

# Qualified Facility Tax Credit Program

- Calendar Year 2014 Annual Report

Prepared by the:



## Table of Contents

Program Overview.....	3
Reporting Requirements.....	4
Calendar Year 2014 Program Activity.....	4
Comparison of Program Tax Credits with Facility Investments.....	5
Industry Growth Data.....	6

## Program Overview

The Qualified Facility Tax Credit Program (the “Program”) was established to promote the location and expansion of manufacturing facilities, including manufacturing-related research and development and headquarters facilities.

The goals of the Program are to encourage business investments that produce high quality employment opportunities for citizens of Arizona and that enhance Arizona’s position as a center for manufacturing, manufacturing research and development and manufacturer headquarters. The Program seeks to achieve these goals by providing refundable income tax credits to businesses expanding or locating qualified facilities in Arizona.

In combination with the Renewable Energy Tax Incentive Program (A.R.S. § 41-1511), the Arizona Commerce Authority (“Commerce”) is authorized to pre-approve refundable income tax credits of up to \$70 million each calendar year between 2013 and 2019. Preapprovals in respect to any taxpayer in any calendar year are limited to \$30 million.

Refundable income tax credits under the Program equal the lesser of:

- 10% of the qualified investment made at the facility, or
- \$20,000 per qualified job created at the facility

A business is eligible for Program tax credits if it:

- 1) Makes a qualifying capital investment, on or after July 1, 2012, to establish or expand a facility that devotes at least 80% of both the property and payroll at the facility to one or more of the following:
  - a. Qualified manufacturing if at least 65% of the manufactured products are sold outside of Arizona,
  - b. Qualifying research and development if conducted by a manufacturing business that derives at least 65% of its revenues from sales outside of Arizona, or
  - c. Qualified headquarters activities for a manufacturing business that derives at least 65% of its revenues from sales outside of Arizona, *and*
- 2) Creates net new employment positions at the facility at least 51% of which are paid a wage equal to or greater than 125% of the Arizona median wage. The net new employment positions must be:
  - a. Full-time and permanent (1,750 hours per year),
  - b. Filled for at least 90 days by an employee who has not worked for the taxpayer within 12 months before the date of hire (other than an employee relocating to Arizona from another state),
  - c. Primarily performed at the facility, and must also
  - d. Offer health insurance at least 80% of the cost of which is paid by the employer.

If a business satisfies the Program’s eligibility requirements, Commerce will issue a “pre-approval” to and reserve tax credits for the applicant-business. After the qualified facility “begins operations,” the applicant-business must enter into a “written managed review” agreement with Commerce that addresses confirmation by a third party CPA of the extent of the business’s investment and job creation. Following the managed review, the applicant-business can then apply to Commerce for post-approval. If the applicant-business receives “post-approval,” the applicant-business may claim Program tax credits with the Arizona Department of Revenue in five equal annual installments.

## Reporting Requirements

Pursuant to A.R.S. § 41-1512(U) and (V), Commerce is required to prepare and publish an annual report, not later than April 30 of each year, providing the following Program information:

1. The name of each business receiving pre-approval and the amount of income tax credits pre-approved for each business’s qualifying investment,
2. The amount of income tax credits post-approved with respect to each qualifying investment,
3. A percentage comparison of (i) the annual amount of monies credited by Arizona to qualified facilities with (ii) the estimated amount of monies spent in Arizona in the form of qualifying investments, and
4. Data on growth in Arizona of qualified facilities and related employment and wages.

## Calendar Year 2014 Program Activity

I) Pre-Approvals.

During calendar year 2014, Commerce issued pre-approvals to four businesses encompassing five qualifying investments. The names of the businesses and the amount of Program income tax credits pre-approved for each qualifying investment are reflected in the chart below.

<b>Calendar Year 2014 Pre-Approvals</b>	
<b>Business Name</b>	<b>Pre-Approved Tax Credit Amount</b>
Niagara Bottling, LLC	\$580,000
Cookson Company, Inc.	\$780,000
CAID Industries, Inc.	\$633,929

Intel Corporation (Facility #1)	\$10,860,000
Intel Corporation (Facility #2)	\$6,680,000
<b>Total</b>	<b>\$19,533,929</b>

II) Post-Approvals.

During calendar year 2014, no post-approvals of Program income tax credits were issued by Commerce.

### Comparison of Program Tax Credits with Facility Investments

Based on data provided in the five applications that received pre-approved, pre-approved tax credits in calendar year 2014 represented approximately 3% of the projected qualifying investment in new and expanding facilities (\$19,533,929 in pre-approved credits in relation to \$743,523,587 of projected qualifying investment).

The comparison above was based on estimates of qualifying investment furnished by the applicant-businesses at the time of pre-approval. A comparison based on the *actual* dollar amount of tax credits claimed is unavailable until post-approvals are obtained and tax returns are filed following the commencement of facility operations.

### Industry Growth Data

Manufacturing represents a vital aspect of the Arizona economy. According to the latest available annual data from the U.S. Bureau of Labor Statistics,<sup>1</sup> there were approximately 155,000 jobs in more than 4,500 manufacturing establishments in Arizona in 2013. Further, each manufacturing job in Arizona was estimated to support an additional 1.28 jobs, with the result that there were 198,400 *additional* jobs in Arizona in 2013 supported by manufacturing.<sup>2</sup> The average annual wage for manufacturing positions in Arizona in 2013 was \$69,054, an amount equal to approximately 200% of the average wage of all employment positions in Arizona.

<sup>1</sup> Quarterly Census of Employment and Wages annual averages.

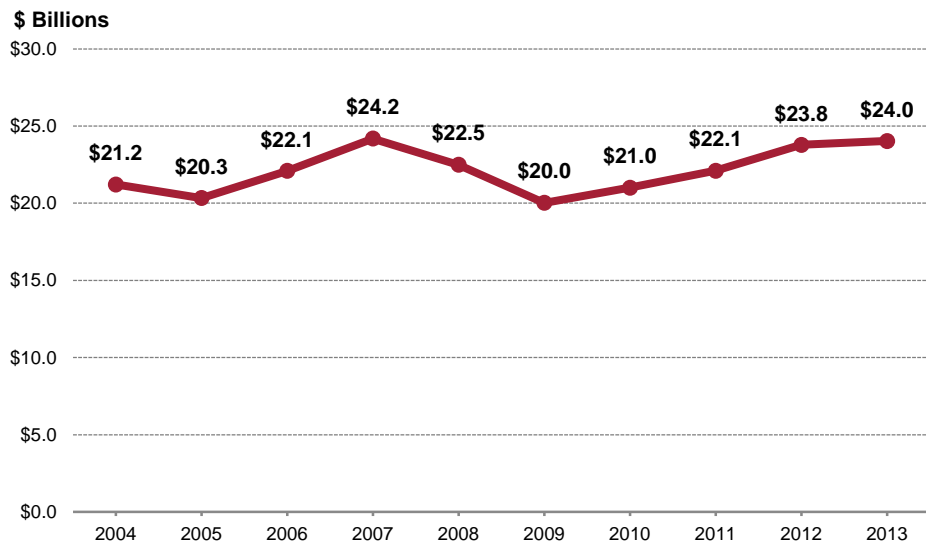
<sup>2</sup> Multiplier obtained from Elliott D. Pollack & Company

Manufacturing helps drive Arizona’s economy. Manufacturers in 2013 exported some \$16.8 billion in manufactured goods, accounting for 79% of Arizona’s exports.<sup>3</sup> Total output from manufacturing in Arizona was \$24 billion in 2013, representing approximately 9% of total State output.

The largest sectors for manufactured goods in 2013, based on employment, were aerospace products and parts manufacturing, semiconductor and other electronic component manufacturing and navigational, measuring, electromedical, and control instruments manufacturing.

---

### Arizona Manufacturing Output (billions of current USD, 2004-2013)



Sources:

Bureau of Economic Analysis

Arizona Commerce Authority

---

ARIZONA COMMERCE AUTHORITY  
April 30, 2015

---

<sup>3</sup> Global Trade Atlas, accessed March 26, 2015.