

2008 Resident Personal Income Tax Return

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Who Must Use Form 140?

You (and your spouse if married filing a joint return) may file Form 140 only if you are full year residents of Arizona.

You must use Form 140 rather than Form 140A or Form 140EZ to file for 2008 if any of the following apply to you.

- Your Arizona taxable income is \$50,000 or more, regardless of filing status.
- You are making adjustments to income.
- You itemize deductions.
- You claim tax credits other than the family income tax credit, the credit for increased excise taxes, the property tax credit, or the Clean Elections Fund tax credit.
- You are claiming estimated payments.

Do You Have to File?

Arizona Filing Requirements		
These rules apply to all Arizona taxpayers.		
You must file if you are:	and your Arizona adjusted gross income is at least:	or your gross income is at least:
● Single	\$ 5,500	\$15,000
● Married filing jointly	\$11,000	\$15,000
● Married filing separately	\$ 5,500	\$15,000
● Head of household	\$ 5,500	\$15,000

If you are an Arizona resident, you must report income from **all** sources. This includes out-of-state income.

To see if you have to file, figure your gross income the same as you would figure your gross income for federal income tax purposes. Then, you should exclude income Arizona law does not tax.

Income Arizona law does not tax includes:

- Interest from U.S. Government obligations
- Social security retirement benefits received under Title II of the Social Security Act
- Benefits received under the Railroad Retirement Act
- Active duty military pay
- Pay received for active service as a reservist or a National Guard member

You can find your Arizona adjusted gross income on line 16 of Arizona Form 140.

NOTE: Even if you do not have to file, you must still file a return to get a refund of any Arizona income tax withheld.

Do You Have to File if You Are an American Indian?

You must file if you meet the Arizona filing requirements unless **all** the following apply to you.

- You are an enrolled member of an Indian tribe.
- You live on the reservation established for that tribe.
- You earned **all** of your income on that reservation.

To find out more, see Arizona Department of Revenue Income Tax Ruling *ITR 96-4*.

Do You Have to File if You Are a Non-Indian or Non-Enrolled Indian Married to an American Indian?

You must file if you meet the Arizona filing requirements. For details on how to figure what income to report, see Arizona Department of Revenue Income Tax Ruling *ITR 96-4*.

Do You Have to File if You Are in the Military?

You must file if you meet the Arizona filing requirements unless **all** the following apply to you.

- You are an active duty member of the United States armed forces.
- Your only income for the taxable year is compensation received for active duty military service.
- There was no Arizona tax withheld from your active duty military pay.

Did You Know?

Tax software does all the hard work for you! The software:

- Calculates Tax
- Does the Math
- Selects Forms and Schedules
- Makes Complex Returns Simple
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If Arizona tax was withheld from your active duty military pay, you must file an Arizona income tax return to claim any refund you may be due from that withholding.

You must also file an Arizona income tax return if you have any other income besides compensation received for active duty military service.

If you are an Arizona resident and you have to file an Arizona return, you should file using Form 140. If you were an Arizona resident when you entered the service, you remain an Arizona resident, no matter where stationed, until you establish a new domicile. As an Arizona resident, you must report all of your income, no matter where stationed. You must include your military pay, but using Form 140, you may subtract all compensation received for active duty military service, to the extent such income is included in your federal adjusted gross income.

If you are not an Arizona resident, but stationed in Arizona, the following applies to you.

- You are not subject to Arizona income tax on your military pay.
- You must report any other income you earn in Arizona. Use Form 140NR, *Nonresident Personal Income Tax Return*, to report this income.

To find out more, see Arizona Department of Revenue brochure, Pub 704, *Taxpayers in the Military*.

If You Included Your Child's Unearned Income on Your Federal Return, Does Your Child Have to File an Arizona Return?

In this case, the child should not file an Arizona return. The parent must include that same income in his or her Arizona taxable income.

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Residency Status

If you are not sure if you are an Arizona resident for state income tax purposes, you should get Arizona Department of Revenue Income Tax Procedure *ITP 92-1*.

Residents

You are a resident of Arizona if your domicile is in Arizona. Domicile is the place where you have your permanent home. It is where you intend to return if you are living or working temporarily in another state or country. If you leave Arizona for a temporary period, you are still an Arizona resident while gone. A resident is subject to tax on all income no matter where the resident earns the income.

Part-Year Residents

If you are a part-year resident, you must file Form 140PY, *Part-Year Resident Personal Income Tax Return*.

You are a part-year resident if you did **either** of the following during 2008.

- You moved into Arizona with the intent of becoming a resident.
- You moved out of Arizona with the intent of giving up your Arizona residency.

Nonresidents


If you are a nonresident, you must file Form 140NR, *Nonresident Personal Income Tax Return*.

What if a Taxpayer Died?

If a taxpayer died before filing a return for 2008, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund.

The person who files the return should use the form the taxpayer would have used. **If the department mailed the taxpayer a booklet, do not use the label.** The person who files the return should print the word "deceased" after the decedent's name in the address section of the form. Also enter the date of death after the decedent's name.

If your spouse died in 2008 and you did not remarry in 2008, or if your spouse died in 2009 before filing a return for 2008, you may file a joint return. If your spouse died in 2008, the joint return should show your spouse's 2008 income before death, and your income for all of 2008. If your spouse died in 2009, before filing the 2008 return, the joint return should show all of your income and all of your spouse's income for 2008. Print "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign the return.

 **e-File** the return to receive the refund in as little as 5 days with direct deposit option.

Are Any Other Returns Required?

You may also have to file a fiduciary income tax return. For details about filing a fiduciary income tax return, call the department at (602) 255-3381.

Claiming a Refund for a Deceased Taxpayer

If you are claiming a refund, you **must** complete Form 131, *Claim for Refund on Behalf of Deceased Taxpayer*. Attach this form to the **front** of the return.

What Are The Filing Dates And Penalties?

When Should You File?

Your 2008 calendar year tax return is due no later than midnight, April 15, 2009. File your return as soon as you can after January 1, but no later than April 15, 2009.

If you are a fiscal year filer, your return is due on the 15th day of the fourth month following the close of your fiscal year.

What if You Cannot File on Time?

You may request an extension if you know you will not be able to file on time.

NOTE: An extension does not extend the time to pay your income tax. For details, see the instructions for Arizona Form 204.

To get a filing extension, you can either:

1. Apply for a state extension (Form 204). To apply for a state extension, file Arizona Form 204 by April 15. See Form 204 for details. You do not have to attach a copy of the extension to your return when you file, but make sure that you check box **82F** on page 1 of the return. If you must make a payment, use Arizona Form 204, or visit www.aztaxes.gov to make an electronic payment.
2. Use your federal extension (federal Form 4868). File your Arizona return by the same due date. You do not have to attach a copy of your federal extension to your return, but make sure that you check box **82F** on page 1 of the return.

When Should You File if You Are a Nonresident Alien?

You must file your Arizona tax return by April 15, even though your federal income tax return is due on June 15. If you want to file your Arizona return after April 15, you must file for an extension by April 15. If you have a federal 6-month extension until December 15, 2009, Arizona will recognize the federal extension, but only for a period of 6 months from the due date of your Arizona return. So, if you are filing your Arizona return under a federal extension, you must file your Arizona return by October 15, 2009, even though your federal return will not be due until December 15, 2009. See Form 204 for extension filing details.

If you are a fiscal year filer, your return is due on the 15th day of the fourth month following the close of your fiscal year.

What if You File or Pay Late?

If you file or pay late, the department will charge you interest and penalties on the amount you owe. If the U.S. Post Office postmarks your 2008 calendar year return by April 15, 2009, your return will not be late. You may also use certain private delivery services designated by the IRS to meet the "timely mailing as timely filed" rule.

Late Filing Penalty

If you file late, the department will charge you a late filing penalty. This penalty is 4½ percent of the tax required to be shown on the return for each month or fraction of a month the return is late. This penalty cannot exceed 25 percent of the tax found to be remaining due.

Late Payment Penalty

If you pay your tax late, the department will charge you a late payment penalty. This penalty is ½ of 1 percent (.005) of the amount shown as tax for each month or fraction of a month for which the failure continues. The department will charge this penalty even if you have an extension. The department charges this penalty from the original due date of the return until the date you pay the tax. This penalty cannot exceed a total of 10 percent.

Extension Underpayment Penalty

If you file your return under an extension, you must pay 90 percent of the tax shown on your return by the return's original due date. If you do not pay this amount, the department will charge you a penalty. This penalty is ½ of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. The department charges this penalty from the original due date of the return until the date you pay the tax. This penalty cannot exceed 25 percent of the unpaid tax.

NOTE: If you are subject to two or more of the above penalties, the total cannot exceed 25 percent.

Interest

The department charges interest on any tax not paid by the due date. The department will charge you interest even if you have an extension. If you have an extension, the department will charge you interest from the original due date until the date you pay the tax. The Arizona interest rate is the same as the federal rate.

When Should You Amend a Return?

If you need to make changes to your return once you have filed, you should file Form 140X, *Individual Amended Return*. You should file your amended return after your original return has processed. **Do not** file a new return for the year you are correcting. Generally, you have four years to amend a return to claim a refund.

If you amend your federal return for any year, you must also file an Arizona Form 140X for that year. You must file the Form 140X within 90 days of the final determination of the IRS.

If the IRS makes a change to your federal taxable income for any year, you must report that change to Arizona. You may use one of the following two options to report this change.

Option 1

You may file a Form 140X for that year. If you choose this option, you must amend your Arizona return within 90 days of the final determination of the IRS. Attach a complete copy of the federal notice to your Form 140X.

Option 2

You may file a copy of the final federal notice with the department within 90 days of the final determination of the IRS. If you choose this option, you must include a statement in which you must:

1. Request that the department recompute your tax; and
2. Indicate if you agree or disagree with the federal notice.

If you do not agree with the federal notice, you must also include any documents that show why you do not agree.

If you choose option 2, mail the federal notice and any other documents to:

Arizona Department of Revenue
1600 W. Monroe, Attention: Individual Income Audit
Phoenix, AZ 85007-2650

Do You Need To Make Estimated Payments in 2009?

You must make Arizona estimated income tax payments during 2009 if:

Your filing status is:	AND Your Arizona gross income for 2008 was greater than:	AND Your Arizona gross income for 2009 is greater than:
Married Filing Joint	\$150,000	\$150,000
Single	\$75,000	\$75,000
Head of Household	\$75,000	\$75,000
Married Filing Separately	\$75,000	\$75,000

If you met the income threshold for 2008, you must make estimated payments during 2009 unless you are sure you will not meet the threshold for 2009.

As a full year resident, your Arizona gross income is your

federal adjusted gross income. This amount is on line 12 of the 2008 Form 140.

See the worksheet for Form 140ES to figure how much your payments should be.

What If You Make Your Estimated Payments Late?

The department will charge you a penalty if you fail to make any required payments. The department will charge you a penalty if you make any of your required payments late.

For details, see Arizona Form 221.

Can You Make Estimated Payments If You Do Not Have To?


If you do not have to make Arizona estimated income tax payments, you may still choose to make them.

For details, see Arizona Form 140ES.

Line-by-Line Instructions

Tips for Preparing Your Return:

- Make sure that you write your social security number on your return.
- Complete your return using black ink.
- You **must** round dollar amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down. Do not enter cents.
- When asked to provide your own schedule, attach a separate sheet with your name and SSN at the top. Attach your own schedules to the back of your return.
- You must complete your federal return before you can start your Arizona return.
- Make sure you include your home telephone number. If your daytime number is not the same as your home number, make sure you include a daytime telephone number.
- If filing a fiscal year return, fill in the period covered in the space provided at the top of the form.

 **e-File** checks your return for errors before you file.

DO YOU HAVE A COMPLICATED RETURN ?

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- E-File Software Offers:
- Easy step-by-step instructions
 - Error detection before filing
 - Easy form selection
 - Maximum deductions

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Entering Your Name, Address, and Social Security Number (SSN)

Lines 1, 2, and 3 -

NOTE: Make sure that you write your social security number on the appropriate line.

If your booklet has a peel-off label, use that label if all the information is correct. **If any of the information on the label is incorrect, do not use the label.** Attach the label after you finish your return. If you do not have a peel-off label, print or type your name, address, and SSN in the space provided.

 If you **e-File**, you do not need a label.

If you are filing a joint return, enter your SSNs in the same order as your names. *If your name appears first on the return, make sure your SSN is the first number listed.* If you are a nonresident of the United States or a resident alien who does not have an SSN use the identification number (ITIN) the IRS issued to you.

For a deceased taxpayer, see page 2 of these instructions.

Use your current home address. The department will send your refund to or correspond with you at that address.

NOTE: Make sure your SSN is correct. If you are filing a joint return, also make sure you list your SSNs in the same order every year.

Make sure that every return, statement, or document that you file with the department has your SSN. Make sure that all SSNs are clear and correct. You may be subject to a penalty if you fail to include your SSN. It may take longer to process your return if SSNs are missing, incorrect, or unclear.

Identification Numbers for Paid Preparers

If you pay someone else to prepare your return, that person must also include an identification number where requested.

A paid preparer may use any of the following.

- his or her SSN
- his or her PTIN
- the federal employer identification number for the business

A paid preparer who fails to include the proper numbers may also be subject to a penalty.

Determining Your Filing Status

The filing status that you use on your Arizona return may be different from that used on your federal return.

Use this section to determine your filing status. Check the correct box (4 through 7) on the front of Form 140.

Line 4 Box - Married Filing a Joint Return

You may use this filing status if married as of December 31, 2008. It does not matter whether or not you were living with your spouse. You may elect to file a joint return, even if you and your spouse filed separate federal returns.

You may use this filing status if your spouse died during 2008 and you did not remarry in 2008. See page 2 of these instructions for details.

The Arizona Form 140 is for full year residents only. You may not file a joint Arizona income tax return on Form 140 if any of the following apply.

1. Your spouse is a nonresident alien (citizen of and living in another country).

2. Your spouse is a resident of another state.
3. Your spouse is a part-year Arizona resident.

If filing a joint return with your nonresident spouse, you may file a joint return using Form 140NR. See Form 140NR instructions.

If filing a joint return with your part-year resident spouse, you may file a joint return using Form 140PY. See Form 140PY instructions.

For details on filing a joint return with your part-year resident or nonresident spouse, see Arizona Department of Revenue Income Tax Ruling *ITR 95-2*.

Line 5 Box - Head of Household

You may file as head of household on your Arizona return, only if one of the following applies.

- You qualify to file as head of household on your federal return.
- You qualify to file as a qualifying widow or widower on your federal return.

Line 6 Box - Married Filing Separately

You may use this filing status if married as of December 31, 2008, and you elect to file a separate Arizona return. You may elect to file a separate return, even if you and your spouse filed a joint federal return.

If you are filing a separate return, check the line 6 box and enter your spouse's name in the space provided. Also enter your spouse's SSN in the space provided.

Arizona is a community property state. If you file a separate return, you must figure how much income to report using community property laws. Under these laws, a separate return must reflect one-half of the community income from all sources plus any separate income.

When you file separate returns, you must account for community deductions and credits on the same basis as community income. Both you and your spouse must either itemize or not itemize. If one of you itemizes, you both must itemize. If one of you takes a standard deduction, you both must take a standard deduction. One of you may not claim a standard deduction while the other itemizes.

If you and your spouse support a dependent child from community income, either you or your spouse may claim the dependent. Both of you cannot claim the same dependent on both returns.

For details on how to file a separate Arizona income tax return, see Arizona Department of Revenue Income Tax Rulings *ITR 93-18* and *ITR 93-19*.

NOTE: *If you can treat community income as separate income on your federal return, you may also treat that community income as separate on your Arizona return. See Arizona Department of Revenue Ruling ITR 93-22.*

If you are filing a separate return and your spouse is not a resident of Arizona, other special rules may apply. For more details, see Arizona Department of Revenue Income Tax Ruling, *ITR 93-20*.

Line 7 Box - Single

Use this filing status if you were single on December 31, 2008. You are single if any of the following apply to you.

- You have never been married.
- You are legally separated under a decree of divorce or of separate maintenance.

- You were widowed before January 1, 2008, and you did not remarry in 2008, and you do not qualify to file as a qualifying widow or widower with dependent children on your federal return.

Exemptions

Write the number of exemptions you are claiming in boxes 8, 9, 10, and 11. **Do not put a checkmark.** You may lose the exemption if you put a checkmark in these boxes. You may lose the dependent exemption if you do not complete Part A, lines A1 through A3 on page 2. You may lose the exemption for qualifying parents or ancestors if you do not complete Part A, lines A4 and A5, on page 2.

Line 8 Box - Age 65 and Over

Write "1" in box 8 if you or your spouse were 65 or older in 2008. Write "2" in box 8 if both you and your spouse were 65 or older in 2008.

Line 9 Box - Blind

Write "1" in box 9 if you or your spouse are totally or partially blind. Write "2" in box 9 if both you and your spouse are totally or partially blind.


If you or your spouse were partially blind as of December 31, 2008, you must get a statement certified by your eye doctor or registered optometrist that:

1. You cannot see better than 20/200 in your better eye with glasses or contact lenses or
2. Your field of vision is 20 degrees or less.


If your eye condition is not likely to improve beyond the conditions listed above, you can get a statement certified by your eye doctor or registered optometrist to that effect instead.

You must keep the statement for your records.

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Line 10 Box - Dependents

You must complete Part A, lines A1 through A3b, on page 2 of your return before you can total your dependent exemptions.

You may claim only the following as a dependent.

- A person that qualifies as your dependent on your federal return.

NOTE: *If you do not claim a dependent exemption for a student on your federal return in order to allow the student to claim a federal education credit on the student's federal return, you may still claim the exemption on your Arizona return. For more information, see Arizona Individual Income Tax Ruling ITR 05-02.*

- A person who is age 65 or over (related to you or not) that does not qualify as your dependent on your federal

return, but one of the following applies.

1. In 2008, you paid more than one-fourth of the cost of keeping this person in an Arizona nursing care institution, an Arizona residential care institution, or an Arizona assisted living facility. Your cost must be more than \$800.
 2. In 2008, you paid more than \$800 for either Arizona home health care or other medical costs for the person.
- A stillborn child if the following apply:
 1. The stillbirth occurred during 2008.
 2. You received a certificate of birth resulting in stillbirth from the Arizona Department of Health Services.
 3. The child would have otherwise been a member of your household.

Completing Line(s) A1

NOTE: *If a person who qualifies as your dependent is also a qualifying parent or ancestor of your parent, you may claim that person as a dependent on line A2, or you may claim that person as a qualifying parent or ancestor of your parent on line A5. You may **not** claim that same person on both line A2 and line A5. Do not list the same person on line A1 that you listed on line A4.*

Enter the following on line(s) A1.

1. The dependent's name. If you are claiming an exemption for a stillborn child and the child was not named, enter "stillborn child" in place of a name.
2. The dependent's social security number. If you are claiming an exemption for a stillborn child enter the certificate number from the certificate of birth resulting in stillbirth.
3. The dependent's relationship to you.
4. The number of months the dependent lived in your home during 2008. If you are claiming an exemption for a stillborn child, enter the date of birth resulting in the stillbirth.

You may lose the exemption if you do not furnish this information.

Line A2 - Total Dependents

Enter the total number of persons listed on line(s) A1. Enter the same number on the front of the return in box 10.

Lines A3a and A3b - Persons You Did Not Take as Dependents on Your Federal Return

On line A3a, enter the following.

1. The names of any dependents age 65 or over listed on line(s) A1 that you cannot take as a dependent on your federal return.
2. The name of any stillborn child listed on line(s) A1, if the stillborn child was named. If the stillborn child was not named, enter "stillborn child" on line A3a. Also enter the date of birth resulting in the stillbirth.

On line A3b, enter the name of any student listed on line(s) A1 that you did not claim as an exemption on your federal return in order to allow that student to claim a federal education credit on the student's federal return.

Line 11 Box - Qualifying Parents and Ancestors of Your Parents

A qualifying parent or ancestor of your parent may be any one of the following.

- Your parent or your parent's ancestor. Your parent's ancestor is your grand parent, great grand parent, great great grand parent, etc.
- If married filing a joint return, your spouse's parent or an ancestor of your spouse's parent.

You may claim this exemption if all of the following apply.

1. The parent or ancestor of your parent lived in your principal residence for the entire taxable year.
2. You paid more than one-half of the support and maintenance costs of the parent or ancestor of your parent during the taxable year.
3. The parent or ancestor of your parent was 65 years old or older during 2008.
4. The parent or ancestor of your parent required assistance with activities of daily living, like getting in and out of bed or chairs, walking around, going outdoors, using the toilet, bathing, shaving, brushing teeth, combing hair, dressing, medicating or feeding.

You must complete Part A, lines A4 and A5, on page 2 of your return before you can total your exemptions for qualifying parents and ancestors of your parents.

NOTE: *If a person who is a qualifying parent or ancestor of your parent also qualifies as your dependent, you may claim that person as a dependent on line A2, or you may claim that person as a qualifying parent or ancestor of your parent on line A5. You may **not** claim that same person on both line A2 and line A5. Do not list the same person on line A4 that you listed on line A1.*

Completing Line(s) A4

Enter the following on line(s) A4.

1. The name of the qualifying parent or ancestor of your parent.
2. The social security number of the qualifying parent or ancestor of your parent.
3. The qualifying parent's or ancestor's relationship to you, or your spouse if filing a joint return.
4. The number of months the qualifying parent or ancestor of your parent lived in your home during 2008.

You may lose the exemption if you do not furnish this information.

Line A5 - Total Qualifying Parents or Ancestors of Your Parents

Enter the total number of persons listed on line(s) A4. Enter the same number on the front of the return in box 11.

Additions to Income

Line B6 - Non-Arizona Municipal Interest

Enter the amount of interest income from non-Arizona municipal bonds that you did not include as income on your federal return.

You may exclude any expenses incurred to purchase or carry the obligation. Reduce the interest income by the amount of those expenses that you could not deduct on your federal return.

If you received tax exempt interest from municipal bonds, attach a schedule listing the payors and the amount received from each payor. You may also want to attach supporting documents for amounts received from Arizona municipal bonds that are exempt from Arizona income tax. These may be items such as bank statements, brokerage statements, etc.

Line B7 - Early Withdrawal of Arizona, County, City, or School Retirement System Contributions

If you meet all of the following, you must enter an amount here.

1. You left your job with the State of Arizona or an Arizona county, city, or school district for reasons other than retirement.
2. When you left, you took out the contributions you had made to the retirement system while employed.
3. You deducted these contributions on your Arizona income tax returns that you filed for prior years.
4. You did not include these contributions in your federal adjusted gross income this year.

If you meet all these tests, you must report as income those contributions previously deducted on your prior years' Arizona tax returns.

For details, see Arizona Department of Revenue Income Tax Ruling *ITR 93-7*.

Line B8 - Ordinary Income Portion of Lump Sum Distributions Excluded on Your Federal Return

Use line B8 if you use federal averaging for lump-sum distributions from your pension or profit-sharing plan.

Arizona law does not provide for averaging. Enter the amount of the distribution that you treated as ordinary income on your federal return. If you choose to treat the capital gain portion of the distribution as ordinary income, you must also include that amount.

For details, see Arizona Department of Revenue Income Tax Ruling *ITR 93-5*.

Line B9 - Total Federal Depreciation

Enter the total amount of depreciation deducted on the federal return. If you make an entry here, also see line C23.

Line B10 - Medical Savings Account (MSA) Distributions

For information on Arizona's MSA provisions, see the department's MSA brochure, Pub 542.

You must add amounts received from an MSA here if any of the following apply.

1 - You Withdrew Funds From Your MSA For Other Than Qualified Expenses

You must make an entry here if all of the following apply.

1. You withdrew money from your MSA during 2008.
2. You did not use the amount withdrawn to pay qualified medical expenses.
3. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

2 - Deceased Account Holder Where the Named Beneficiary is Not the Decedent's Surviving Spouse

You must make an entry here if all of the following apply.

1. The account holder died during the year.
2. You are the named beneficiary of the decedent's MSA.
3. You are not the decedent's surviving spouse.
4. You did not have to include the value of the MSA as income on your federal income tax return.

In this case, the MSA ceased to be an MSA. Enter the fair market value of the MSA as of the date of death, less the amount of MSA funds used within one year of the date of death, to pay the decedent's qualified medical expenses. You can reduce the fair market value by only those expenses paid from the MSA. If you pay additional medical expenses for the decedent from the MSA after you file, you may file an amended return to further reduce the fair market value of the MSA.

3 - Decedent's Final Return And No Named MSA Beneficiary

Make an entry here if all of the following apply.

1. The account holder died during the year.
2. There is no named MSA beneficiary.
3. This is the decedent's final return.
4. The value of the MSA did not have to be included on the decedent's final federal income tax return.

In this case, the MSA ceases to be an MSA. Enter the fair market value of the MSA as of the date of death. This rule applies in all cases in which there is no named beneficiary, even if the surviving spouse ultimately obtains the right to the MSA assets.

NOTE: *The following are not withdrawals. Do not enter any of the following:*

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

For more information about the above items, see the department's MSA brochure, Pub 542.

Line B11 - I.R.C. § 179 Expense in Excess of Allowable Amount

Enter the amount of IRC § 179 expense deducted on the federal return that exceeds \$25,000.

Line B12 - Other Additions to Income

Use line B12 if any of the special circumstances below apply.

Attach your own schedule to the back of your return explaining any amounts entered here.

You may either add or subtract items A through D below (line B12 or C29, respectively) depending on your situation.

A. Pension Adjustments

Use this adjustment if **both** of the following apply.

1. Arizona taxed your pension for years before 1979.

2. You reported that pension on your federal return using the percentage exclusion method.

Do not use this adjustment if **either** of the following apply.

1. You reported your pension income as fully taxable on your federal return.
2. You reported your pension income on your federal return under the "three-year-rule".

Pension Adjustment Worksheet - Line B12	
Follow these steps to figure the adjustment. Worksheet (Keep for your records.)	
1. Your contribution to annuity.	1.
2. Pension amount received in prior years.	2.
3. Remainder of cost (line 1 minus line 2 but not less than zero).	3.
4. Pension amount received this year.	4.
5. Subtract line 3 from line 4 (but not less than zero).	5.
6. Enter the pension amount taxable on your federal return.	6.
7. Subtract line 6 from line 5.	7.
If line 7 is more than zero, enter the amount on line 7 as an addition to income. Enter the addition on line B12.	
If line 6 is more than line 5, enter the difference as a subtraction from income. Enter the subtraction on line C29.	

B. Married Persons Filing Separate Returns

If you file a separate Arizona return, you must report the following income on that return.

- one-half of the community income from all sources.
- all of your separate income.

If you and your spouse file a joint federal return but separate Arizona returns, you must make sure that each separate return reflects the correct income. If you begin your Arizona return with only the income that you earned during the year, you will have to adjust this income.

If you file separate federal returns, each of your federal returns should already reflect the correct income. Since your separate Arizona returns will begin with the federal adjusted gross income, you will not have to adjust your income.

If you have to adjust your income, attach a schedule showing how you figured your adjustment.

C. Partnership Income

Use this adjustment if your Arizona Form 165, Schedule K-1, shows a difference between federal and state distributable income.

If the difference reported on your Arizona Form 165, Schedule K-1, is a positive number, enter that difference as an addition. Enter the addition on line B12.

If the difference reported on your Arizona Form 165, Schedule K-1, is a negative number, enter that difference as a subtraction. Enter the subtraction on line C29.

D. Fiduciary Adjustment

A fiduciary uses Form 141AZ, Schedule K-1, to report to you your share of the fiduciary adjustment from the trust or estate.

Line 3 of Form 141AZ, Schedule K-1, shows your share of the fiduciary adjustment from the estate or trust. If the amount reported on line 3 of your Arizona Form 141AZ,

Schedule K-1, is a positive number, enter that amount as an addition. Enter the addition on line B12.

If the amount reported on line 3 of your Arizona Form 141AZ, Schedule K-1, is a negative number, enter that amount as a subtraction. Enter the subtraction on line C29.

E. Net Operating Losses

Arizona does not have specific net operating loss provisions for individual taxpayers. Arizona conforms to the federal net operating loss provisions, including the carryback provisions. Generally, the amount of net operating loss deduction included in your federal adjusted gross income is the amount allowable for Arizona purposes. However, there are instances when the amount allowable for Arizona purposes may be different. You must adjust the amount of net operating loss deduction included in your federal adjusted gross income if the following apply.

1. You have already deducted any amount of the net operating loss included in your federal adjusted gross income for Arizona purposes.
2. You took a separate subtraction for the net operating loss on an amended return filed for a prior tax year under the special net operating loss transition rule.

If the above apply, enter the following on line B12.

1. The amount of net operating loss included in your federal adjusted gross income which you previously deducted for Arizona purposes.
2. The amount of net operating loss included in your federal adjusted gross income for which you took a separate subtraction on an amended return filed for a prior tax year under the special net operating loss transition rule.

For information on deducting a net operating loss carryback, see Arizona Department of Revenue Income Tax Procedure *ITP 99-1*.

F. Items Previously Deducted for Arizona Purposes

Arizona statutes prohibit a taxpayer from deducting items more than once. However, under the operation of former Arizona law (1989 and prior), you could deduct certain items in greater amounts for Arizona purposes than for federal purposes.

Investment interest and passive activity losses were such items. In some cases, you could have deducted such amounts in their entirety on the Arizona return. For federal purposes, the deduction for these items was limited, with the unused portions being carried forward and deducted in future years. Your Arizona return may include these previously deducted items because of the difference between the federal and former Arizona treatment. If your Arizona taxable income includes items previously deducted for Arizona purposes, you must add such amounts to your Arizona gross income.

G. Claim of Right Adjustment for Amounts Repaid in 2008

You must make an entry here if **all** of the following apply.

1. During 2008, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid during 2008 was more than \$3,000.
3. You took a deduction for the amount repaid on your 2008 federal income tax return.

If the above apply, enter the amount deducted on your federal income tax return here.

For more information on the Arizona claim of right provisions,

see Arizona Department of Revenue Individual Income Tax Procedure *ITP 95-1*.

H. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if **all** of the following apply.

1. During a year prior to 2008 you were required to repay amounts held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 2008 Arizona taxable income.
5. The amount of the loss carryover included in your federal income is more than the amount allowed to be taken into account for Arizona purposes.

Enter the amount by which the loss carryover included in your federal adjusted gross income is more than the amount allowed for the taxable year under Arizona law.

I. Addition to S Corporation Income Due to Credits Claimed

Shareholders of an S corporation who claim a credit passed through from an S corporation must make an addition to income for the amount of expenses disallowed by reason of claiming the credit.

An S corporation that passes the following credits through to its shareholders must notify each shareholder of his or her pro rata share of the adjustment. You must enter an amount on this line when claiming any of the following credits.

- Agricultural water conservation system credit
- Environmental technology facility credit
- Pollution control credit
- Recycling equipment credit
- Credit for solar hot water heater plumbing stub outs and electric vehicle recharge outlets
- Credit for employment of TANF recipients
- Credit for agricultural pollution control equipment
- Motion picture credits

J. Solar Hot Water Heating Plumbing Stub Out And Electric Vehicle Recharge Outlet Expenses

If you take a credit for installing solar hot water heating plumbing stub outs or electric vehicle recharge outlets in a dwelling you constructed, you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

K. Wage Expense for Employers of TANF Recipients

If you take a credit for employing TANF recipients, you cannot deduct any wage expense for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

L. Motion Picture Expenses

If you take a motion picture credit on Form 334, you cannot deduct any expenses deducted on your federal return related to the production, the infrastructure project or related to a transferred credit. Enter the amount of any such expenses that were deducted in computing federal adjusted gross income for which you claimed a credit.

M. Agricultural Water Conservation System Credit

If you take this credit (Form 312), you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

N. Adjusted Basis in Property for Which You Have Claimed a Credit For Investment In Qualified Small Businesses

If you claim a credit for an investment in a qualified small business on Arizona Form 338, you must adjust your basis in the investment by the amount of the credit claimed. You must report this difference in basis on the Arizona return that you file for the taxable year in which you sell or otherwise dispose of the investment. If you sold or otherwise disposed of the investment during the 2008 taxable year, on line B12, enter the amount by which the adjusted basis computed under the internal revenue code with respect to that property exceeds the adjusted basis of the property computed under Arizona Revised Statutes section 43-1074.02.

O. Depreciation or Amortization for a Water Conservation System

If you claimed a water conservation system credit on Arizona Form 339, you may not deduct any depreciation or amortization for that system on your Arizona return. Enter the amount of depreciation or amortization claimed on your federal return for the water conservation system for which you have claimed a credit.

P. Nonqualified Withdrawals from 529 College Savings Plans

You must make an addition to income if you received a nonqualified withdrawal from a 529 college savings plan. You must make an addition if the withdrawal was not included in your federal adjusted gross income. The amount that you must add is the amount withdrawn, but no more than the difference between the amount of contributions subtracted in prior years and the amount added in any prior years.

A nonqualified withdrawal is a withdrawal other than any of the following:

1. A qualified withdrawal. A qualified withdrawal is a withdrawal from an account to pay the qualified higher education expenses of the designated beneficiary of the account.
2. A withdrawal made as the result of the death or disability of the designated beneficiary of an account.
3. A withdrawal that is made on the account of a scholarship, or the allowance or payment described in section 135(d)(1)(B) or (C) of the internal revenue code, and that is received by the designated beneficiary, but only to the extent of the amount of this scholarship, allowance or payment.
4. A rollover or change of designated beneficiary.

Q. Other Adjustments

Other special adjustments may be necessary. You may need to make an addition for depreciation or amortization. You may also need to make an addition if you claimed certain tax credits. Call one of the numbers listed on the back cover if any of the following apply.

- You are a qualified defense contractor that elected to amortize under Arizona Revised Statutes section 43-1024.

- You sold or disposed of property that was held for the production of income and your basis was computed under the Arizona Income Tax Act of 1954.
- You claimed the environmental technology facility credit.
- You claimed the pollution control credit.
- You claimed the recycling equipment credit.
- You claimed the credit for agricultural pollution control equipment.
- You elected to amortize the basis of a pollution control device or the cost of a child care facility under Arizona law in effect before 1990. You are still deducting amortization or depreciation for that device or facility on your federal income tax return.

Line B13 - Total Additions

Add lines B6 through B12. Enter the total on line B13 and on the front of your return on line 13.

Subtractions From Income

You may only subtract those items for which statutory authority exists. Without such authority you cannot take a subtraction. If you have any questions concerning subtractions from income, call one of the numbers listed on the back cover.

NOTE: *You may not subtract any amount that is allocable to income excluded from your Arizona taxable income.*

Line C14 - Exemption: Age 65 or Over

Multiply the number in box 8 on the front of your return by \$2,100 and enter the result.

Line C15 - Exemption: Blind

Multiply the number in box 9 on the front of your return by \$1,500 and enter the result.

Line C16 - Exemption: Dependents

Multiply the number in box 10 on the front of your return by \$2,300 and enter the result.

Line C17 - Exemption: Qualifying Parents and Ancestors of Your Parents

Multiply the number in box 11 on the front of your return by \$10,000 and enter the result.

Line C18 - Total

Add lines C14 through C17 and enter the total. If you have no other subtractions from income, skip lines C19 through C30 and enter this total on Form 140, page 1, line 15.

Line C19 - Interest on U.S. Obligations

Enter the amount of interest income from U.S. Government obligations included as income on your federal return. U.S. Government obligations include obligations such as savings bonds and treasury bills. You cannot deduct any interest or other related expenses incurred to purchase or carry the obligations. If such expenses are included in your Arizona gross income, you must reduce the subtraction by such expenses. If you are itemizing deductions on your Arizona return, you must exclude such expenses from the amount deducted.

NOTE: *Do not subtract interest earned on FNMA or GNMA bonds since this interest is taxable by Arizona. For details, see the department's income tax ruling, ITR 06-1.*

Do not subtract any amount received from a qualified pension plan that invests in U.S. Government obligations. Do not subtract any amount received from an IRA that invests in

U.S. Government obligations. These amounts are not interest income. For details, see Arizona Department of Revenue Income Tax Rulings *ITR 96-2* and *ITR 96-3*.

Line C20 - Exclusion for U.S. Government, Arizona State or Local Government Pensions

If you receive pension income from any of the sources listed below, subtract the amount you received or \$2,500, whichever is less. Include only the amount you reported as income on your federal return. If both you and your spouse receive such pension income, each spouse may subtract the amount received or \$2,500, whichever is less.

Public pensions from the following sources qualify for this subtraction.

- The United States Government Service Retirement and Disability Fund
- The United States Foreign Service Retirement and Disability System
- Retired or retainer pay of the uniformed services of the United States
- Any other retirement system or plan established by federal law

NOTE: *This applies only to those retirement plans authorized and enacted into the U.S. Code. This does not apply to a retirement plan that is only regulated by federal law (i.e., plans which must meet certain federal criteria to be qualified plans).*

- The Arizona State Retirement System
- The Arizona State Retirement Plan
- The Corrections Officer Retirement Plan
- The Public Safety Personnel Retirement System
- The Elected Officials' Retirement Plan
- A retirement plan established for employees of a county, city, or town in Arizona
- An optional retirement program established by the Arizona Board of Regents under Arizona Revised Statutes
- An optional retirement program established by an Arizona community college district.

NOTE: *Public retirement pensions from states other than Arizona do not qualify for this subtraction.*

Line C21 - Arizona Lottery Winnings

You may subtract up to \$5,000 of winnings received in 2008 for Arizona lottery prizes.

If you subtract Arizona lottery winnings here, you may have to adjust the amount of gambling losses claimed as an itemized deduction. See instructions for Form 140 Schedule A, *Itemized Deduction Adjustments*.

Line C22 - U.S. Social Security Benefits or Railroad Retirement Benefits

Arizona does not tax social security benefits received under Title II of the Social Security Act. Arizona does not tax railroad retirement benefits received from the Railroad Retirement Board under the Railroad Retirement Act. If you included such social security or railroad retirement benefits as income on your federal return, use line C22 to subtract this income.

NOTE: *Enter only the taxable amount (the amount that was subject to federal tax). Do not include any amount that was not subject to federal income tax.*

See Arizona Department of Revenue Income Tax Ruling *ITR 96-1* for more information about railroad retirement benefits.

Line C23 - Recalculated Arizona Depreciation

Enter the total amount of depreciation allowable pursuant to IRC § 167(a) for the taxable year calculated as if you had elected not to claim bonus depreciation for eligible properties for federal purposes.

Line C24 - Certain Wages of American Indians

Enrolled members of American Indian tribes may subtract wages earned while living and working on their tribe's reservation. The federal government must recognize these tribes.

For more information, see Arizona Department of Revenue Income Tax Ruling *ITR 96-4*.

Line C25 - Income Tax Refund From Other States

You may subtract income tax refunds received from other states if both of the following apply.

1. You reported the refund as income on your federal return.
2. You did not deduct the taxes paid to the other state as an itemized deduction on a prior year Arizona return.

Line C26 - Deposits and Employer Contributions Into MSAs

Deposits Made Into Your MSA

If you have a medical savings account (MSA), you may be able to subtract deposits made into that MSA. Make an entry here if all of the following apply.

1. You have an MSA that qualifies as an MSA under Arizona law, but not federal law.
2. Either you or your employer made deposits into that MSA during the tax year.
3. You had to include the deposits in income on your federal income tax return.

Enter the amount of the MSA deposits that you had to include in your federal adjusted gross income.

Employer Contributions Made to Employee MSAs

If you are an employer, you may subtract the amount contributed to your employees' MSAs that are established under Arizona law. You can subtract these contributions only to the extent not deductible for federal income tax purposes. Enter these contributions here.

Line C27 - Construction of an Energy Efficient Residence

For taxable years beginning from and after December 31, 2001, through December 31, 2010, Arizona law allows a subtraction for an energy efficient residence. The subtraction is allowed for selling one or more new energy efficient residences located in Arizona. The subtraction is equal to 5% of the sales price excluding commissions, taxes, interest, points, and other brokerage, finance and escrow charges. The subtraction cannot exceed \$5,000 for each new qualifying residence.

The taxpayer that builds the new residence may claim the subtraction when the taxpayer first sells the residence. However, the seller may elect to transfer the subtraction to the buyer.

For more information, see Arizona Department of Revenue Income Tax Procedure *ITP 02-1*.

Enter the number of residences for which you are claiming a subtraction on line C27a, then enter the amount of the subtraction on line C27. Also enter the number on line C27a on Form 140, page 1, line 151.

Line C28 - Compensation Received for Active Service as a Member of the Reserves, National Guard or the U.S. Armed Forces

Starting with 2006, members of the U.S. armed forces may subtract compensation received for active duty military service, including pay for serving in a combat zone or an area given the treatment of a combat zone. On line C28, enter the amount of such income included in your federal adjusted gross income.

Starting with 2007, members of the reserves or the National Guard may subtract compensation received for active service as a reservist or as a National Guard member, including pay received for weekend or two-week training periods. On line C28, enter the amount of such income included in your federal adjusted gross income.

Line C29 - Other Subtractions From Income

Use line C29 if any of the following special circumstances apply. Attach your own schedule to the back of your return explaining any amounts entered here.

A. Previously Reported Gain on Decedent's Installment Sale

Prior Arizona law required acceleration of any unrecognized installment sale gain upon the death of a taxpayer. However, this acceleration could have been avoided by the posting of a bond. If acceleration was required, your federal adjusted gross income may include installment sale amounts already recognized on a decedent's final Arizona return. If your federal adjusted gross income includes such amounts, you may subtract that portion of the gain included on your federal return.

B. Fiduciary Adjustment

A fiduciary uses Form 141AZ, Schedule K-1 to report to you your share of the fiduciary adjustment from the trust or estate.

Line 3 of Form 141AZ, Schedule K-1 shows your share of the fiduciary adjustment from the estate or trust. If the amount reported on line 3 of your Arizona Form 141AZ, Schedule K-1, is a negative number, enter that amount as a subtraction. Enter the subtraction on line C29.

If the amount reported on line 3 of your Arizona Form 141AZ, Schedule K-1, is a positive number, enter that amount as an addition. Enter the addition on line B12.

C. Partnership Income

Use this adjustment if your Arizona Form 165, Schedule K-1, shows a difference between federal and state distributable income.

If the difference reported on your Arizona Form 165, Schedule K-1, is a negative number, enter that difference as a subtraction. Enter the subtraction on line C29.

If the difference reported on your Arizona Form 165, Schedule K-1, is a positive number, enter that difference as an addition. Enter the addition on line B12.

D. Federally Taxable Arizona Municipal Interest

Enter the amount of any interest income received on obligations of the State of Arizona, or any political subdivisions of Arizona, that is included in your Arizona gross income. Do not enter any Arizona municipal interest that is exempt from federal taxation and not included in your federal adjusted gross income.

E. Adoption Expenses

You may take this subtraction only in the year the final adoption order is granted. Enter the lesser of the total of the following adoption expenses or \$3,000. When figuring your subtraction, you may include expenses incurred in prior years.

The following expenses are qualified adoption expenses.

1. Nonreimbursed medical and hospital costs.
2. Adoption counseling.
3. Legal and agency fees.
4. Other nonrecurring costs of adoption.

If filing separately, you may take the entire subtraction, or you may divide the subtraction with your spouse. However, the total subtraction taken by both you and your spouse cannot exceed \$3,000.

F. Qualified Wood Stove, Wood Fireplace, or Gas Fired Fireplace

Arizona law provides a subtraction for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 of the costs incurred for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, do not include taxes, interest, or other finance charges.

A qualified wood stove or a qualified wood fireplace is a residential wood heater that was manufactured on or after July 1, 1990, or sold at retail on or after July 1, 1992. The residential wood heater must also meet the U.S. Environmental Protection Agency's July 1990 particulate emissions standards.

A qualified gas fired fireplace is any device that burns natural or liquefied petroleum gas as its fuel through a burner system that is permanently installed in the fireplace. The conversion of an existing wood burning fireplace to noncombustible gas logs that are permanently installed in the fireplace also qualifies as a gas fired fireplace.

G. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if **all** of the following apply.

1. During a year prior to 2008 you were required to repay amounts held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 2008 Arizona taxable income.
5. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the amount included in your federal income.

Enter the amount by which the loss carryover allowed for the taxable year under Arizona law is more than the amount included in your federal adjusted gross income.

H. Certain Expenses Not Allowed for Federal Purposes

You may subtract some expenses that you cannot deduct on your federal return when you claim certain federal tax credits. These federal tax credits are:

- The federal work opportunity credit
- The empowerment zone employment credit
- The credit for employer-paid social security taxes on employee cash tips
- The Indian employment credit

If you received any of the above federal tax credits for 2008, enter the portion of wages or salaries you paid or incurred during the taxable year equal to the amount of those federal tax credits you received.

I. Qualified State Tuition Program Distributions

If you are a beneficiary of a qualified state tuition program, you may subtract some of the amount distributed from the program for qualified education expenses. Enter the amount of the distribution that you had to include in your federal adjusted gross income. A qualified state tuition program is a program that meets the requirements of I.R.C. § 529.

J. Subtraction for World War II Victims

You may subtract distributions made to you for your persecution or the persecution of your ancestors by Nazi Germany or any other Axis regime for racial, religious or political reasons. If you are the first recipient of such distributions, enter the amount of the distributions that you had to include in your federal adjusted gross income.

You may also subtract items of income that are attributable to, derived from or related to assets that were stolen or hidden from or lost to you if you were persecuted by Nazi Germany or any other Axis regime for racial, religious or political reasons before, during or immediately after World War II. If you are the first recipient of such income, enter the amount of income that you had to include in your federal adjusted gross income.

K. Installment Sale Income From Another State Taxed by the Other State in a Prior Taxable Year

You may subtract income from an installment sale if **both** of the following apply:

1. The income from the sale is subject to Arizona income tax in 2008; and
2. You paid income tax to another state on that income in a **prior** tax year.

Enter the amount of such income that you included in your Arizona gross income for 2008.

Do not enter any amount that is subject to tax by both Arizona and another state in 2008. In this case, you may be eligible for a tax credit. See Form 309 for details.

L. Agricultural Crops Given to Arizona Charities

Arizona law allows a subtraction for qualified crop gifts made during 2008 to one or more charitable organizations. To take this subtraction, you must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. You must make your gift to a charitable organization located in Arizona that is exempt from Arizona income tax.

The subtraction is the greater of 80 percent of the wholesale market price or 80 percent of the most recent sale price for the contributed crop.

To determine if your crop gift qualifies for this subtraction, see Arizona Department of Revenue Income Tax Procedure *ITP 93-2*.

M. Basis Adjustment for Property Sold or Otherwise Disposed of During the Taxable Year

With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer who has complied with the requirement to add back all depreciation with respect to that property on tax returns for all taxable years beginning from and after December 31, 1999, enter the amount of depreciation that has been allowed pursuant to I.R.C. § 167(a) to the extent that the amount has not already reduced Arizona taxable income in the current or prior years. (Note: The practical effect of this is to allow a subtraction

subtraction for the difference in basis for any asset for which bonus depreciation has been claimed on the federal return.)

N. Adjustment for IRC § 179 Expense Not Allowed

Enter 20% of the amount entered on line B11. This same amount can be subtracted in each of the following four taxable years also, effectively amortizing the difference in treatment over five years. If you made an addition for I.R.C. § 179 expense on your, 2004, 2005, 2006 and/or 2007 return, also enter 20% of the amount added for 2004, 2005, 2006 and/or 2007.

O. Displaced Pupil Choice Grant Awards

For Arizona income tax purposes, displaced pupil choice grants awarded under Arizona law are not considered taxable income of the custodian of the child or of the child who receives the displaced pupil choice grant. If you were required to include any amount of an Arizona displaced pupil choice grant award in your federal adjusted gross income, you may subtract that amount from your Arizona income. Enter on line C29, the amount of displaced pupil choice grant award that you had to include as income on your current year's federal income tax return.

P. Contributions to 529 College Savings Plans

For taxable years 2008 through 2012, you may subtract amounts you contribute to 529 college savings plans during the taxable year. You may subtract the amount you contributed during the year up to a total of \$750 (\$1,500 for a married couple filing a joint return). If you are married filing separate returns, either you or your spouse may take the subtraction, or you may divide it between you, but the total taken by both of you cannot be more than \$1,500.

If you contribute more than \$750 (\$1,500 if married) during the year, your total subtraction is still limited to \$750 (\$1,500 if you are married). For example, Jorge and Kate are married and have two children. During 2008, Jorge and Kate, contributed \$1,500 to a 529 plan for Child 1 and \$1,500 to a 529 plan for Child 2. Even though Jorge and Kate contributed a total of \$3,000 during 2008, they may subtract only \$1,500 on their 2008 return.

You may take a subtraction for a contribution that you made during 2008, to a plan that existed before 2008. You may take a subtraction for a contribution that you made during 2008, to a plan established in another state. You may take a subtraction for a contribution that you made in 2008, to any 529 college savings plan. This could be a plan established for a child, grandchild, niece, nephew, or any other person for whom a plan has been established.

You cannot take a subtraction for an amount transferred from one college savings plan to a different college savings plan (a rollover).

Q. Other Adjustments

Other special adjustments may be necessary. Call one of the numbers listed on the back cover if any of the following apply.

- You are a qualified defense contractor that elected to amortize under Arizona Revised Statutes section 43-1024.
- You sold or disposed of property that was held for the production of income and your basis was computed under the Arizona Income Tax Act of 1954.
- You were an Arizona resident before December 31, 1975, and you are receiving IRA distributions from your IRA account to which you made contributions before December 31, 1975.
- You were an Arizona resident before December 31, 1975,

and you are receiving distributions from your qualified self-employment retirement plan to which you made contributions before December 31, 1975.

- You deferred exploration expenses determined under Internal Revenue Code section 617 in a taxable year ending before January 1, 1990, and you have not previously taken a subtraction for those expenses.

Line C30 - Total Subtractions

Add lines C18 through C29. Enter the total here and on the front of your return on line 15.

Line D31 Different Last Names

If you filed an Arizona tax return within the past four years with a different last name, enter your prior last name(s) in part D.

Totaling Your Income

Line 12 - Federal Adjusted Gross Income

You must complete your federal return before you enter an amount on line 12. You must complete a 2008 federal return to determine your federal adjusted gross income even if not filing a federal return.

Arizona uses federal adjusted gross income as a starting point to determine Arizona taxable income. Your federal adjusted gross income is your Arizona gross income.

If the amount on line 12 is more than \$75,000 (\$150,000 if filing a joint return), you may need to make estimated payments. See "Do You Need to Make Estimated Payments" instructions on page 3.

Line 13 - Additions to Income

Enter the amount from line B13, page 2, of your return.

Line 15 - Subtractions From Income

Enter the amount from page 2, line C18 or line C30.



Figuring Your Tax

Line 17 - Itemized or Standard Deductions

You must decide whether to take the standard deduction or to itemize your deductions. Your Arizona income tax will be less if you take the larger of your standard deduction or your itemized deduction.

 When you **e-File**, the software completes the math for you.

Your Standard Deduction

If you take the standard deduction, check box 17S.

If your filing status is:	Your standard deduction is:
• Single	\$4,521
• Married filing separately	\$4,521
• Married filing jointly	\$9,042
• Head of household	\$9,042

Your Itemized Deductions

You may claim itemized deductions on your Arizona return even if you take a standard deduction on your federal return. For the most part, you may claim those deductions allowable as itemized deductions under the Internal Revenue Code. In some cases, the amount allowed for some deductions may not be the same as the amount allowable for federal purposes. You may have to adjust the amounts shown on your completed federal Form 1040, Schedule A. See Form 140 Schedule A, *Itemized Deduction Adjustments* to figure if you have to make any adjustments.

To figure your itemized deductions, you must complete a federal Form 1040, Schedule A. Then, if required, complete Form 140 Schedule A, *Itemized Deduction Adjustments*. If you do not have to complete Form 140 Schedule A, *Itemized Deduction Adjustments*, enter the amount from federal Form 1040, Schedule A, on Form 140, line 17.

NOTE: *If you itemize, you must attach a copy of the completed federal Schedule A to your Arizona return. If itemizing, check box 17I.*

Line 18 - Personal Exemptions

The amount you may claim as a personal exemption depends on your filing status. If married, the amount you may claim as a personal exemption also depends on whether you or your spouse claim dependents. You may use the chart below to figure your personal exemption. If married, you may also use Form 202 to figure your personal exemption.

Personal Exemption Chart	
If you checked filing status:	Enter:
• Single (Box 7)	\$2,100
• Married filing joint return (Box 4) and claiming no dependents (Box 10)	\$4,200
• Married filing joint return (Box 4) and claiming at least one dependent (Box 10 excluding persons listed on Page 2, line A3a)	\$6,300
• Head of household and you are not married (Box 5)	\$4,200
• Head of household and you are a married person who qualifies to file as head of household (Box 5)	\$3,150, Or Complete Form 202 <i>Personal Exemption Allocation Election.</i>
• Married filing separately (Box 6) with neither spouse claiming any dependents (Box 10)	\$2,100, Or Complete Form 202 <i>Personal Exemption Allocation Election.</i>
• Married filing separately (Box 6) with one spouse claiming at least one dependent (Box 10 excluding persons listed on Page 2, line A3a)	\$3,150, Or Complete Form 202 <i>Personal Exemption Allocation Election.</i>

A married couple who does not claim any dependents may take one personal exemption of \$4,200. If the husband and wife file separate returns, either spouse may take the entire \$4,200 exemption, or the spouses may divide the \$4,200 between them. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$2,100. If you and your spouse do not complete Form 202, you may take an exemption of only \$2,100 (one-half of the total \$4,200).

A married couple who claims at least one dependent may take one personal exemption of \$6,300. If the husband and wife file separate returns, either spouse may take the entire \$6,300 exemption, or the spouses may divide the \$6,300 between them. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$3,150. If you and your spouse do not complete Form 202, you may take an exemption of only \$3,150 (one-half of the total \$6,300).

If you are a married person who qualifies to file as a head of household, you may take the entire \$6,300 personal exemption or you may divide the exemption with your spouse. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$3,150. If you and your spouse do not complete Form 202 you may take an exemption of only \$3,150 (one-half of the total \$6,300).

The spouse who claims more than one-half of the total personal exemption must attach the original Form 202 to his or her return. The spouse who claims less than one-half of the total personal exemption must attach a copy of the completed Form 202 to his or her return.

Line 19 - Taxable Income

Subtract lines 17 and 18 from line 16 and enter the result. Use this amount to calculate your tax using Tax Table X or Y or the Optional Tax Tables.

Line 20 - Tax Amount

Enter the tax from either Tax Table X or Y or the Optional Tax Tables. If your taxable income is less than \$50,000, use the Optional Tax Table. If your taxable income is \$50,000 or more, use Tax Table X or Y.

Line 21 - Tax From Recapture of Credits From Arizona Form 301

Enter the amount of tax due from recapture of the credits from Form 301, Part II, line 31.

Line 22 - Subtotal of Tax

Add lines 20 and 21.

Lines 23 and 24 - Clean Elections Fund Tax Reduction

You may designate \$5 of your tax go to the Clean Elections Fund and may also reduce your tax by up to \$5. If you are married filing a joint return, both you and your spouse may make this designation and also reduce your tax by up to \$10.

Single Taxpayers, Heads of Household, and Married Taxpayers Filing a Joint Return With Only One Spouse Making a Designation

To make this designation, Check box 231 marked yourself.

If you checked box 231 and the amount on Form 140, page 1, line 22 is \$10 or more, enter \$5 on line 24. If the amount on line 22 is less than \$10, complete the following worksheet.

Married Taxpayers Filing a Joint Return With Both Spouses Making a Designation

If both spouses want to make this designation, one spouse should check box 231, and the other spouse should check box 232.

If you checked both box 231 and box 232 and the amount on Form 140, page 1, line 22 is \$20 or more, enter \$10 on line 24. If the amount on line 22 is less than \$20, complete the following worksheet.


Clean Elections Fund Tax Reduction Worksheet	
1. Enter the amount of tax from Form 140, page 1, line 22.	
2. If you checked box 231, enter \$5. If a joint return and your spouse also checked box 232, enter \$10.	
3. Balance of tax eligible for tax reduction. Subtract line 2 from line 1. If less than zero, enter zero "0".	
4. If you checked box 231, enter \$5. If a joint return and your spouse also checked box 232, enter \$10.	
5. Tax reduction. Enter the lesser of line 3 or line 4. Also enter this amount on Form 140, page 1, line 24.	

NOTE: Amounts designated to the Clean Elections Fund here do not qualify for the credit on line 29.

Line 25 - Reduced Tax

Subtract line 24 from line 22. Enter the result.

Line 26 - Family Income Tax Credit

 **e-File** software will let you know if you are eligible and will figure the credit for you.

You may take this credit if you meet the income threshold for your filing status.

- Complete steps 1, 2, and 3 to see if you qualify for this credit.
- If you qualify to take this credit, complete Worksheet II in step 4.

Step 1

Complete Worksheet I below.

Worksheet I	
1. Enter the amount from Form 140, page 1, line 16.	
2. Enter the amount from Form 140, page 2, line C18.	
3. Add lines 1 and 2. Enter the result.	

Step 2

Look at the following tables. Find your filing status.

- Use Table I if married filing a joint return.
- Use Table II if head of household.
- Use Table III if single or married filing a separate return.

Step 3

- Look at column (a) labeled "number of dependents" and find the number of dependents you are claiming (Form 140, page 1, box 10 excluding persons listed on Page 2, line A3a).
- Find the income threshold amount in column (b) next to the number of dependents you are claiming.
- Compare that income threshold amount in column (b) with the income listed in Step 1 on Worksheet I, line 3.

If the amount entered in step 1 on Worksheet I, line 3 is equal to or less than the income threshold for the number of dependents you are claiming on Form 140, page 1, box 10, excluding persons listed on Page 2, line A3a, you qualify to take this credit. To figure your credit, complete step 4.

Table I Married Filing a Joint Return	
Column (a)	Column (b)
Number of dependents you are claiming on Form 140, page 1, box 10 excluding persons listed on Page 2, line A3a.	Income Threshold
• 0 or 1	\$20,000
• 2	\$23,600
• 3	\$27,300
• 4 or more	\$31,000

Table II Head of Household	
Column (a)	Column (b)
Number of dependents you are claiming on Form 140, page 1, box 10 excluding persons listed on Page 2, line A3a.	Income Threshold
• 0 or 1	\$20,000
• 2	\$20,135
• 3	\$23,800
• 4	\$25,200
• 5 or more	\$26,575

Table III Single Or Married Filing Separately	
Column (a)	Column (b)
Number of dependents you are claiming on Form 140, page 1, box 10 excluding persons listed on Page 2, line A3a.	Income Threshold
• 0 or more	\$10,000

Step 4

If you qualify to take the credit, complete Worksheet II.

Worksheet II You must complete Steps 1 through 3 before you complete Worksheet II.	
1. Enter the number of dependents you entered on Form 140, page 1, box 10, excluding persons listed on Page 2, line A3a.	
2. Number of personal exemptions. If you checked filing status 4, enter the number 2 here. If you checked filing status 5, 6, or 7, enter the number 1 here.	
3. Add lines 1 and 2. Enter the result.	
4. Multiply the amount on line 3 by \$40. Enter the result.	
5. If you checked filing status 4 or 5, enter \$240 here. If you checked filing status 6 or 7, enter \$120 here.	
6. Family income tax credit. Enter the lesser of line 4 or line 5. Also enter this on Form 140, page 1, line 26.	

NOTE: The family income tax credit will only reduce your tax and cannot be refunded.

Line 27 - Nonrefundable Credits From Arizona Form 301 or Forms 310, 321, 322, and 323 if Form 301 is not Required

Complete line 27 if you can take any of the following credits. Also make sure that you attach the Arizona Form 301 if you are required to complete Form 301 and the appropriate credit form or forms to your return.

1. **Defense Contracting Credits.** Your unused defense contracting credit carryover may be carried forward as a credit against subsequent taxable years' tax liability through tax year 2011. See Form 302 for details.
 2. **Enterprise Zone Credit.** You may qualify for this credit if your business in an Arizona enterprise zone had net increases in qualified employment positions. Use Form 304 to figure this credit.
 3. **Environmental Technology Facility Credit.** You may qualify for this credit if your business incurred expenses in constructing a qualified environmental technology manufacturing facility. Use Form 305 to figure this credit.
 4. **Military Reuse Zone Credit.** You may qualify for this credit if you have qualifying net increases in full-time employment within a military reuse zone. Use Form 306 to figure this credit.
 5. **Recycling Equipment Credit.** The recycling equipment credit allowable to individuals has been repealed. You may not take this credit for taxable years beginning January 1, 2003 or later. However, the repeal did not affect any credit carryover that accrued prior to the repeal. Use Form 307 to figure any allowable credit carryover.
 6. **Credit for Increased Research Activities - Individuals.** You may qualify for this credit if you incurred qualified research expenses for research conducted in Arizona. Use Form 308-I to figure this credit.
 7. **Credit for Taxes Paid to Another State or Country.** You may qualify for this credit if you paid tax to Arizona and another state or country on the same income. Use Form 309 to figure your credit.
 8. **Credit for Solar Energy Devices.** You may qualify for this credit if you installed a solar energy device in your residence located in Arizona. Use Form 310 to figure this credit.
 9. **Agricultural Water Conservation System Credit.** You may qualify for this credit if you incurred expenses to purchase and install an agricultural water conservation system in Arizona. Use Form 312 to figure this credit.
 10. **Pollution Control Credit.** You may qualify for this credit if you purchased depreciable property used in a trade or business to reduce or prevent pollution. Use Form 315 to figure this credit.
 11. **Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets.** You may qualify for this credit if you install solar hot water heater plumbing stub outs or electric vehicle recharge outlets in houses or dwelling units you construct. The taxpayer that constructed the dwelling may also transfer the credit to a purchaser. Use Form 319 to figure this credit.
 12. **Credit for Employment of TANF Recipients.** You may qualify for this credit if you employed TANF recipients during the taxable year. Use Form 320 to figure this credit.
 13. **Credit for Contributions to Charities That Provide Assistance to the Working Poor.** You may qualify for this credit if you made contributions to certain charities that provide help to the working poor. Use Form 321 to figure this credit.
 14. **Credit for Contributions Made or Fees Paid to Public Schools.** You may qualify for this credit if you made contributions or paid certain fees to public schools in Arizona. Use Form 322 to figure this credit.
 15. **Credit for Contributions to Private School Tuition Organizations.** You may qualify for this credit if you made contributions to a school tuition organization that provides scholarships or grants to qualified schools. Use Form 323 to figure this credit.
 16. **Agricultural Pollution Control Equipment Credit.** You may qualify for this credit if you are involved in commercial agriculture and incur expenses to purchase tangible personal property that is primarily used in your trade or business to control or prevent pollution. Use Form 325 to figure this credit.
 17. **Credit for Donation of School Site.** You may qualify for this credit if you donated real property and improvements to a school district or a charter school for use as a school or as a site for the construction of a school. Use Form 331 to figure this credit.
 18. **Credit for Healthy Forest Enterprises.** You may qualify for this credit if you had net increases in qualified employment positions as a healthy forest enterprise. Use Form 332 to figure this credit.
 19. **Credit for Employing National Guard Members.** You may qualify for this credit if you are an employer who has an employee that is a member of the Arizona National Guard if the employee is placed on active duty. Use Form 333 to figure this credit.
 20. **Motion Picture Credits.** A credit is available to motion picture production companies that produce motion pictures, commercials, music videos, or television series completely or partially in Arizona. A tax credit for investments in motion picture infrastructure projects in Arizona is also available. Use Form 334 to figure this credit.
 21. **Credit for Solar Energy Devices for Commercial or Industrial Applications.** This credit is available to taxpayers that install solar energy devices for commercial, industrial, or other nonresidential applications located in Arizona. Use Form 336 to figure this credit.
 22. **Credit for Investment in Qualified Small Businesses.** You may qualify for this credit if you made an investment in a qualified small business. Use Form 338 to figure this credit.
 23. **Credit for Water Conservation Systems.** You may qualify for this credit if you installed a qualifying water conservation system in your residence located in Arizona. Use Form 339 to figure this credit.
 24. **Credit for Donations to the Military Family Relief Fund.** You may qualify for this credit if you made a cash contribution to the Arizona Military Family Relief Fund during the taxable year. Use Form 340 to figure this credit.
- Compute your credit on the appropriate form. Then, if required, complete Form 301 and enter the amount from Form 301, line 59. The credits on line 27 cannot reduce your tax below zero. These credits are not refundable credits.
- Attach Arizona Form 301, along with any supporting documents, to your return.

Line 28 - Credit Type

If you entered an amount on line 27, write the form number of each credit claimed.	
If you are claiming:	Write form number:
1. Defense Contracting Credits	302
2. Enterprise Zone Credit	304
3. Environmental Technology Facility Credit	305
4. Military Reuse Zone Credit	306
5. Recycling Equipment Credit	307
6. Credit for Increased Research Activities - Individuals	308
7. Credit for Taxes Paid to Another State or Country	309
8. Credit for Solar Energy Devices	310
9. Agricultural Water Conservation System Credit	312
10. Pollution Control Credit	315
11. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	319
12. Credit for Employment of TANF Recipients	320
13. Credit for Contributions to Charities That Provide Assistance to the Working Poor	321
14. Credit for Contributions Made or Fees Paid to Public Schools	322
15. Credit for Contributions to Private School Tuition Organizations	323
16. Agricultural Pollution Control Equipment Credit	325
17. Credit for Donation of School Site	331
18. Credit for Healthy Forest Enterprises	332
19. Credit for Employing National Guard Members	333
20. Motion Picture Credits	334
21. Credit for Solar Energy Devices for Commercial or Industrial Applications	336
22. Credit for Investment in Qualified Small Businesses	338
23. Credit for Water Conservation Systems	339
24. Credit for Donations to the Military Family Relief Fund	340

Line 29 - Clean Elections Fund Tax Credit

NOTE: Amounts designated to the Clean Elections Fund on Form 140, page 1, lines 23 and 24 do not qualify for the credit. Do not include those amounts here regardless of whether you made the designation this year or in a prior year.

For 2008, you may claim a credit for:

- Donations made directly to the fund during 2008.
- A donation made to the fund on your 2007 income tax return that you filed in 2008.

You may not claim a credit on the 2008 return for a donation made to the fund on your 2008 return. If you make a donation to the fund with your 2008 return, that you file in 2009, you may claim a credit for that donation on your 2009 return.

Complete the following worksheet to figure your credit.

Worksheet for Calculating the 2008 Clean Elections Fund Tax Credit

1. Enter the amount donated directly to the fund during 2008.	
2. Enter the amount donated to the fund with your 2007 tax form.	
3. Add line 1 and line 2. Enter the total.	
4. Enter the amount from Form 140, page 1, line 25.	
5. Enter the amount from Form 140, page 1, line 26.	
6. Enter the amount from Form 140, page 1, line 27.	
7. Add line 5 and line 6. Enter the total.	
8. Subtract line 7 from line 4.	
9. Multiply line 8 by 20% (.20).	
10. Enter \$610 if single, head of household, or married filing separately. Enter \$1,220 if married filing joint.	
11. Enter the larger of line 9 or line 10.	
12. Enter the smaller of line 3, line 8, or line 11 here and also on Form 140, page 1, line 29.	

NOTE: This credit will only reduce your tax and cannot be refunded. You may not carry forward any amount of unused credit.

Line 30 - Balance of Tax

Subtract lines 26, 27 and 29 from line 25. If the sum of lines 26, 27 and 29 is more than line 25, enter zero.

Totaling Payments and Credits**Line 31 - Arizona Income Tax Withheld**

Enter the Arizona income tax withheld shown on the Form(s) W-2 from your employer(s). Also enter the Arizona income tax withheld shown on your Form(s) 1099-R (distributions from pensions, annuities, etc.). Do not include any income tax withheld for another state. Attach the Form(s) W-2 and 1099-R to the back of your return.

NOTE: You should receive your Form(s) W-2 no later than January 31. If you did not receive a Form W-2 or you think your Form W-2 is wrong, contact your employer.

Line 32- Arizona Estimated Tax Payments for 2008 and Amount Applied From 2007 Return

Use this line if you did one of the following.

1. Made estimated income tax payments to Arizona for 2008.
2. Applied any of your refund from your 2007 Arizona return to 2008 estimated taxes for Arizona.

Enter the total amount paid and/or applied to 2008 taxes.

NOTE: If you made joint Arizona estimated payments for 2008, but are filing separate 2008 Arizona income tax returns, see Arizona Department of Revenue Income Tax Ruling ITR 02-3.

Line 33 - 2008 Arizona Extension Payment (Form 204)

Use this line to report the payment you sent with your extension request, or the electronic extension payment you made using www.aztaxes.gov.

Line 34 - Increased Excise Tax Credit

You may take this credit if you meet all of the following:

1. You meet the income threshold for your filing status.

2. You are not claimed as a dependent by any other taxpayer.
3. You were not sentenced for at least 60 days of 2008 to a county, state or federal prison.

If you are married filing a joint return, or a head of household, you may take this credit if the amount on Form 140, page 1, line 12, is \$25,000 or less. If you are single or married filing a separate return, you may take this credit if the amount on Form 140, page 1, line 12 is \$12,500 or less.

To figure your credit, complete the following worksheet.

NOTE: Do not complete the following worksheet if you are claiming the property tax credit on Form 140PTC. Use Form 140PTC to figure both the credit for increased excise taxes and the property tax credit. If you are claiming both the credit for increased excise taxes and the property tax credit, enter the increased excise tax credit from Form 140PTC, page 1, line 17, here and enter the property tax credit from Form 140PTC, page 1, line 15, on line 35.

Credit for Increased Excise Taxes Worksheet		
	Check one	
	Yes	No
If you checked filing status 4 or 5, is the amount on Form 140, page 1, line 12, \$25,000 or less?		
If you checked filing status 6 or 7, is the amount on Form 140, page 1, line 12, \$12,500 or less?		
If you checked no, STOP. You do not qualify for this credit. If you checked yes, complete the rest of this worksheet.		
1. Enter the number of dependents you entered on Form 140, page 1, box 10, excluding persons listed on Page 2, line A3a. Also exclude any dependent that is not an Arizona resident.		
2. Number of personal exemptions. If you checked filing status 4, enter the number 2 here. If you checked filing status 5, 6, or 7, enter the number 1 here.		
3. Add lines 1 and 2. Enter the result.		
4. Multiply the amount on line 3 by \$25. Enter the result.		
5. Maximum credit.	\$ 100	00
6. Enter the smaller of line 4 or line 5 here and also on Form 140, page 1, line 34.		

Note: The credit cannot exceed \$100 per household. Do not claim this credit if someone else in your household has already claimed \$100 of the credit. If someone else in your household has claimed less than \$100, you may claim the credit as long as all credit claims filed from your household do not exceed \$100.

Line 35 - Property Tax Credit

You may take the property tax credit if you meet **all** the following.

1. You were either 65 or older in 2008 or receiving SSI Title 16 income from the Social Security Administration.

NOTE: This is not the normal Social Security disability.

2. You were an Arizona resident for the full year in 2008.

3. You paid property tax on your Arizona home in 2008. You paid rent on taxable property for the entire year or you did a combination of both.
4. If you lived alone, your income from all sources was under \$3,751. If you lived with others, the household income was under \$5,501.

Complete Form 140PTC to figure your credit. Enter the amount from Form 140PTC, page 1, line 15.

Attach Form 140PTC to your return.

Tax Tip: To claim a property tax credit, you must file your claim or extension request by April 15, 2009.

Line 36 - Total Payments and Refundable Credits

Add lines 31 through 35. Enter the total.

Also, do the following if you computed your 2008 tax under Arizona's claim of right provisions.

1. Write "ARS § 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.
2. Include the credit for the prior year tax reduction in the total entered on line 36.
3. Attach a schedule explaining the amounts repaid and the computation of the prior year tax reduction.

For more information on Arizona's claim of right provisions, see Individual Income Tax Procedure *ITP 95-1*.

Figuring Your Overpayment or Tax Due

Line 37 - Tax Due

If line 30 is more than line 36, you have tax due. Subtract line 36 from line 30. Skip lines 38, 39 and 40.

Line 38 - Overpayment

If line 36 is more than line 30, subtract line 30 from line 36. Complete lines 39 and 40.

Line 39 - Amount of Line 38 to Apply to 2009 Estimated Tax

If you want all or part of your refund applied to next year's estimated taxes, enter that amount.

NOTE: If you apply any of the amount shown on line 38 to 2009, you cannot use that amount to pay any tax that is later found to be due for 2008. You also may not claim a refund for that amount until you file your 2009 return.

Line 40 - Balance of Overpayment

Subtract line 39 from line 38 to determine your overpayment balance before voluntary gifts and any estimated payment penalty.

Making Voluntary Gifts

You can make voluntary gifts to each of the funds shown below. A gift will reduce your refund or increase the amount due with your return.

NOTE: If you make a gift, you cannot change the amount of that gift later on an amended return.

Line 41 - Aid To Education Fund

Gifts go to the Arizona Assistance for Education Fund. The Arizona Board of Education will distribute money in this fund to school districts.

CAUTION: If you make a contribution to this fund, you must contribute your entire refund. You may not give more than or less than your entire refund.

Line 42 - Arizona Wildlife Fund

You may give some or all of your refund to the Arizona Wildlife Fund. You may also give more than your entire refund.

Gifts go to the Arizona Game, Nongame, Fish and Endangered Species Fund. This fund helps protect and conserve over 1,000 nongame species.

Line 43 - Citizens Clean Elections Fund

You may give some or all of your refund to the Citizens Clean Elections Fund. You may also send in additional money with your return. If you send in additional money with your return, include that amount on line 56. Enter the amount you want to donate on line 43.

If you make a donation to the fund with your 2008 return that you file in 2009, you may claim a credit for that donation on your 2009 return.

The Citizens Clean Elections Fund provides funding to each participating candidate who qualifies for campaign funding.

Line 44 - Child Abuse Prevention Fund

You may give some or all of your refund to the Arizona Child Abuse Prevention Fund. You may also give more than your entire refund.

Gifts go to the Arizona Child Abuse Prevention Fund. This fund provides financial aid to community agencies for child abuse prevention programs.

Line 45 - Domestic Violence Shelter Fund

You may give some or all of your refund to the domestic violence shelter fund. You may also give more than your entire refund.

Gifts go to the Domestic Violence Shelter Fund. This fund provides financial aid to shelters for victims of domestic violence.

Line 46 - National Guard Relief Fund

You may give some or all of your refund to the National Guard Relief fund. You may also give more than your entire refund.

Gifts go to the National Guard Relief Fund. This fund provides financial aid to families of Arizona National Guard members when the National Guard member is placed on active duty and is serving in a combat zone.

Line 47 - Neighbors Helping Neighbors Fund

You may give some or all of your refund to the neighbors helping neighbors fund. You may also give more than your entire refund.

Gifts go to the Neighbors Helping Neighbors Fund. This fund provides eligible recipients with emergency aid in paying energy utility bills and conserving energy.

Line 48 - Special Olympics Fund

You may give some or all of your refund to the Special Olympics Fund. You may also give more than your entire refund.

Gifts go to the Special Olympics Fund. This fund helps provide programs of the Arizona Special Olympics.

Line 49 - Veterans' Donations Fund

You may give some or all of your refund to the Veterans' Donations Fund. You may also give more than your entire refund.

Gifts go to the Veterans' Donations Fund, which may be used for veterans in Arizona.

Line 50 - Political Gift

Gifts go to one of the following political parties:

- Democratic
- Green

- Libertarian
- Republican

You may give some or all of your refund to a political party. You may also give more than your entire refund.

Line 51 - Political Party

Check the box for the political party to which you wish to give. Select only one party. If you do not select a political party, the department will return the amount on line 50.



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Line 52 - Estimated Payment Penalty and MSA Withdrawal Penalty

Estimated Payment Penalty

NOTE: Do not complete Form 221, Underpayment of Estimated Tax by Individuals, if the amount on Form 140, page 1, line 31, is more than the amount on Form 140, page 1, line 30. If the amount on Form 140, page 1, line 31, is more than the amount on Form 140, page 1, line 30, skip line 52, unless you must report an MSA penalty.

You must have made Arizona estimated income tax payments during 2008 if:

Your filing status is:	AND Your Arizona gross income for 2007 was greater than:	AND Your Arizona gross income for 2008 was greater than:
Married Filing Joint	\$150,000	\$150,000
Single	\$75,000	\$75,000
Head of Household	\$75,000	\$75,000
Married Filing Separately	\$75,000	\$75,000

If you report as a farmer or fisherman for federal purposes, you were not required to make estimated payments during 2008 if the following apply.

1. You are a calendar year filer. You file your Arizona return by March 2, 2009. You pay in full the amount stated on your return as owed.
2. You are a fiscal year filer. You file your Arizona return by the first day of the third month after the end of your fiscal year. You pay in full the amount stated on your return as owed.

If the above applies, check Box 2 on line 53 and do not complete Form 221.

An individual who fails to make the required estimated payments is subject to penalty on any estimated tax payment that is late or underpaid.

Complete and attach Form 221, *Underpayment of Estimated Tax by Individuals*, to determine if any penalty is due. Enter the total penalty from Form 221.

MSA Withdrawal Penalty

You must pay a withdrawal penalty if you made an MSA withdrawal during 2008 and all of the following apply.

1. You used the amount withdrawn for purposes other than to pay for qualified medical expenses.
2. You made the withdrawal on a day other than the last business day of the year.
3. The withdrawal is not subject to the federal withdrawal penalty.

The penalty is equal to 10 percent of the withdrawal. The withdrawal penalty is not subject to abatement. You must remit this penalty with your income tax return filed for the year in which you made the withdrawal.

Multiply the amount of your withdrawal subject to penalty by 10 percent. Enter the result.

The following withdrawals are not subject to the penalty.

1. Any withdrawal subject to the federal withdrawal penalty.
2. Withdrawals made from your MSA on the last business day of the tax year.
3. Any withdrawal made by an account holder who is at least age 59 1/2 when he or she makes the withdrawal.

NOTE: The following are not withdrawals. Do not enter a penalty for any of the following.

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

For more information about the above items, see the department's MSA brochure, Pub 542.

Line 53 -

Box 1 - Check box 1 if any of the following applies to you:

1. You checked the box on line 1 of Form 221.
2. You completed the annualized income worksheet on Form 221.
3. You elected to be treated as a nonresident alien on your federal income tax return. You made three estimated payment installments. Your first installment equaled 50 percent of the total of all of your required installments.

Box 2 - If you are an individual who for federal purposes reports as a farmer or fisherman, check box 2.

Box 3 - If you completed and attached Form 221, check box 3.

Box 4 - If you included an MSA penalty on line 52, check box 4.

DIRECT DEPOSIT

FAST

-- E-File Refunds within 5 days*

CONVENIENT

-- No extra trips to the bank

SECURE

-- No lost or forged checks

DIRECT PAYMENT

FAST

-- E-File and E-Pay in a single step

CONVENIENT

-- You choose the payment date*

SECURE

-- Payment data is safeguarded along with other tax information



*AVERAGE REFUND TAKES LESS THAN 5 DAYS

*PAYMENT DATE CANNOT BE LATER THAN THE APRIL DEADLINE. AVAILABLE ONLY WHEN A RETURN IS E-FILED.

Figuring Your Refund or Tax Due

Line 55 - Refund

e-file You can get your refund in as little as 5 days when you **e-File** and use direct deposit.

Subtract line 54 from line 40. Enter your refund on line 55 and skip line 56.

If you owe money to any state agency and certain federal agencies, your refund may go to pay some of the debt. If so, the department will let you know by letter.

Tax Tip: If you change your address before you get your refund, let the department know. Write to: Refund Desk, Arizona Department of Revenue, 1600 W Monroe, Phoenix AZ 85007. Include your social security number in your letter.

Direct Deposit of Refund

Complete the direct deposit line if you want us to directly deposit the amount shown on line 55 into your account at a bank or other financial institution (such as a mutual fund, brokerage firm or credit union) instead of sending you a check.

Why Use Direct Deposit?

- You will get your refund fast – even faster if you e-file!
- Payment is more secure since there is no check to get lost.
- It is more convenient. No trip to the bank to deposit your check.
- Saves tax dollars. A refund by direct deposit costs less to process than a check.

Tax Tip: You can check with your financial institution to make sure your deposit will be accepted and to get the correct routing and account numbers. The department is not responsible for a lost refund if you enter the wrong account information.

If you file a joint return and fill in the direct deposit line, you are appointing your spouse as an agent to receive the refund. This appointment cannot be changed later.

NOTE: The department is not responsible if a financial institution rejects a direct deposit. If the direct deposit is rejected, a check will be sent instead.

Routing Number

The routing number must be 9 digits. The first 2 digits must

be 01 through 12 or 21 through 32. Otherwise, the direct deposit will be rejected and a check sent instead. On the following sample check, the routing number is 250250025.

Your check may state that it is payable through a financial institution different from the one at which you have your checking account. If so, **do not** use the routing number on that check. Instead, contact your financial institution for the correct routing number to enter here.

Account Number

The account number can be up to 17 characters (both numbers and letters). Include hyphens but omit spaces and special symbols. Enter the number from left to right and leave any unused boxes blank. On the sample check that follows the account number is 20202086. Be sure **not** to include the check number.

Sample Check

JOHN DOE OR JANE DOE
123 First Street
Sometown, AZ 00000

PAY TO THE ORDER OF SAMPLE \$ 1234
DOLLARS

THIS BANK Sometown, AZ 00000

For 250250025 20202086 1234

Routing Number Account Number

Do not include the check number.

Note: The routing and account numbers may be in different places on your check.

Line 56 - Amount Owed



With direct payment and e-File, you do not have to worry about your check getting lost.

Add lines 37 and 54. Enter the amount you owe on line 56. If you are making voluntary donations on lines 42 through 50 in excess of your overpayment, enter the difference on line 56. You may pay only with a check, electronic check, money order, or credit card.

Check or money order

NOTE: Attach your payment to your return. Please do not use tape. Please do not send cash.

Make your check payable to Arizona Department of Revenue. Write your social security number on the front of your check or money order. Attach your check or money order to your return where shown. Please do not use tape to attach your check or money order to your return.

The department cannot accept checks or money orders in foreign currency. You must make payment in U.S. dollars.

Electronic payment from your checking or savings account

You can make an electronic payment from your checking or savings account to pay your balance due for 2008. There is no fee to use this method. To make an electronic payment, go to www.aztaxes.gov click on the "Make a Payment" link. The "E-Check" option in the "Payment Method" drop-down box will debit the amount from the checking or savings account that you specify. If you make an electronic payment from your checking or savings account, you will receive a confirmation number. **Please keep this confirmation number as proof of payment.**

Credit card payment

You can pay with your Visa, MasterCard, Discover, or American Express credit card. Go to www.aztaxes.gov click on the "Make a Payment" and choose the credit card option. This will take you to a third party vendor site. The provider **will charge** you a convenience fee based on the amount of your tax payment. The service provider will tell you what the fee is during the transaction; you will have the option to continue or cancel the transaction. If you complete the credit card transaction, you will receive a confirmation number. **Please keep this confirmation number as proof of payment.**

Installment Payments

If you cannot pay the full amount shown on line 56 when you file, you may ask to make monthly installment payments. To make this request, complete Arizona Form 140IA and mail the completed form to the address on the Form 140IA. **Do not mail Form 140IA with your income tax return.** You may obtain Arizona Form 140IA from our web site at www.azdor.gov.

If you cannot pay the full amount shown on line 56, you will be charged interest and may be charged a late payment penalty on the tax not paid by April 15, 2009. To limit the interest and penalty charges, pay as much of the tax as possible when you file.

Sign Your Return

You must sign your return. If married filing a joint return, both you and your spouse must sign even if only one had income. Form 140 is not considered a valid return unless you sign it. The department cannot send a refund check without proper signatures on the return.

Instructions Before Mailing

- Make sure your social security number is on your return.
- Be sure you enter your home telephone number in the space provided on the front of your return. If your daytime telephone number is not the same as your home number, also enter a daytime number.
- Check to make sure that your math is correct. A math error can cause delays in processing your return.
- Make sure your **NAME** is on the return. If you received your return in the mail, use the preprinted label. **If the label is not correct, do not use it.**
- If claiming **dependent** exemptions, write the number of dependents claimed on the **front** of the return. On page 2 of the return, also write each dependent's name, relationship, social security number, and the number of months that he or she lived in your home.
- If claiming exemptions for qualifying parents or ancestors, write the number of qualifying parents or ancestors claimed on the **front** of the return. On page 2 of the return, also write each parent's or ancestor's name, relationship, social security number, and the number of months that he or she lived in your home.
- Check the **boxes** to make sure you filled in all required boxes.
- If you requested a filing extension, make sure that you check box 82F on page 1 of the return.
- Sign your return and have your spouse sign if filing jointly.

- Attach **all** required documents.
- 1. Attach Form(s) W-2 to the back of your return. Also attach Form(s) 1099-R to back of your return if you had Arizona tax withheld from your pension or annuity.
- 2. Write your social security number on the front of your check and attach your payment to the front of the return where noted. Please do not use tape.

The Department of Revenue may charge you \$25 for a check returned unpaid by your financial institution.
- 3. Attach Arizona Form 301, applicable credit forms, and your own schedules to the back of the return.
- 4. If claiming a credit for taxes paid to another state or country, attach a copy of the other state's or country's filed return.
- 5. If you itemize, be sure to attach a copy of the federal Schedule A.
- 6. If you are claiming a property tax credit, attach a completed Form 140PTC and all required documents.
- 7. If you have tax exempt interest income, be sure to attach a schedule listing the payors and the amount received from each payor.
- Do not send correspondence with your return.


Filing Your Return

Before you mail your return, make a copy of your return. Also make a copy of any schedules that you are sending in with your return. Keep the copies for your records. Be sure that you file the original and not a copy.

To mail your return, use an envelope that came in your booklet.

To avoid delays, please use separate envelopes for each return.


Where Should I Mail My Return?

 Forget about the mail and the late night run to the post office – **e-File** from the comfort of home.

If you are expecting a refund, or owe no tax, or owe tax but are not sending a payment, use the yellow address label attached to the envelope. If the envelope or label is missing, send the return to: Arizona Department of Revenue, PO Box 52138, Phoenix AZ 85072-2138.

If you are sending a payment with this return, use the white address label attached to the envelope. If the envelope or label is missing, send the return to: Arizona Department of Revenue, PO Box 52016, Phoenix AZ 85072-2016.

Put enough postage on the envelope.

 With **e-File**, you do not have to worry if there is enough postage on the envelope. You even get notice that we received your return.

The U.S. Post Office must postmark your return or extension request by midnight April 15. A postage meter postmark will not qualify as a timely postmark. *Only a postmark from the U.S. Post Office will qualify.* You may also use certain private delivery services designated by the IRS to meet the “timely mailing as timely filed” rule.

How Long To Keep Your Return

You must keep your records as long as they may be needed for the administration of any provision of Arizona tax law. Generally, this means you must keep records that support items shown on your return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund or the department can assess additional tax. A period of limitations is the limited time after which no legal action can be brought. Usually, this is four years from the date the return was due or filed.

In some cases, the limitation period is longer than four years. The period is six years from when you file a return if you underreport the income shown on that return by more than 25 percent. The department can bring an action at any time if a return is false or fraudulent, or you do not file a return. To find out more about what records you should keep, get federal Publication 552.

When To Expect Your Refund

Expect your refund in the mail within 8 weeks of the date you filed. If you have not received your refund by that time, contact one of the numbers listed on the back cover. Before you call, be sure to have a copy of your 2008 tax return available because you will need to know the first social security number shown on your return, the filing status, your 5-digit zip code and the exact whole-dollar amount of your refund.

Calling the Department

Your tax information on file with the department is confidential. If you want the department to discuss your tax matters with someone other than yourself, you must authorize the department to release confidential information to that person. You may use Form 285 to authorize the department to release confidential information to your appointee. See Form 285 for details.

Another Tip for Preparing Your Return

E-File makes filing your taxes simple!

E-File software offers:

- Easy step-by-step instructions
- Error detection before filing
- Easy form selection
- Finds credits you may not know about

For a list of approved software, visit our website at:

www.azdor.gov



HOW MUCH INCOME CAN YOU HAVE AND PAY NO TAXES?

You still have to file a return, but you pay no taxes if your income is less than the levels shown in the chart below. **For purposes of this chart**, “income” means Arizona adjusted gross income plus the dependent exemption claimed (Form 140, page 1, line 16 plus the amount on Form 140, page 2, line C16; or Form 140A, page 1, line 18, plus the amount on Form 140A, page 1, line 15, or Form 140EZ, page 1, line 6). *To rely on this chart, you must claim the family income tax credit if you are qualified.*

NUMBER OF DEPENDENTS	FILING STATUS			
	SINGLE	MARRIED FILING SEPARATE	UNMARRIED HEAD OF HOUSEHOLD	MARRIED FILING JOINT
0	\$ 8,170	\$ 8,170	N/A	\$ 16,341
1	(A) 10,000	10,000	18,641	20,000
2	11,240	12,290	20,135	23,600
3	13,540	14,590	23,800	27,300
4	15,840	16,890	25,200	(C) 31,000
5	18,140	19,190	(B) 26,575	31,000

EXAMPLES

	(A) single, \$10,000 income*, one dependent	(B) unmarried head of household, \$26,575 income*, five dependents	(C) married filing joint, \$31,000 income*, four dependents
Income*	\$ 10,000	\$ 26,575	\$ 31,000
less: Dependent exemption	-2,300	-11,500	-9,200
Standard deduction	-4,521	-9,042	-9,042
Personal exemption	-2,100	-4,200	-6,300
Net taxable income	\$ 1,079	\$ 1,833	\$ 6,458
Tax (optional tax table)	\$ 28	\$ 47	\$ 168
less: Family tax credit	-80	-240	-240
Tax owed	\$ 0	\$ 0	\$ 0

*For purposes of these examples, “income” means Arizona adjusted gross income plus the dependent exemption amount claimed.