, as applicable.
2. If at any time the business fails to meet the statutory requirements of a qualified MRZ business, Commerce pursuant to the memorandum of understanding, shall stop, readjust or recapture all or part of the tax incentives provided to the MRZ business.
3. Commerce will notify the Arizona Department of Revenue and/or the Arizona Department of Insurance of the conditions of noncompliance. The Arizona Department of Revenue and/or the Arizona Department of Insurance shall require the taxpayer to file appropriately amended tax returns reflecting the recapture of the tax incentives. The Arizona Department of Revenue and Commerce will notify the appropriate county assessor of any revocation and any reclassified property shall revert to class 1.
4. If Commerce denies eligibility of a business, may appeal the decision in accordance with A.R.S. Title 41 Chapter 6 Article 10.

For more information, contact:

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