MILITARY REUSE ZONE PROGRAM

(ESTABLISHED UNDER A.R.S §41-1531 et seq.)

SUMMARY

In 1992, the Arizona legislature established the Military Reuse Zone Program to lessen the impact of military base closures. The program achieves this goal by providing tax incentives to aviation or aerospace *(A&A)* companies, insurers and airport authorities located within a Military Reuse Zone *(MRZ)*.

There are two Military Reuse Zones designated in Arizona:

Phoenix-Mesa Gateway Airport. In 1996, the former Williams Air Force Base was designated an MRZ. Included in the zone are runways and buildings used by the Air Force and more than 1,000 undeveloped acres. The current zone designation expires in October 2026.

Phoenix/Goodyear Airport. In 2002, the former U. S. Naval Air Facility in Goodyear was designated an MRZ for five years. Included in the zone are runways and infrastructure used by the Air Force and more than 800 acres. The current zone designation expires in December 2027.

The Arizona Commerce Authority *(ACA)* accepts applications year round and determines eligibility for program benefits. Only businesses and projects located in an MRZ are eligible for incentives.

A&A companies located within an MRZ may receive:

- TPT exemption on a construction contract resulting in the provision of A&A services or in manufacturing, assembling or fabricating A&A products.
- New job income tax credits if employees are primarily *(more than 50 percent)* engaged in providing aviation or aerospace services or in manufacturing, assembling or fabricating A&A products.
- Property tax reclassification if real or personal property is devoted to providing A&A services or in manufacturing, assembling or fabricating A&A products.

Insurers located within an MRZ may receive:

- New job premium tax credits if a valid Certificate of Authority has been issued by the Arizona Department of Insurance.

Airport Authorities may receive a TPT exemption:

- On a construction contract resulting in the provision of aviation or aerospace services or in manufacturing, assembling or fabricating A&A products if work under the contract is completed at an MRZ.

The following is a brief summary of the tax incentives provided by the MRZ program:

TRANSACTION PRIVILEGE TAX (TPT) EXEMPTION

A&A companies and Airport Authorities are offered an exemption from the TPT on construction contracts performed at an MRZ. The exemption applies only to state and county taxes; cities impose their own taxes. A prime contractor must apply for a letter of qualification from the Arizona Department of Revenue prior to work beginning on the contract to receive the exemption. In addition, the A&A company or airport authority must submit a completion report to the ACA to maintain eligibility.

NEW JOB INCOME AND PREMIUM TAX CREDITS

A&A companies or insurers must show a net increase in either dislocated or non-dislocated employees. To calculate the net increase, compare the average number of employees in the current year with the average number of employees in the previous year. For a dislocated employee, the credits may total $10,000 over fi e years; for a non-dislocated employee, $7,500 over five years. If the tax credits exceed the income or premium liability, any unused amount may be carried forward for up to five taxable years, provided the business remains in the MRZ. Income/ Premium tax credits may be claimed in every year an increase is shown not to exceed five consecutive years, as long as the A&A company or insurer maintains its certification and submits an annual report to the ACA. A company that claims Quality Jobs, Qualified Facilities, Renewable Energy Tax Incentive or Healthy Forest Enterprise Incentives Program may not claim credit with respect to the same employee under the MRZ program.

PROPERTY TAX RECLASSIFICATION

A&A companies are eligible for an assessment ratio of five percent on all personal and real property located in the MRZ, for both primary and secondary tax purposes. The reclassification runs for five years as long as the A&A company remains in the MRZ, maintains its certification, submits an annual report to the ACA and annually requests the County Assessor to reclassify the property. At the end of the reclassification period, the property reverts to the standard assessment ratio. Any addition or improvement to property qualifies separately for reclassification under the program for not more than five tax years.