

2018 Arizona Claim of Right - Fiduciary

For information or help, call one of the numbers listed:

Phoenix (602) 255-3381
From area codes 520 and 928, toll-free (800) 352-4090

Tax forms, instructions, and other tax information

If you need tax forms, instructions, and other tax information, go to the department's website at www.azdor.gov.

Income Tax Procedures and Rulings

These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our website and click on *Legal Research* then click on *Legal Research* and select a *document* and *category* type from the drop down menus.

Publications

To view or print the department's publications, go to our website and click on *Reports and Legal Research* then click on *Publications*.

What is a Claim of Right?

Generally, a claim of right is when:

- a taxpayer received income during a prior tax year, and reported that income on the tax return filed for that prior tax year; *and*
- then has to repay that income back in a future tax year.

Example: An estate or trust received income during 2015. In 2018 the estate or trust received a letter from the business that paid the income stating there was a mistake and the income amount paid during 2015 was more than the estate or trust should have received. The estate or trust must now pay the overpaid amount back to the business.

For information regarding which types of income qualifies or does not qualify for a claim of right, see federal Publication 525 at www.irs.gov.

How does the claim of right work?

For federal income tax purposes, the estate or trust may take a deduction for the repayment of an amount included in income under a claim of right *or* claim a credit. When the amount repaid was \$3,000 or less, the estate or trust may be able to deduct the amount repaid from the income for the year in which it was repaid. Or, if the amount the estate or trust repaid is more than \$3,000, it may be able to claim a credit against the tax for the year in which it repaid it.

For Arizona income tax purposes, the Arizona claim of right provisions only apply in cases where the **total** amount repaid during the year was more than \$3,000. In this case, the estate or trust cannot take a deduction, but must claim a "credit."

When the estate or trust figures whether the amount it repaid was more or less than \$3,000, it must consider the **total** amount being repaid during the year. Each instance of repayment is not considered separately. The total re-payment amount may include income from just one prior tax year or multiple prior tax years.

Who Must Complete an Arizona Claim of Right Form?

If the estate or trust figures its 2018 income tax under Arizona's claim of right provisions, complete an Arizona Claim of Right form and include it with the estate or trust's 2018 income tax return.

The fiduciary **must** complete and include a separate form for each prior tax year for which the fiduciary figured a tax reduction (decrease).

For more information on Arizona's Claim of Right provisions and examples of how to compute the decrease in tax for a prior taxable year (or years), see the department's procedure, ITP 16-1, *Procedure for Individuals Who Restore Substantial Amounts Held Under a Claim of Right*.

How to complete an Arizona Claim of Right Form

- If the total amount repaid during 2018 was from income that was reported in only **one prior tax year**, the fiduciary must file one form, completing Parts 1, 2, and 3.
- If the total amount repaid during 2018 was from income that was reported in **more than one prior tax year**, **file a separate form for each tax year listed on line 3, and complete each form as follows:**
 - For the earliest tax year, complete Parts 1, 2, and 3.
 - For all other years, only complete Parts 2 and 3.

For example, if the total amount repaid was from income reported in tax years 2015, 2016 and 2017, complete Parts 1, 2, and 3 for tax year 2015. *Be sure to enter the **total income** that was repaid for **all prior tax years** when completing Part 1, line 1, for taxable year 2015.*

For tax years 2016 and 2017, only complete Parts 2 and 3 on both of these separate claim of right forms.

Line-by-Line Instructions

Part 1 - General Information

Line 1 -

Enter the **total** amount of **all income** that the estate or trust **repaid** during the 2018 tax year that was included in income under a claim of right.

CAUTION: *If the amount on line 1 is \$3,000 or less, **STOP**. The estate or trust does not qualify to figure a credit for amounts paid back under a claim of right.*

Line 2 -

Check "Yes" if the total amount repaid in 2018 was from income that was reported in **more than one** prior tax year.

If you checked "Yes" you **must** complete and include with the estate or trust's 2018 tax return a separate Claim of Right

form for **each** prior taxable year end. See the instructions under *How to complete an Arizona Claim of Right Form* for more than one tax year.

Line 3 -

Using the format, MM/DD/YYYY, list each prior taxable year end that included income that was repaid in 2018 and included in income under claim of right.

Line 4 -

If the estate or trust took a deduction on its federal return instead of claiming a credit, check the box, "Yes."

The estate or trust cannot take both a deduction and claim a credit on its Arizona return for the amounts repaid and included in income under a claim of right. Because the deduction is included in the computation of its federal taxable income, it must add-back the amount of the income entered on line 1 as an "*Other Addition to Income*" on its income tax return, Form 141AZ, Schedule B, line B3.

Part 2 - Decrease in Prior Year's Tax

Line 5 -

Using the format, MM/DD/YYYY, enter the prior taxable year end date for which the estate or trust is completing this form. If the fiduciary is completing more than one form for the current tax year, complete Part 2 for each separate tax year.

Line 6 -

Enter the amount of tax from the Arizona return filed for the tax year listed on line 5.

Line 7 -

For the tax year listed on line 5, refigure the estate or trust's tax for the tax year listed on line 5 without including the income that it repaid in 2018.

Line 8 -

Subtract line 7 from line 6 and enter the difference.

This is the estate or trust's claim of right credit for the current tax year. Enter the amount shown on line 8 on its current year's income tax return, Form 141AZ, line 20, box 20b.

If the estate or trust is completing more than one Claim of Right form, add all amounts on line 8 and enter the total on the tax return.

Part 3 - Explanation

Complete Part 3 explaining the estate or trust's claim of right. Show how it figured the amounts in Part 2. If more space is needed, continue on page 2 of the form or provide its own schedule.

How does the Estate or Trust file a Claim of Right form?

Complete and include the Arizona Claim of Right form with its tax return, when filed.

If it fails to complete and include this form with its tax return, the claim may be denied. Keep a copy for the estate or trust's record.

If the estate or trust is completing more than one Claim of Right form include all forms with the estate or trust's tax return.