



ARIZONA STATE SENATE
Fifty-Fifth Legislature, First Regular Session

AMENDED

FACT SHEET FOR S.B. 1177

forest products; processing; tax credit

Purpose

Establishes the Healthy Forest Production Tax Credit (Tax Credit), allowed against individual and corporate income tax liability beginning in taxable year (TY) 2022, and outlines requirements and procedures for the Tax Credit.

Background

Individual income tax is levied on Arizona residents' taxable income and uses a graduated rate structure, based on the taxpayer's income level. Corporate income tax is levied on corporations, based on the corporation's property, payroll and sales within Arizona. Statute authorizes certain tax credits, which provide a reduction of a taxpayer's individual or corporate income tax liability. A claimed tax credit reduces the taxpayer's amount of income that is taxed ([JLBC Tax Handbook, 2020](#)).

The Healthy Forest Enterprise Incentives Program is statutorily established and administered by the Arizona Commerce Authority (ACA) to encourage local governments to provide incentives for the promotion of forest health. Statute outlines requirements for a business to receive incentives for enhancing or sustaining forest health, sustaining or recovering watershed or improving public safety through the harvesting or processing of *qualifying forest products*.

For the purposes of the Healthy Forest Enterprise Incentives Program, *qualifying forest products* are dead standing and fallen timber and forest thinnings associated with the harvest of small diameter timber, slash, wood chips, peelings, brush and other woody vegetation, removed from federal, state and other public forest land and from private forest land ([A.R.S. § 41-1516](#)).

According to a Joint Legislative Budget Committee fiscal note, S.B. 1177 has an anticipated fiscal impact of \$395,800 to the state General Fund based on current usage ([JLBC Fiscal Note](#)).

Provisions

Tax Credit

1. Allows a Tax Credit against individual and corporate income taxes, beginning in TY 2022, for processing qualifying forest products if the:
 - a) taxpayer has a current Healthy Forest Enterprise Incentive certification and memorandum of understanding with the ACA;
 - b) taxpayer processes *qualifying forest products* from a *qualifying project* in calendar years (CYs) 2022 through 2031; and
 - c) facility that processes the *qualifying forest products* is located in Arizona.

2. Bases the Tax Credit on the number of tons of qualifying forest products that a taxpayer processes during a CY and requires a taxpayer who files individual or corporate income taxes on a fiscal-year-basis to claim the Tax Credit on the return for the TY in which the CY ends.
3. Specifies that the taxpayer is eligible for the Tax Credit in the CY in which the qualifying project processes qualifying forest products.
4. Allows a taxpayer to carry forward any amount of Tax Credit in excess of the taxpayer's income taxes for up to five consecutive TYs' income tax liability.
5. Sets the amount of the Tax Credit per CY, subject to maximum credit limits, at:
 - a) \$10,000 for the first 20,000 tons of qualifying forest products the taxpayer processes; and
 - b) \$5,000 for every 10,000 tons thereafter.
6. Limits the amount of the Tax Credit for a CY at \$500,000 per taxpayer who processes qualifying forest products and prohibits the Arizona Department of Revenue (ADOR) from authorizing an excess of \$2,000,000 for any CY.
7. Allows co-owners of a facility that processes qualifying forest products, including partners in a partnership and shareholders of an S corporation, to claim the pro rata share based on ownership interest and caps the total allowed to co-owners at the amount allowed for a sole owner.

Application Process and Tax Credit Certification

8. Requires, in order to be eligible for the Tax Credit, a taxpayer to apply to ADOR on a standard ADOR-prescribed form for certification.
9. Directs ADOR to accept applications from January 2 through January 31 of the year following the CY for which the Tax Credit is requested.
10. Requires the Tax Credit application to include:
 - a) the taxpayer's name and address;
 - b) the taxpayer's social security number or federal employer identification number;
 - c) the location of the taxpayer's facility that processes qualifying forest products for which the Tax Credit is claimed;
 - d) the amount of the Tax Credit that is claimed;
 - e) the date the taxpayer began processing commercially marketable amounts of qualifying forest products; and
 - f) any additional information required by ADOR.
11. Directs ADOR to review each Tax Credit application and certify the authorized Tax Credit amount to the taxpayer.
12. Distributes Tax Credits on a first-come, first-served basis.
13. Directs ADOR to add the name of a first-time qualifying applicant to a Tax Credit authorization list in the order in which qualified applications are first received and requires the taxpayer's position on the Tax Credit authorization list to be determined in the first year of application.

14. Requires a taxpayer's determined position on the Tax Credit authorization list to remain unchanged for the remainder of the Tax Credit eligibility timeframe or until a year in which the taxpayer fails to submit a timely application or otherwise is in noncompliance with application requirements.
15. Allows a taxpayer who is removed from the Tax Credit authorization list to establish a new position in a subsequent year by filing a timely qualified application.
16. Prohibits ADOR from authorizing any additional tax credits in excess of the \$2,000,000 limit, even if certified amounts were unclaimed or a taxpayer fails to meet claim requirements.
17. Requires ADOR to grant only the remaining Tax Credit amount, if granting the full amount on the authorized application would cause the aggregate to exceed the \$2,000,000 limit, and requires ADOR to deny subsequent applications received for that CY.

Miscellaneous

18. Requires ADOR to adopt rules and to publish and prescribe necessary forms and procedures to effectuate the Tax Credit.
19. Requires the Joint Legislative Income Tax Credit Review Committee to review the Tax Credit in CYs ending in one and six.
20. Defines *processed* or *processing* as any change in the physical structure of qualifying forest products removed from a qualifying project into a marketable commercial product or component of a product that has commercial value to a consumer or purchaser and that is ready to be used with or without further altering its form.
21. Defines *qualifying forest products* as qualifying forest products that satisfy the statutory definition for the Healthy Forest Incentives Program that are sourced within Arizona.
22. Defines *qualifying project* as a project that satisfies the statutory definition for the Healthy Forest Incentives Program.
23. Contains a purpose statement.
24. Becomes effective on the general effective date.

Amendments Adopted by Committee

- Changes the CY from 2030 to 2031 relating to the definition of *qualified project*.

Senate Action

FIN	1/21/21	W/D	
APPROP	2/2/21	DPA	9-0-1

Prepared by Senate Research

February 3, 2021

LMM/kja