

## 2023 Arizona Corporation Income Tax Return

**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](http://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 select *Reports & Legal Research*. On the next page, click on *Legal Research*. Select a Document Type and a Category from the drop down menus. If you know the document ID number you may enter it in the Search field and then press enter.

**Publications**

To view or print the department’s publications, go to our website, scroll down, click on *Reports & Legal Research*, and click on *Publications* in the right hand column.

### General Instructions

**Which Corporations Must File a Return?**

Every corporation subject to the Arizona Income Tax Act of 1978 must file an Arizona corporate income tax return.

**Disaster Relief for Out-of-State Businesses**

If an out-of-state business is a separate company and is in Arizona on a temporary basis solely for the purpose of performing disaster recovery from a declared disaster during a disaster period, it may not be required to file, remit, withhold, or pay state or local (income) tax. (See the department’s publication, Pub. 720, *Disaster Recovery Tax Relief*, to determine if the taxpayer qualifies for disaster relief.)

If an out-of-state business is part of a unitary group filing a combined return and is in Arizona on a temporary basis solely to perform disaster recovery from a declared disaster during a disaster period, it may be allowed to subtract its income from such activity from the unitary group’s Arizona income. (See the department’s publication, Pub. 720, *Disaster Recovery Tax Relief*, to determine if the taxpayer qualifies for disaster relief.)

**Which Form To Use**

Complete Arizona Form 120 if the corporation:

- Has income from business activity that is taxable in more than one state (a “multistate corporation”);
- Is a partner in:
  - A multistate partnership; and/or
  - A partnership that conducts no business in Arizona.
- Is a member of a unitary group of corporations that files an Arizona return on a combined basis; or
- Is a member of an affiliated group of corporations that elects to file an Arizona consolidated return.

The only type of corporation that may use Arizona Form 120A is one that files its return on a separate company (separate entity) basis and is a “wholly Arizona corporation.”

- A corporation files on a separate company (separate entity) basis if:

- It is not part of a group of corporations comprising a unitary business; and
- It is not a member of an affiliated group that elected to file an Arizona consolidated return.
- A corporation that has income from business activity that is taxable entirely within Arizona is a “wholly Arizona corporation.”

**Entity Classification Under the Federal "Check-the-Box Rules"**

The federal tax classification of an entity under the federal "check-the-box rules" determines the entity's classification for Arizona tax purposes. Refer to the department’s ruling, CTR 97-1, *Federal “Check-The-Box Rules” on Elective Tax Classification*.

**Limited Liability Companies**

A limited liability company (LLC) that made a valid federal election to be treated as an association taxable as a corporation must file an Arizona corporate income tax return.

A single member LLC that is disregarded as an entity for federal income tax purposes is treated as a branch or division of its owner, and is included in the tax return of its owner. Refer to the department’s ruling, CTR 97-2, *Limited Liability Companies*, for further information.

**Electing Small Business Corporations**

Corporations taxed as S Corporations under Subchapter S of the Internal Revenue Code (IRC) must file Arizona form 120S.

**Homeowners Associations**

Homeowners associations that file federal Form 1120-H or federal Form 1120 are not exempt from Arizona income tax. These associations must file an Arizona corporate income tax return on Arizona Form 120 or Arizona Form 120A.

Certain homeowners associations are federally tax exempt as social welfare organizations or as clubs organized for pleasure or recreation. These homeowners associations are similarly tax exempt for Arizona income tax purposes and are not required to file an Arizona information return.

**Marijuana Establishments, Marijuana Testing Facilities, Dual Use Licensees and Nonprofit Medical Marijuana Dispensaries**

- A corporation licensed by the Arizona Department of Health Services (ADHS) as a Marijuana Establishment (Adult Use), or as a Marijuana Testing Facility (Adult Use), must file an Arizona Corporate Income Tax Return – either Arizona Form 120 or Arizona Form 120A – to report the income and expenses of its operations for the taxable year.
- A corporation licensed by ADHS as a Dual Use Licensee (Dual Licensee) that elected to operate on a for-profit basis, must file an Arizona corporate income tax return, Arizona Form 120 or Arizona Form 120A, to report the income and expenses of ALL its operations for the taxable year.
- A corporation licensed by ADHS as a Dual Licensee that did NOT make the election to operate on a for-profit basis, must file Arizona Form 99M to report its income and

expenses from the NMMD portion of its operations and also file Arizona Form 120 or Arizona Form 120A to report its income and expenses from the remainder of its operations.

- A corporation registered by ADHS as a Nonprofit Medical Marijuana Dispensary **only**, must file Arizona Form 99M to meet the filing requirements of Arizona Revised Statutes § 43-1201(B).

### Records

Every corporation should maintain books and records substantiating information reported on the return and keep these documents for inspection. See the department's ruling, GTR 96-1, *Electronic Data Processing*, for more information about record retention requirements.

### IRC § 7519 Required Payments

Taxpayers cannot deduct the federal required payments on their Arizona tax returns as an ordinary and necessary business expense or otherwise.

### Treatment of Installment Obligations When Corporate Activities Cease

A corporation may elect to report income from the sale or other disposition of property on the installment method. If the corporation fails to report the entire amount from the sale before it ceases to be subject to Arizona corporate income tax, it must report the remaining income in the last year in which it is subject to Arizona corporate income tax.

This provision does not apply if a reorganization transfers the installment obligation to another taxpayer subject to Arizona tax. The transferee may not use its capital losses to offset income from the installment obligation transferred to it.

### Rounding Dollar Amounts

Taxpayers must round amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.

#### Examples:

*Company A (A) reports federal taxable income of \$15,000. A has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .326954. A multiplies the federal taxable income by the apportionment ratio. The result is \$4,904.31. Company A rounds the result to \$4,904.00.*

*Company W (W) reports a federal taxable loss of (\$27,000). W has no Arizona additions to, or subtractions from, its federal taxable loss. Its apportionment ratio is .005946. W multiplies its federal loss of (\$27,000) by the apportionment ratio. The result is an Arizona loss of (\$160.54). Company W rounds the result to (\$161.00).*

*Company Z (Z) reports a federal taxable loss of (\$500). Z has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .075000. Z multiplies its federal loss of (\$500) by the apportionment ratio. The result is an Arizona loss of (\$37.50). Company Z rounds the result to (\$38.00).*

### Taxable Year Covered by Return

File the 2023 Arizona Form 120 for calendar year 2023 and fiscal years that begin in 2023 and end in 2024. Indicate whether the taxable year is a calendar year or a fiscal year. If the return is for a fiscal year, indicate the beginning and ending dates for the year in the space(s) provided at the top of page 1. If this is a short-period return, indicate the beginning and ending dates of the short-period. Check the box if this return is based on a 52/53 week taxable year.

The 2023 Arizona Form 120 can also be used if the corporation has a tax year of less than 12 months that begins and ends in 2024 and the 2024 Arizona Form 120 is not available at the time the corporation is required to file its return. The corporation must show its 2024 taxable year on the 2023 Arizona Form 120 and take into account any tax law changes effective for tax years beginning after December 31, 2023.

If submitting the 2023 Arizona Form 120 for a 2024 short-period return, submit a paper filed return. Do not submit this short-period return electronically.

### Timely Filing of Returns

- The department determines the timeliness of an electronically filed tax return by the date of the electronic postmark. If the taxpayer and the electronic return preparer or the electronic return transmitter are in different time zones, it is the taxpayer's time zone, as determined by the taxpayer's address, that controls the timeliness of the electronically filed return. When a return has been electronically received on the host system of more than one electronic return preparer or electronic return transmitter during its ultimate transmission to the department, the return shall be deemed filed and received by the department on the date of the earliest electronic postmark.
- The department determines the timeliness of a paper-filed tax return by the postmark or other official mark of the United States Mail stamped on the envelope in which the return is mailed. See the department's ruling, GTR 16-1, *Timely Filing of Income or Withholding Tax Returns Through the United States Mail*.
- The department will accept proof of mailing from a private delivery service included in the Internal Revenue Service (IRS) list of designated private delivery services. Contact the private delivery service for information regarding how to obtain written proof of mailing.
- If the due date for the return falls on a Saturday, Sunday, or a legal holiday, the return is considered timely filed if it is postmarked the next business day. See the department's ruling, GTR 16-2, *Timely Filing of Income or Withholding Tax Return – Holidays and Weekends*.

### Extension of Time to File a Return

- A request for an extension of time to file an Arizona corporate income tax return **must** be submitted by the original due date of the return.
- File Form 120/165EXT electronically or by mail. If mailing, submit Form 120/165EXT to:

Arizona Department of Revenue  
P O Box 29079  
Phoenix, AZ 85038-9079

- The extension request may be made by filing an Arizona extension request, Arizona Form 120/165EXT, making an extension payment through AZTaxes.gov, or by filing a federal extension request.
- The department may grant an extension request for a C Corporation for a maximum of seven (7) months.
- The department will accept a valid federal extension for the same period of time covered by the Arizona extension, seven (7) months.
- The Arizona extension and the federal extension provide an extension of time to file, but they do not provide an extension of time to pay tax.
  - You must pay 90% of your tax liability (including the \$50 minimum tax) by the original due date of your return.
  - The department imposes the extension underpayment penalty on any late or underpaid extension requests.
- If the corporation has a tax liability of less than \$500 for the year, Arizona Form 120/165EXT may be used to transmit extension payments by check or money order, regardless of how you request an Arizona extension (valid federal extension or Arizona Form 120/165EXT).
- Corporations with a tax liability of \$500 or more for the 2023 taxable year must pay their tax liability by Electronic Funds Transfer. (See *Payment by Electronic Funds Transfer*, beginning on page 4 for details.)
- If the corporation made extension payments through AZTaxes.gov, it is not required to file Arizona Form 120/165EXT.
- If the original return is filed under extension, check box 82F on page 1 of the return.
- Do not include a copy of the extension with your return. See the department's ruling, CTR 01-3, *Extensions*, for additional information.

### Filing Original Returns

- Returns are due by the 15<sup>th</sup> day of the 4<sup>th</sup> month following the close of the taxable year.
- A corporation filing a short-period return must file by the 15<sup>th</sup> day of the 4<sup>th</sup> month after the short period ends.
- If the corporation has a valid federal or Arizona filing extension, the return is due by the extended due date. See the examples in "*Extension of Time to File a Return*" to determine the extended due date of a return filed using a federal extension or an Arizona extension.
- If the return is filed under extension, check box 82F on page 1 of the return.
- If the original due date or extended due date for the return falls on a Saturday, Sunday, or a legal holiday, the return is considered timely filed if it is post-marked the next business day. See the department's ruling, GTR 16-2, *Timely Filing of Income or Withholding Tax Return – Holidays and Weekends*.
- The return must be signed by one or more of the officers of the corporation (President, Treasurer, or any other principal officer).
- Do not submit a blank Arizona return with a copy of the federal return.

- Taxpayers must furnish complete data.
- Answer all questions on the return.
- Complete all applicable schedules.
- Include all appropriate supplementary schedules.
- The corporation must electronically submit Arizona Form 120 unless it has one of the following:
  - A federal waiver from electronically filing your federal return.
  - It meets one of the federal exemptions from electronically filing its federal return.
  - The corporation received an Arizona filing waiver pursuant to A.R.S. § 43-323(F).
  - The corporation meets one of the Arizona exemptions from electronically filing your Arizona return.
  - The corporation been directed by the IRS or the department to paper file your return.
- If the corporation have been granted a waiver from electronically filing Arizona Form 120, or it is not required to e-file your return, mail the return to:
 

Arizona Department of Revenue  
P.O. Box 29079  
Phoenix, AZ 85038-9079
- The department requests that taxpayers include a copy of their "as-filed" federal return (i.e. federal Form(s) 1120, 1120-F, etc.) and all its schedules and attachments with their Arizona return.
  - **Corporations filing Arizona Form 120 electronically or by paper:** To reduce the size of the return, the detail of Schedule M-3 may be omitted. In addition, it is not necessary to include copies of the following federal Forms: Form 5471, Form 8621, and Form 8858.
  - **Corporations wishing to file Arizona Form 120 electronically, please note:** due to system constraints, the department's computer system can handle an electronically filed return up to 246MB in size. The department requests that returns in excess of 246MB in size be filed as paper returns. (For additional limitations on e-filed returns, refer to *Which Corporations Are Not Required to Electronically (E-File) Their Arizona Income Tax Returns?* on page 5 of these instructions.)

### Filing Amended Returns

Any corporation that files an amended return with the IRS, **must**, within 90 days of the IRS final determination of the amended federal return, file an Arizona amended return using Arizona Form 120X.

The corporation must report changes or corrections of its taxable income by the IRS, or as a result of the renegotiation of a contract or subcontract with the United States, to the department. The corporation **must**, within 90 days of the final determination of the change or correction either:

- File a copy of the final determination with the department, concede the accuracy of the determination or state any errors, and request the department to recompute the tax owed to Arizona; or,
- File an amended return as required by the department.

If submitting a notice of final determination, the corporation must provide sufficient information for the department to recompute its Arizona taxable income based on the changes made in the final determination. **NOTE:** the department may require the corporation to file an amended return if the department does not have this information.

If submitting an amended return based on federal changes, please include a copy of the Revenue Agent Report of the final determination notice.

Amended returns that are not based on federal changes should include any schedules, forms, and/or statements that are necessary information to recompute the tax owed Arizona.

Electronic filing of Arizona Form 120X is not available for taxable year 2023. Mail Arizona Form 120X to:

Arizona Department of Revenue  
PO Box 29079  
Phoenix, AZ 85038-9079

If the corporation was required to make its tax payments for the 2023 taxable year by electronic funds transfer (EFT), it must pay any additional tax due from an amended return by EFT.

**NOTE:** *File amended returns for prior taxable years on Arizona Form 120X for those taxable years. Use the 2023 Arizona Form 120X to amend only the 2023 taxable year.*

*Do not file an amended return until the original return has been processed.*

### Estimated Tax Payments for 2024

Corporations expecting an Arizona income tax liability for the taxable year of \$1,000 or more must make Arizona estimated income tax payments. All corporations required to make Arizona estimated income tax payments must make those payments by the 15<sup>th</sup> day of the 4<sup>th</sup>, 6<sup>th</sup>, 9<sup>th</sup>, and 12<sup>th</sup> months of their taxable year. Corporations that fail to make the required estimated tax payments are subject to a penalty on any estimated tax payment which is late or underpaid.

Arizona's required annual payment of corporate estimated income tax is the smaller of:

- Ninety percent of the taxpayer's Arizona tax liability (reduced by refundable tax credits and claim of right adjustments, if applicable) for the current taxable year; or,
- One hundred percent of the taxpayer's Arizona tax liability (reduced by refundable tax credits and claim of right adjustments, if applicable) for the prior taxable year. For a corporation to base its Arizona estimated tax payments on its prior taxable year's tax liability:
  - The corporation's return filed for the prior taxable year must have shown at least some amount of tax liability (an amount greater than zero); and
  - The corporation's return filed for the prior taxable year must have been for a period of twelve months.

Complete Arizona Form 120/PTE-W to compute the amount of the estimated payments for 2024 and to compute the required installments.

**NOTE:** *Taxpayers required to make corporate estimated payments via EFT that fail to do so are subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).*

*For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information*

### MAKING ESTIMATED TAX PAYMENTS

Corporations making estimated tax payments for 2024 that expect a 2024 income tax liability of \$500 or more must make Arizona estimated income tax payments using EFT. See the Section *Payment Electronic Funds Transfer* on page 5 for details on making tax payments by EFT.

**NOTE:** *Corporations that make estimated tax payments by EFT should not submit Arizona Form 120/165ES.*

Corporations making estimated payments for 2024 that expect a 2024 income tax liability of less than \$500 may pay by check, e-check, money order, credit card, or they may elect to participate in EFT. See the Section, *Payment by Electronic Funds Transfer* on page 6 for additional information. If paying by check or money order, complete Arizona Form 120/165ES and include the check or money order with the form.

**Is the corporation subject to the Estimated Underpayment Penalty for the 2023 taxable year?**

*See the instructions for Arizona Form 220/PTE.*

### Penalties and Interest

**NOTE:** *If more than one of the penalties described in A, B, or C apply, the maximum combined penalty is 25%.*

#### A. Late Filing Penalty

Without a valid federal or Arizona extension, a return filed after the original due date is subject to the late filing penalty. A return filed after its extended due date is also subject to the late filing penalty. The late filing penalty is 4.5% (.045) of the amount of tax required to be shown on the return. The penalty period is each month or fraction of a month between the due date of the return and the date the taxpayer filed the return. The maximum penalty is 25% of the tax found to be remaining due.

#### B. Extension Underpayment Penalty

The taxpayer must pay 90% of the tax liability reported on its return by the original due date of the return. If it does not, the extension underpayment penalty is charged on any late or underpaid extension payments. The extension underpayment penalty is 0.5% (.005) of the tax not paid for each 30-day period or fraction of a 30-day period between the original due date and the date the tax is paid. The maximum penalty is 25% of the unpaid tax. Taxpayers subject to the extension underpayment penalty are not subject to the late payment penalty described in C below.

#### C. Late Payment Penalty

The late payment penalty is charged on any amount shown as tax on a return that is not paid by the due date. The late payment penalty is 0.5% (.005) of the unpaid tax for each month or fraction of a month that the tax remains unpaid, not to exceed 10% of the unpaid tax.

**Amended Return Filers:** *If you voluntarily file an amended return and pay the additional tax due when you file your amended return, the department will not assess the late payment penalty. Exceptions are:*

- *The taxpayer is under audit by the department.*
- *The amended return was filed on demand or request by the department.*

Refer to the department’s ruling, CTR 09-1, *When do Penalties Apply to an Income Tax Return Filed Under An Extension*, for information on the application of penalties to returns filed under extension.

**D. Underpayment of Estimated Tax Penalty**

The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to the instructions for line 29 on page 11, or to Arizona Form 220/PTE for further details.

**E. Failure to Pay by Electronic Funds Transfer**

Corporations that anticipate a tax liability of \$500 or more for the taxable year must pay their tax liability by Electronic Funds Transfer (EFT).

Corporations required to pay their tax liability by EFT that fail to do so may be subject to a penalty equal to five percent (5%) of the amount of the payment not made by EFT.

**F. Interest**

The department charges interest on any portion of the tax not paid by the due date. The department compounds interest annually and applies it in the same manner and at the same time as the IRS. The Arizona rate of interest for both underpayments and overpayments for all taxpayers is the federal underpayment rate.

On January 1 of each year, the department adds any interest outstanding as of that date to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

**NOTE:** *The entire amount of tax, penalties, and interest is due by the original due date of the return.*

**Electronic Filing of Corporate Income Tax Returns**

**Electronic filing of Arizona corporate income tax returns is required for the 2023 taxable year.** Please see the department’s website at <https://azdor.gov/e-services/approved-vendors> for a list of approved software vendors.

**Which Corporations Are Not Required to Electronically File (E-file) Their Arizona Income Tax Returns?**

Corporations that cannot e-file their federal return cannot e-file their Arizona return.<sup>1</sup> Returns that are exempt from e-file at the federal level due to preparer’s technological difficulties and returns that are exempt due to IRS e-file limitations also cannot be e-filed to Arizona.

Corporations filing any of the following forms as a stand-alone return cannot e-file their federal return. As a result, those corporations cannot e-file their Arizona corporate income tax return and they are not required to obtain a filing waiver from the department.

Federal Form	Entity Type
1120-C	U.S. Income Tax Return for Cooperative Associations
1120-H	Homeowners Association
1120-FSC	Foreign Sales Corporations
1120-RIC	Regulated Investment Companies
1120-REIT	Real Estate Investment Trust
1120-SF	Settlement Funds
1120-ND	Nuclear Decommission Trusts
1120-IC-DISC	Interest Charge Domestic International Sales

In addition:

- Any corporation receiving a federal waiver from electronically filing its federal return is not required to e-file its Arizona return.
- Any corporation having a federal exemption from electronically filing its federal return is not required to e-file its Arizona return.
- Any corporation whose request for an Arizona filing waiver was not denied is not required to e-file its return.
- Any corporation having an Arizona exemption is not required to e-file its Arizona return.
- Any corporation submitting the 2023 Form 120 for a 2024 short-period return, submit a paper filed return. Do NOT submit this short period return electronically.
- Due to system constraints, the department’s computer can handle an electronically filed return up to 246MB in size. The department requests that returns in excess of 246MB in size be filed as a paper return.

**Requesting an Electronic Filing Waiver**

Any corporate taxpayer who is required to file its income tax return electronically may apply to the director for an annual waiver from the electronic filing requirement. The waiver may be granted if any of the following apply:

- The taxpayer has no computer.
- The taxpayer has no internet access.
- Any other circumstance considered to be worthy by the director.

Waivers are granted on an annual basis and expire at the end of the requested tax year. Waivers must be renewed each calendar year. If a waiver is not renewed, you will be subject to statutory electronic filing requirements at the expiration of your waiver.

To request a waiver, submit Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Form 292 is available at: <https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

A waiver is not required if the corporate income tax return cannot be electronically filed for reasons beyond the taxpayer’s control, including situations in which the taxpayer was instructed by either the Internal Revenue Service or the Arizona Department of Revenue to file by paper.

<sup>1</sup> See Section 1.6 of IRS Publication 4163, for Processing Year 2023.

Please contact the department at [azefile@azdor.gov](mailto:azefile@azdor.gov) if you need assistance in electronically submitting your Arizona corporate income tax return. If your return has been rejected, please include the Arizona submission ID and the form type (i.e. Arizona Form 120) in your correspondence.

### Payment of Tax, Penalties, and Interest

The entire amount of tax, penalties, and interest is due by the original due date of the return.

#### Payment by Electronic Funds Transfer

Corporations are required to pay their tax liability by electronic funds transfer (EFT) if the corporation owes \$500 or more for any taxable year beginning from and after December 31, 2020.

**NOTE:** *If a corporation was required to pay its 2022 tax liability by EFT, it must also pay any additional tax due from an amended return by EFT.*

#### Requesting a Waiver from the EFT Requirement

A corporation may apply to the director for an annual waiver from the electronic payment requirement. The application must be received by December 31<sup>st</sup> of each year. The director may grant the waiver if any of the following applies:

- The corporation has no computer.
- The corporation has no internet access.
- Any other circumstance considered to be worthy by the director exists, including:
  - The corporation has a sustained record of timely payments, and,
  - No delinquent tax account with the department.

To request a waiver, submit Arizona Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Arizona Form 292 is available by clicking here:

<https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

**NOTE:** *A corporation that is required to pay by EFT but who fails to do so is subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).*

*For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.*

#### How to Make EFT Payments

Corporations making an EFT payment from a checking or savings account or by credit card are no longer required to register with the department prior to making EFT payments for tax year 2023. Visit [AZTaxes.gov](http://AZTaxes.gov), click “Make a Corporation/S Corporation/Partnership Payment” and follow the prompts. **An officer of the corporation must complete the initial registration.**

- **Electronic payment from checking or savings account/e-check/ACH Debit.**

Payments can be made electronically from a checking or savings account. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov), click “Make a Corporation/S Corporation/Partnership Payment”, follow the prompts, and choose the e-check option. Follow the prompts to make your payment.

There is no fee to use this method. This payment method will debit the amount from the specified checking or savings account on the date specified. **When an electronic payment is made from a checking or savings account, a confirmation number will be generated. Please keep this confirmation number as proof of payment.**

- **Online credit card payment.**

Payments can be made by American Express, Discover, MasterCard, or Visa credit cards. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov), click “Make a Corporation/S Corporation/Partnership Payment”, follow the prompts, and choose the credit card option. This will take you to the website of the credit card payment service provider. Follow the prompts to make your payment.

The service provider will charge a fee based on the amount of the tax payment. The service provider will disclose the amount of the fee during the transaction and you will be given the option to continue or cancel. **If you accept the fee and complete the credit card transaction, a confirmation number will be generated. Please keep this confirmation number as proof of payment.**

- **Corporations may also make EFT payment by ACH Credit.** Corporations wishing to pay by ACH credit must register with the department before their ACH payment will be accepted.

To register to make ACH Credit payments, complete Arizona Form number 10366, *Electronic Funds Transfer (EFT) Disclosure Agreement for ACH Credit filers*, available here: <https://azdor.gov/forms/other-forms/electronic-funds-transfer-eft-disclosure-agreement-ach-credit-filers>. Complete the form as instructed. Submit the completed form at least ten business days before the first anticipated transaction as it may take that long to process the application.

Fax the completed form to the department at (602) 771-9913. You may also email the completed form to the department at [electronicfundstransfer@azdor.gov](mailto:electronicfundstransfer@azdor.gov). If you have not received your approval within one week, you may direct follow-up inquiries to [electronicfundstransfer@azdor.gov](mailto:electronicfundstransfer@azdor.gov). Once the application is processed, you will receive additional information to present to your bank to make the ACH Credit payment.

The corporation’s tax payment will be electronically transferred into the department’s account, normally the next business day. Consult with your bank for the timeframe required to make timely payments. You may be charged a service fee.

**NOTE:** *Corporate taxpayers using a foreign bank account to make EFT payments cannot make EFT payments by ACH Debit. The department does not accept ACH Debit payments from a foreign bank account. If the taxpayer wishes to make payment from a foreign bank account by EFT, the payment MUST be made by ACH Credit. See the instructions for ACH Credit above to register and make ACH Credit payments.*

## Arizona Filing Methods

There are three filing methods for corporate income tax returns filed to Arizona: (1) separate company (separate entity); (2) combined; and (3) consolidated.

### 1. Separate Company

A corporation files on a separate company basis if:

- It is not part of a group of corporations comprising a unitary business; and
- It is not a member of an affiliated group that elected to file an Arizona consolidated return.

### 2. Combined Return

A corporation files on a combined basis when it is part of a unitary group of corporations, unless the affiliated group elects to file an Arizona consolidated return.

- A unitary business comprises those parts and components whose functions are integrated and interdependent at the basic operational level.
- The entities comprising the unitary business must be owned or controlled directly or indirectly by the same interests that collectively own more than 50% of the voting stock.

**NOTE:** Refer to Arizona Administrative Code rule (A.A.C.) R15-2D-401 for additional requirements.

Also refer to the department's ruling, CTR 00-2, Defining Ownership or Control for Combined Returns, for additional information regarding whether a bond of direct or indirect ownership or control exists.

### Combined Return and Arizona Form 51

A unitary group of corporations required to file a combined return must:

- Complete Arizona Form 51, Section 1 for the first taxable year the group files a combined return.
- In succeeding taxable years, complete Section 2 (Additions) and Section 3 (Deletions) of Arizona Form 51 to report changes in the unitary group.
- Include the completed Arizona Form(s) 51 following page 4 of Arizona Form 120.
- Check the box on page 1, line D to indicate that Arizona Form 51 is included.

**NOTE:** The Arizona gross income of an Arizona unitary group is the consolidated federal taxable income of that unitary group. A multistate Arizona unitary group is a single taxpayer, and must allocate and apportion its income to Arizona using a single apportionment formula.

**IRC § 351 reorganizations:** Activities conducted as part of a unitary business do not become a separate and unrelated business simply because those activities are subsequently conducted by a different affiliated corporate entity. An affiliated corporation resulting from an IRC § 351 reorganization is required to file a combined return as part of the unitary group if its activities are conducted as a part of the unitary business. See the department's ruling, CTR 01-1, *Does a Federal Tax-Free I.R.C. § 351(a) Reorganization Affect the Arizona Unitary Determination of the Affiliated Companies.*

**Foreign corporation; water's edge limitation:** Do not allocate or apportion the income and expenses of a foreign corporation to Arizona if the foreign corporation is not itself subject to the Arizona corporate income tax. This provision does not apply if a foreign corporation is a member of an affiliated group that elects to file an Arizona consolidated tax return.

"Domestic corporation" means a corporation created or organized in the United States or under the laws of the United States, any of its states, or the District of Columbia.

"Foreign corporation" means:

- A corporation which is not a domestic corporation.
- A domestic corporation with less than 20% of its property, payroll, and sales in the United States. The percentage applies for the three-year period immediately preceding the close of the taxable year, or for such part of that period as the corporation has been in existence. The factors are equally weighted when making this determination.
- A domestic corporation for the immediately preceding three-year period (or for such part of that period as the corporation has been in existence) that:
  - Derived 80% or more of its federal gross income from sources in Puerto Rico or any other possession of the United States except the Virgin Islands; and
  - Derived 65% or more of its federal gross income from the **active conduct of a trade or business** in Puerto Rico or any other U.S. Possession except the Virgin Islands.

The department's procedure, CTP 02-1, *Determining Whether a Domestic Corporation Should be Treated as a Foreign Corporation for Arizona Income Tax Purposes*, provides sample calculations to determine whether a domestic corporation is considered a foreign (80/20) corporation for Arizona tax purposes.

### 3. Consolidated Returns

The common parent of an affiliated group of corporations that files a federal consolidated return may elect to file an Arizona consolidated return. The consolidated return includes all members of the group filing a federal consolidated return, regardless of whether each member is subject to Arizona income tax.

To make the Arizona consolidated election:

- The common parent must make the election on or before the due date, including extensions, for filing the return.
- Arizona Form 122 must be completed and signed by an officer of each subsidiary in the federal consolidated group.
- Arizona Form(s) 122 must be included with the tax return on which the Arizona consolidated election is made.

Once the election is made:

- The election is binding on the group for succeeding taxable years unless the department consents to a change of filing method.
- The election is binding on new members that become part of the federal consolidated group in subsequent tax periods.
- All members of the Arizona consolidated group are jointly and severally liable for the taxes, interest, and penalties of the group.

**NOTE:** For additional information, the following corporate tax rulings address consolidated tax returns:

- CTR 94-11, Consolidated Return Net Operating Loss
- CTR 94-12, Business/Nonbusiness Income in Consolidated Returns
- CTR 12-1, Consolidated Return Election
- CTR 12-2, Sale or Dissolution of Members of an Affiliated Group with a Liability from Filing Arizona Consolidated Returns

**Consolidated Return and Arizona Form 51**

An Arizona consolidated group that elects to file a consolidated return must:

- Complete Arizona Form 51, Section 1 of Arizona Form 51 for the first taxable year an Arizona consolidated return is filed.
- In succeeding taxable years, complete Section 2 (Additions) and Section 3 (Deletions), as needed to report changes in the Arizona affiliated group.
- Include the completed Arizona Form(s) 51 immediately following the completed Arizona Form 120.
- Check the box on page 1, line D to indicate that Arizona Form 51 is included.

**NOTE:** The Arizona gross income of an Arizona consolidated group is the consolidated federal taxable income of the consolidated group. A multistate Arizona consolidated group is a single taxpayer, and must allocate and apportion its income to Arizona using a single apportionment formula.

**Arizona Apportionment Methods**

There are three apportionment methods for multistate corporate income tax returns filed to Arizona: (1) air carrier apportionment, (2) standard apportionment, and (3) sales factor only apportionment.

Air carriers are required to use revenue miles. All other taxpayers may select either the standard or the sales factor only apportionment method.

**1. Air Carrier Apportionment**

An air carrier is required to use revenue miles to calculate its apportionment ratio. Check the box on line E on page 1, fill out Schedule ACA, and include it with your return. Do not complete Schedule E on Arizona Form 120.

**2. Standard Apportionment Formula**

All non-air carrier taxpayers may use Arizona’s standard apportionment formula, which double-weights the sales factor. Check the box on line E on page 1 and complete Schedule E using the number on the left-hand side of line E3e, column A, to double-weight the sales factor. Divide the total ratio by four.

**3. Sales Factor Only Apportionment Formula**

All non-air carrier taxpayers may use Arizona’s SALES FACTOR ONLY apportionment formula, which is determined by dividing Arizona Sales by Everywhere Sales. Check Box 3 on line E of page 1, complete Schedule E, Section E3, “Sales Factor”, lines a through f.

**Specific Instructions**

Calendar year filers, check the box “calendar year 2023”. Fiscal year filers, check the box, “fiscal year” and enter the

beginning and ending dates for the fiscal year. If this is a short-period return, indicate the beginning and ending dates of the short-period. Check the box if this return is based on a 52/53 week taxable year.

Type or print the required information in the name, address, and information boxes on the top of page 1. Include the Business Telephone Number (with area code), and the Business Activity (NAICS) Code from the corporation’s federal return.

If the taxpayer has a foreign address, enter the information in the following order: city, province or state, and country. Follow the country’s practice for entering the postal code. **Do not abbreviate the country’s name.**

Consolidated return filers, enter the common parent corporation’s name, address, and employer identification number (EIN). The filer’s name on a consolidated return should include the phrase, “and affiliates.”

Combined return filers, enter the name, address, and EIN of the corporation under which the group is filing. The filer’s name on a combined return should include the phrase, “and unitary subsidiaries”, or “and unitary affiliates”, whichever is applicable.

Enter the taxpayer’s employer identification number (EIN); Taxpayers that fail to include their EIN may be subject to a penalty.

**Box 68**

- Check box “A”, “This is a first return” if this is the taxpayer’s first return filed to Arizona.
- Check box “B”, “Name change” if the taxpayer changed its name during the tax year.
- Check box “C”, “Address change” if the taxpayer changed its address during the tax year.

**Box 82F**

Check box 82F if this return is filed under extension.

**Line A**

Is the taxpayer’s FEDERAL return filed on a consolidated basis?

- Check “Yes” if the taxpayer’s FEDERAL return was filed on a consolidated basis. Also, enter the EIN for the taxpayer’s common parent on the line below.
- Otherwise, check “No.”

**Line B**

Check the box indicating the taxpayer’s Arizona filing method (for a discussion of filing method, see *Arizona Filing Methods* on page 6 of these instructions).

- Check Box 1, if the taxpayer filed a separate company return.
- Check Box 2, if the taxpayer filed a combined (unitary group) return.
- Check Box 3, if the taxpayer filed an Arizona consolidated return.

**Line C**

If Box 3 of Line B, above, is checked, enter the last day of the tax year Arizona Forms 122 were filed making the “Consolidated Filer” election. Enter the date in MM/DD/YYYY format.

**Line D**

If the taxpayer checked Box 2 or Box 3 on line B, see the instructions for Arizona Form 51.



- Check “Yes” if Arizona Form 51 is included.
- Check “No” if Arizona Form 51 is not included.

**Line E**

If the taxpayer is a multistate corporation, check the box indicating its method of apportioning income to Arizona.

- Check Box 1 if the taxpayer used Air Carrier Apportionment. Complete Arizona Form ACA and include it with this return.
- Check Box 2 if the taxpayer used the Standard Apportionment formula.
- Check Box 3 if the taxpayer used the Sales Factor Only Apportionment formula.

If the taxpayer is not a multistate corporation, or did not apportion its income to Arizona, leave this line blank.

**Line F**

- Check this box only if the taxpayer elected to be treated as a multistate service provider by completing Arizona Schedule MSP and including it with this return. Check the appropriate box, Yr. 1 through Yr. 5, to indicate the year of the taxpayer’s election cycle.
- If the taxpayer did not elect multistate service provider treatment, leave this line blank.

**Line G**

Is this the taxpayer’s final Arizona corporate income tax return using this EIN?

- If yes, check “Yes” and check the appropriate box
  - Check Box 1 if the corporation is “Dissolved,”; or
  - Check Box 2 if the corporation withdraws from Arizona; or
  - Check Box 3 if the taxpayer “Merged/Reorganized.” If there is a successor corporation, indicate the EIN of the successor corporation in the space provided.
- If this is not the corporation’s final Arizona return under this EIN, check “No.”

**Line H - Marijuana Establishments only**

Check only one box.

- Check Box 1 if the corporation is licensed by ADHS as an Adult Use only establishment,
- Check Box 2 if the corporation is licensed by ADHS as a Dual Licensee that has elected to operate on a for-profit basis, or
- Check Box 3 if the corporation is licensed by ADHS as a Dual Licensee that has not elected to operate on a for-profit basis.

If the corporation is registered with the Arizona Department of Health Services as a Nonprofit Medical Marijuana Dispensary, leave blank.

**Arizona Taxable Income Computation**

**Line 1 - Taxable Income per Federal Return**

Enter taxpayer’s federal taxable income as reported on its federal income tax return. If this is a combined return, include a schedule showing the computation of line 1, broken down by company.

**NOTE COMBINED RETURN FILERS:** *A unitary group of corporations filing a combined return must determine income using the same accounting period.*

**Line 2 - Additions to Taxable Income**

Enter total adjustments from page 2, Schedule A, line A9. See instructions on page 12 for Schedule A.

**Line 4 - Subtractions from Taxable Income**

Enter total adjustments from page 2, Schedule B, line B11. See instructions on page 14 for Schedule B.

**Line 5 - Adjusted Income**

Subtract line 4 from line 3. Enter the difference.

- 100% Arizona corporations, check box 5a. Skip lines 6 through 12. Go to line 13.
- Multistate corporations, continue to line 6.

**NOTE:**

- *A corporation that has income from business activity that is taxable entirely within Arizona is a 100% Arizona corporation.*
- *A corporation that has income from business activity taxable in more than one state is a multistate corporation.*

**Lines 6 through 12 - Apportionment Computation -- Multistate Corporations Only**

Multistate corporations, complete lines 6 through 12 as instructed on the form.

A multistate corporation must allocate and apportion its net income according to the Uniform Division of Income for Tax Purposes Act (UDITPA). For more detailed information, refer to pages 17 through 21 of these instructions for Schedules C, D, and E, or to the separate instructions for Schedule ACA.

**Line 9 - Arizona Apportionment Ratio Multistate Corporations Only**

Compute the apportionment ratio on Schedule E (for non-air carrier taxpayers) or ACA (for air carrier taxpayers). Enter the average apportionment ratio on line 9. Carry out the decimal to six places.

**NOTE:** *If line 9 is “0.000000”, the corporation is considered to have no Arizona nexus.*

*If line 9 is blank or 1.000000, the corporation is considered to be 100% Arizona (taxable entirely within Arizona).*

**Line 13 - Arizona Income Before Net Operating Loss**

**100% Arizona Corporations:**

Enter your Arizona adjusted income from line 5.

**Multistate Corporations:**

Enter your Arizona adjusted income from line 12.

**Line 14 - Arizona Basis Net Operating Loss (NOL) Carryover**

If the corporation incurred Arizona losses in prior taxable years, the corporation can apply those losses against current Arizona income. For taxable years beginning from and after December 31, 2011, an NOL may carry forward to the next 20 succeeding taxable years.

Be sure to maintain records long enough to substantiate the subtraction in the taxable year taken.

The amount entered on line 14 cannot exceed the amount on line 13. Include a separate computation schedule.

**NOTE:** Information about the Arizona NOL carryover calculation can be found in A.R.S. § 43-1123, A.A.C. R15-2D-302, and Arizona Corporate Tax Rulings: CTR 91-2, Arizona Net Operating Loss Calculation – Change of Filing Method  
CTR 94-11, Consolidated Return Net Operating Loss  
CTR 99-3, Recalculation NOLs from Separate Corporate Returns to a Combined Corporate Return

**Line 15 - Arizona Taxable Income**

Subtract line 14 from line 13. Enter the difference.

**Arizona Tax Liability Computation**

**Line 16 - Arizona Tax**

Multiply line 15 by 4.9%. Enter the result. If the result is less than \$50, enter the minimum tax of \$50. Every corporation required to file a return shall pay a \$50 minimum tax.

*Combined or consolidated returns* - a unitary group or an Arizona affiliated group is considered a single taxpayer. The minimum tax is imposed on the single taxpayer rather than on each corporation within the group.

**Line 17 - Tax from Recapture of Tax Credits**

Enter the amount of tax due from recapture of the credits from Arizona Form 300, Part 2, line 23.

**Line 18 - Subtotal**

Add lines 16 and 17. This is the amount of tax to which the total amount of tax credits claimed by the taxpayer may be applied.

**Line 19 - Nonrefundable Tax Credits**

Enter the allowable nonrefundable tax credit amount from Arizona Form 300, Part 2, line 42. This amount cannot be larger than the amount on line 18. Complete the appropriate credit form for each tax credit. Include the completed credit form and Arizona Form 300 with the tax return.

- **Credit for Increased Research Activities<sup>2</sup>**  
This tax credit is for taxpayers who incur qualified research expenses for research conducted in Arizona. A portion of the excess credit claimed for taxable years beginning from and after December 31, 2009, may be refundable with approval from the Arizona Commerce Authority. **Enter only the nonrefundable portion of this credit on line 19.** Complete Arizona Form 308 to claim this tax credit.
- **Pollution Control Credit**  
This tax credit is for expenses incurred during the taxable year to purchase real or personal property used in the taxpayer's trade or business in Arizona to control or prevent pollution. Complete Arizona Form 315 to claim this tax credit.

<sup>2</sup> For taxable years beginning from and after December 31, 2022, taxpayers may claim the "regular" credit for Increased Research Activities or the Alternative Simplified Credit for Increased Research Activities. Please refer to the instructions for Form 308 for additional information.

- **Credit for Taxes Paid for Coal Consumed in Generating Electrical Power**  
This tax credit is for a percentage of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona. "Amount paid by the seller or purchaser as transaction privilege tax or use tax" means that the taxpayer paid the Arizona use tax to the department, the seller passed the Arizona transaction privilege tax through to the taxpayer as an added charge, or the seller collected the Arizona use tax from the taxpayer. Complete Arizona Form 318 to claim this tax credit.
- **Credit for Employment of Temporary Assistance for Needy Families (TANF) Recipients**  
This tax credit is for net increases in qualified employment for recipients of TANF who are residents of Arizona. Complete Arizona Form 320 to claim this tax credit.
- **Credit for Donation of School Site**  
This tax credit is for the donation of real property and improvements to an Arizona school district or Arizona charter school for use as a school or as a site for the construction of a school. Complete Arizona Form 331 to claim this tax credit.
- **Credit for Employing National Guard Members**  
This tax credit is for an employer who has an employee that is a member of the Arizona National Guard and the employee was placed on active duty. Complete Arizona Form 333 to claim this tax credit.
- **Credit for Corporate Contributions to School Tuition Organizations**  
This tax credit is for corporations who make contributions to school tuition organizations that provide scholarships and tuition grants to children attending qualified nongovernmental schools. Complete Arizona Form 335 to claim this tax credit.
- **Credit for Solar Energy Devices - Commercial and Industrial Applications**  
This tax credit expired for taxable years beginning after December 31, 2018. The expiration does not affect carryovers of this properly established credit. Complete Arizona Form 336 to figure the carryforward of this tax credit.
- **Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students With Disabilities**  
This tax credit is for corporations who make contributions to school tuition organizations that provide scholarships and tuition grants to qualifying children attending qualified nongovernmental schools. Complete Arizona Form 341 to claim this tax credit.
- **Renewable Energy Production Tax Credit**  
This tax credit is for taxpayers that produce electricity using qualified energy resources. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Complete Arizona Form 343 to claim this tax credit.

- Credit for New Employment**  
 This tax credit is for taxpayers that have net increases in employment. The credit limit is administered by the Arizona Commerce Authority. Complete Arizona Form 345 to claim this tax credit.
- Additional Credit for Increased Research Activities for Basic Research Payments**  
 This tax credit is for taxpayers that make qualified basic research payments for research conducted in Arizona. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Complete Arizona Form 346 to claim this tax credit.
- Credit for Renewable Energy Investment and Production for Self-Consumption by International Operations Centers**  
 This tax credit is for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy resources if the power will be used primarily for International Operations Centers. Complete Arizona Form 351 to claim this tax credit.
- Healthy Forest Production Tax Credit**  
 This tax credit is for the processing of qualifying forest products. Complete Arizona Form 353 to claim this credit.
- Affordable Housing Tax Credit**  
 This tax credit is for projects in this state that qualify for the federal low-income housing tax credit under Section 42 of the Internal Revenue Code. Complete Arizona Form 354 to claim this credit.

**Line 20 - Credit Type**

Enter the applicable credit form number in the space(s) provided to indicate which nonrefundable tax credits are claimed on line 19.

Nonrefundable Income Tax Credit	Form
Credit for Increased Research Activities	308
Pollution Control Credit	315
Credit for Taxes Paid for Coal Consumed in Generating Electrical Power	318
Credit for Employment of TANF Recipients	320
Credit for Donation of School Site	331
Credit for Employing National Guard Members	333
Credit for Corporate Contributions to School Tuition Organizations	335
Credit for Solar Energy Devices - Commercial and Industrial Applications	336
Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students With Disabilities	341
Renewable Energy Production Tax Credit	343
Credit for New Employment	345
Additional Credit for Increased Research Activities for Basic Research Payments	346
Credit for Renewable Energy Investment and Production for Self-Consumption by International Operations Centers	351
Healthy Forest Production Tax Credit	353
Affordable Housing Tax Credit	354

**Line 21 - Tax Liability**

Subtract line 19 from line 18. Line 21 cannot be a negative amount.

**Tax Payments**

**Line 22 - Refundable Tax Credits**

Check the box(es) marked 308, 334, and/or 349 to indicate which of these refundable tax credits the taxpayer is claiming. Enter the total amount of the refundable credits claimed on line 22.

**Credit for Increased Research Activities**

A portion of this tax credit is refundable for qualified taxpayers. The refund is limited to 75% of the excess credit, which is the current year's credit less the current year's tax liability, not to exceed the amount approved by the Arizona Commerce Authority. Include a copy of your "Certificate of Qualification" from the Arizona Commerce Authority, Arizona Form 300, and Arizona Form 308 with your return. Enter the amount from Arizona Form 308, Part 7, line 42.

**Credit for Motion Picture Production Costs**

This credit is allowed against production costs paid by a motion picture production company in this state that are subject to taxation in Arizona and that are directly attributable to a motion picture production. Include a copy of your post approval from the Arizona Commerce Authority, Arizona Form 300, and Arizona Form 334 with your return. Enter the amount from Arizona Form 334, Part 6, line 16.

**Credit for Qualified Facilities**

This tax credit is for expanding or locating a qualified facility in Arizona and is refundable in five equal installments. Pre-approval and post-approval are required through the Arizona Commerce Authority. Include a copy of your "Certification of Qualification" from the Arizona Commerce Authority and Arizona Form 349 with your tax return to claim this credit. Enter the amount from Arizona Form 349, Part 8, line 20.

If you are claiming more than one of the refundable tax credits, check the appropriate boxes and add the amounts from the credit forms together and enter the total on line 22, or use the worksheet below to figure the amount to enter on line 22.

Refundable Credit Worksheet	
1. Enter the refundable credit from Arizona Form 308, Part 7, line 42.	
2. Enter the refundable credit from Arizona Form 334, Part 6, line 16.	
3. Enter the apportioned credit from Arizona Form 349, Part 8, line 20.	
4. Add the amounts on lines 1 through 3. Enter the total here and on Arizona Form 120, line 22.	

**Line 23 - Extension Payments**

Enter the total amount(s) of extension payments made from Arizona Form 120, page 3, Schedule F, and/or with Arizona Form 120/165EXT. See the instructions on page 21 for Schedule F, or the instructions for Arizona Form 120/165EXT, for information on making extension payments.

**NOTE:** Taxpayers whose 2023 income tax liability is \$500 or more must make extension payments by EFT. See the instructions for Arizona Form 120/165EXT for additional information.

**Lines 24(a), 24(b), and 24(c) - Estimated Payments and Claim of Right**

- a. Enter the total amount of estimated payments made and reported on Arizona Form 120, page 3, Schedule F.
- b. If you recomputed a prior year's tax under Arizona's claim of right provision, complete *Arizona Claim of Right - Corporate* form. Enter the amount from Part 2, line 8. Include the claim of right form with your return. If you completed more than one claim of right form, add all amounts on line 8, and enter the total.
- c. Add the amounts on line 24(a) and 24(b). Enter the total.

**NOTE FOR CLAIM OF RIGHT RESTORATION:** If you recomputed a prior year's tax under Arizona's claim of right provision, you must complete and include *Arizona Claim of Right - Corporate* form with your return. If you fail to complete and include this form, the amount of your claim may be denied.

Refer to the department's procedure, CTP 16-1, Procedure for Corporations That Restore Substantial Amounts Held Under a Claim of Right, for additional information on Arizona's Claim of Right provision.

**Line 25 - Total Payments**

Add lines 22, 23 and 24(c). Enter the total.

**Computation of Total Due or Overpayment**

**Line 26 - Balance of Tax Due**

If the amount on line 21 is larger than the amount on line 25, there is a balance of tax due. Subtract line 25 from line 21 and enter the difference. Skip line 27.

**Line 27 - Overpayment of Tax**

If the amount on line 25 is larger than the amount on line 21, there is an overpayment of tax. Subtract line 21 from line 25 and enter the difference.

**Line 28 - Penalty and Interest**

The taxpayer may choose to calculate any penalty and interest due as a result of late filing, late payment of tax, or extension underpayment of tax. Interest is calculated on the amount shown on line 26 at the prevailing rate. The interest period is from the original due date of the return to the payment date. For additional information, see the "Penalties and Interest" section on page 3 of these instructions.

**Do not include or enter the amount from the Estimated Tax Underpayment Penalty.**

**NOTE:** If the taxpayer chooses to calculate the penalty and interest amount(s) to be entered on this line, round the result to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.

If the taxpayer chooses not to calculate interest and penalties, the department will calculate them, and as appropriate, include that amount in any refund, or bill the taxpayer.

**Line 29 - Estimated Tax Underpayment Penalty**

The taxpayer does not have to complete Arizona Form 220/PTE, *Underpayment of Estimated Tax by Corporations*, if it made its estimated tax payments based on either of the following methods:

- An amount equal to 90% of the current taxable year's tax liability (reduced by refundable tax credits and claim of right adjustments, if applicable), paid in four equal installments; or
- An amount equal to 100% of the taxpayer's tax liability (reduced by refundable tax credits and claim of right adjustments, if applicable) for the prior taxable year, paid in four equal installments.

**Large Corporations**

Large corporations<sup>3</sup> must make an annual estimated tax payment equal to 90% of the tax shown on the return for the current taxable year. If the large corporation reduces its first installment payment, that amount must be recaptured by increasing the amount of the next installment payment by the amount of the reduction.

The department will compute the estimated tax underpayment penalty based on either of these methods and notify the taxpayer of any amount due. If the taxpayer elects to have the department compute the penalty, do not check box 29A or enter an amount on line 29.

The taxpayer **must** complete Arizona Form 220/PTE, even though no penalty is due, if it made its estimated tax payments based on any of the following methods:

- The annualized income installment method; or
- The adjusted seasonal installment method; or
- The taxpayer is a large corporation that computed its first required installment based on the taxpayer's tax liability for the prior taxable year.

Enter the total penalty from Arizona Form 220/PTE, Part C, line 37. Include the completed Arizona Form 220/PTE with the return **and** check box 29A.

See the instructions for Arizona Form 220/PTE for detailed information.

**Line 30 - Total Due**

If the taxpayer has a balance of tax due on line 26, add lines 26, 28, and 29. Enter the total. This is the total amount due.

**Payment of Tax, Penalties, and Interest**

The entire amount of tax, penalties, and interest is due by the original due date of the return.

**Corporate taxpayers required to make payments by EFT**, see the Section, *Payment by Electronic Funds Transfer* on page 4 of these instructions for options to pay your tax liability by EFT.

**Corporate taxpayers not required to make payment by EFT** may elect to pay by EFT or they may pay by check or

<sup>3</sup> A "Large Corporation" is defined as: "... a corporation or unitary group of corporations if the corporation, or a predecessor corporation, had federal taxable income of one million dollars or more for any of the immediately preceding three taxable years, excluding any federal net operating loss or capital gains carryback or carryovers." A.R.S § 43-582(C).

money order. Make the check or money order payable to the Arizona Department of Revenue. Include the corporation's EIN on the front of the check or money order.

- **If the corporation's income tax return was submitted electronically**, submit the check or money order with Arizona Form 120/165V, available here: <https://azdor.gov/forms/corporate-tax-forms/arizona-corporate-or-partnership-income-tax-payment-voucher>. Mail Form 120/165V and the check or money order to the address indicated on the form.
- **If the corporation is filing a paper return**, include the check or money order with the corporation's income tax return. Mail the check or money order and the return to:  
Arizona Department of Revenue  
PO Box 29079  
Phoenix, AZ 85038-9079

**Line 31 - Overpayment**

If the taxpayer has an overpayment of tax on line 27, subtract the total of lines 28 and 29 from line 27. Enter a positive difference on line 31. This is the total overpayment. If the difference is negative, enter the difference as a positive number on line 30.

**Line 32 - Overpayment Applied to Estimated Tax**

The taxpayer may apply part or all of an overpayment reported on line 31 as a 2024 estimated tax payment. Enter the applicable amount on line 32.

**Line 33 - Refund**

Subtract line 32 from line 31 and enter the difference. This is the net refund amount.

**Schedule A - Additions to Taxable Income**

On lines A1 through A8 of Schedule A, enter all income taxable under Arizona law that is exempt for federal tax purposes. Also, enter all deductions allowed under federal law that are not allowed under Arizona law.

**Line A1 - Total Federal Depreciation**

Enter the total amount of depreciation deducted on the federal return.

**Line A2 - Taxes Based on Income**

Enter the amount of taxes based on income paid to any states (including Arizona), to foreign governments, or to their political subdivisions included in federal taxable income.

**Line A3 - Interest on Obligations**

Enter the amount of federally tax-exempt interest income on obligations of any state or foreign government, or their political subdivisions (except Arizona). All taxpayers except A.R.S. § 6-101 financial institutions must reduce the amount of interest income by certain expenses. Reduce the amount of interest income by the amount of any interest on indebtedness and other related expenses incurred or continued to purchase or carry those obligations that were not otherwise deducted or subtracted in the computation of Arizona gross income.

**Line A4 - Federal Special Deductions**

Enter the special deductions claimed on the federal tax return for dividends received pursuant to IRC §§ 243, 245, 245A and 250(a)(1)(B). Add back any deduction taken on the federal tax return pursuant to IRC § 965(c) related to repatriation income.

**Line A5 - Federal Net Operating Loss**

Enter the federal net operating loss deduction claimed on the federal tax return.

**Line A6 - Additions Related to Arizona Tax Credits**

Enter the additions to federal taxable income related to Arizona tax credits claimed on this return. The Arizona tax credits requiring an add back are listed below.

Complete the worksheet for Schedule A, line A6 on page 5 of the return before entering the total. If you enter an amount on line A6, include the worksheet with your return.

**A. Pollution Control Credit**

• **Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the taxpayer claimed a tax credit on Arizona Form 315 in a current or prior taxable year.

• **Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the taxpayer claimed a tax credit on Arizona Form 315 in a prior taxable year was sold or otherwise disposed of during the taxable year.

**B. Credit for Taxes Paid for Coal Consumed in Generating Electrical Power**

Enter the amount of expenses deducted pursuant to the IRC for which the taxpayer claimed the credit for taxes paid for coal consumed in generating electrical power, in Arizona on Arizona Form 318. The addition is required for the amount of Arizona transaction privilege taxes and Arizona use taxes included in the computation of federal taxable income for which the Arizona tax credit is claimed.

**C. Credit for Employment of Temporary Assistance for Needy Families (TANF) Recipients**

Enter the amount of wage expenses deducted pursuant to the IRC for which the taxpayer claimed a tax credit for employment of TANF recipients on Arizona Form 320.

**D. Credit for Donation of School Site**

Enter the amount deducted pursuant to the IRC representing a donation of a school site for which this taxpayer claimed a tax credit on Arizona Form 331.

**E. Credit for Motion Picture Production Costs**

Enter the amount of motion picture production costs that were deducted pursuant to the IRC for which a tax credit is claimed on Arizona Form 334. This includes any amounts passed through from partnership interests.

**F. Credit for Corporate Contributions to School Tuition Organizations**

Enter the amount deducted as contributions in computing federal taxable income for which a tax credit is claimed on Arizona Form 335. This includes any amounts passed through from partnership interests.

**G. Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students with Disabilities**

Enter the amount deducted as contributions in computing federal taxable income for which a tax credit is claimed on Arizona Form 341. This includes any amounts passed through from partnership interests.

**H. Total Additions Related to Arizona Tax Credits**

Add the amounts on lines A1 through F. Enter the total. Also, enter the total on page 2, Schedule A, line A6.

**Line A7 - Capital Loss from Exchange of Legal Tender**

Enter the amount of any net capital loss included in Arizona gross income for the taxable year that is derived from the exchange of one kind of legal tender for another kind of legal tender.

- "Legal tender" means a medium of exchange, including specie, that is authorized by the United States Constitution or Congress for the payment of debts, public charges, taxes and dues.
- "Specie" means coins having precious metal content.

**Line A8 - Other Additions to Federal Taxable Income**

Enter the total amount of "other additions" to federal taxable income required to be added back. The "other additions" required to be added back are listed below.

Complete the worksheet for Schedule A, line A8 on page 5 of the return before entering the total. If you enter an amount on line A8, include the worksheet with your return.

**A. Positive Partnership Income Adjustment**

If you received Arizona Form 165 Schedule K-1(NR), and the amount on line 15 is positive, enter the amount from column (a) on line A8. If you received more than one Arizona Form 165 Schedule K-1(NR), total the positive amounts from line 15, column (a) and enter that total on line A8.

If the amounts on Arizona Form 165 Schedule K-1(NR), line 15, are negative, enter the amount from column (a) on Schedule B, line B10. See the instructions for Schedule B, line B10 on page 15 for additional information.

**B. Federal Exploration Expenses**

Enter the amount of IRC § 617 exploration expenses in excess of \$75,000 and the amount of such expenses deferred not in excess of \$75,000.

**C. Federal Amortization or Depreciation for Facilities and Equipment Amortized Under Arizona Law**

Enter the amount of amortization or depreciation deducted pursuant to the IRC for the following:

- **Pollution Control Devices** - If the taxpayer made an election to amortize pursuant to A.R.S. § 43-1129.
- **Child Care Facilities** - If the taxpayer made an election to amortize pursuant to A.R.S. § 43-1130.

**D. Expenses and Interest Relating to Income Not Taxed by Arizona**

Enter expenses and interest relating to income not taxed by Arizona. Refer to A.R.S. § 43-961(5).

**NOTE:** *Taxpayers deducting foreign dividend income that is not required to be included in the taxpayer's Arizona taxable income must add back the expenses attributable to that foreign dividend income.*

**E. Tax-Exempt Insurance Company Loss**

Enter the loss of an insurance company exempt under A.R.S. § 43-1201 to the extent included in computing Arizona gross income on a consolidated return pursuant to A.R.S. § 43-947.

**F. Amounts Repaid in Current Taxable Year**

Enter the amount of the deduction claimed under IRC § 1341(a)(4) for restoration of a substantial amount held under a claim of right which was included in the computation of Arizona gross income.

**G. Excess Federal Capital Loss Carryover under a Claim of Right Restoration**

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

**H. Domestic International Sales Corporations**

Enter the total amount of commissions, rentals, and other amounts paid or accrued to a Domestic International Sales Corporation (DISC) controlled by the payer corporation. Make this adjustment if the DISC does not have to report its taxable income to Arizona because its income is not derived from or attributable to sources within Arizona. "Control" means direct or indirect ownership or control of 50% or more of the voting stock of the DISC by the payer corporation.

No addition is required if:

- The payer corporation files an Arizona combined return with the DISC; or
- The DISC transactions comply with the IRC § 994 inter-company pricing provisions.

**I. Expenditures for the Americans with Disabilities Act**

If a subtraction is or has been taken in the current or a prior taxable year for the full amount of eligible access expenditures paid or incurred to comply with the Americans with Disabilities Act of 1990 or A.R.S. Title 41, chapter 9, article 8, enter any amount of eligible access expenditures that is recognized under the IRC, including any amount that is amortized and that is included in computing Arizona taxable income for the current taxable year.

**J. Treatment of Installment Obligations When Corporate Activities Cease in Arizona**

Corporations filing a final corporate income tax return to Arizona, enter the amount of unreported income from the sale or other disposition of property from an installment sale.

If a corporation elected to report income from the sale or other disposition of property on the installment method and some of that income remains unreported on the year the corporation

ceases to be subject to Arizona corporate income tax, enter the amount of the corporation's unreported income on line A8.

This provision does not apply if a reorganization transfers the installment obligation to another taxpayer subject to Arizona corporate income tax. The transferee may not use its capital losses to offset the income from the installment obligation transferred from a corporation that is no longer subject to tax.

#### **K. Total Other Additions**

Add the amounts on lines A through J. Enter the total. Also, enter the total on page 2, Schedule A, line A8.

### **Schedule B - Subtractions from Taxable Income**

On lines B1 through B10 of Schedule B, enter all income that is exempt from Arizona tax but is taxable under federal law. Also, enter any deduction allowed under Arizona law that is not deductible for federal tax purposes.

#### **Line B1 - Recalculated Arizona Depreciation**

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

#### **Line B2 - Basis Adjustment for Property Sold or Otherwise Disposed of During the Taxable Year**

For taxable years beginning from and after December 31, 1999, taxpayers were required to add back all federal depreciation. Taxpayers who sold or otherwise disposed of property during this year may subtract any resulting difference between federal and Arizona basis. Enter the amount of depreciation that has been allowed pursuant to IRC § 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 for the difference in basis for any asset for which bonus depreciation has been claimed on the federal return.*

#### **Line B3 - Dividends from Controlled Domestic Corporations**

Enter dividend income received from a domestic corporation owned or controlled, directly or indirectly, by the recipient corporation. "Control" means direct or indirect ownership or control of 50% or more of the voting stock of the payer corporation by the recipient corporation. Dividends shall have the meaning provided in IRC § 316. Do not include "Gross-up" dividends.

#### **Line B4 - Foreign Dividend Gross-up**

Enter the amount of IRC § 78 foreign "gross-up" dividends received.

#### **Line B5 - Dividends from Foreign Corporations**

Enter the dividend income received from foreign corporations. Sub-part F income (IRC § 952), global intangible low-taxed income (IRC § 951A), and repatriation income (IRC § 965(a)) are treated as foreign dividends. See the department's ruling, CTR 02-3, *Is Income From a Qualified Electing Fund (QEF) Taxable?*, for information on the treatment of income from a qualified electing fund.

**NOTE:** *Taxpayers subtracting foreign dividend income from Arizona taxable income on line B4 and/or line B5 must add back the expenses that are attributable to that foreign income.*

#### **Line B6 - Interest on U.S. Obligations**

Enter the interest received from U.S. obligations not taxed by Arizona. See the department's ruling, CTR 06-1, *Obligations of the United States Government, Federal Agencies and United States Territories*, for a listing of qualifying U.S. obligations.

#### **Line B7 - Agricultural Crops Contributed to Charitable Organizations**

Enter the amount of the allowable subtraction for qualified crop contributions made during the taxable year to one or more Arizona tax-exempt charitable organizations for use in Arizona. Refer to the department's procedure, ITP 12-1, *Establishing an Income Tax Subtraction for Agricultural Crops Contributed to Charitable Organizations*, for information on how to determine if the contribution qualifies for the subtraction.

#### **Line B8 - Expenses Related to Certain Federal Tax Credits**

Enter the total amount of wages or salaries paid or incurred by the taxpayer not deducted in computing Arizona gross income if the taxpayer received the following federal credits:

- A. The work opportunity credit,
- B. The empowerment zone employment credit,
- C. The credit for employer-paid social security taxes on employee cash tips, and/or
- D. The Indian employment credit.

Add the amounts on lines A through D. Enter the total. Also, enter the total on page 2, Schedule B, line B8.

#### **Line B9 - Capital Gain from Exchange of Legal Tender**

Enter the amount of any net capital gain included in Arizona gross income for the taxable year that is derived from the exchange of one kind of legal tender for another kind of legal tender.

- "Legal tender" means a medium of exchange, including specie, that is authorized by the United States Constitution or Congress for the payment of debts, public charges, taxes and dues.
- "Specie" means having coins having precious metal content.

#### **Line B10 - Other Subtractions from Federal Taxable Income**

Enter the total amount of "other subtractions" from federal taxable income required to be included. The "other subtractions" required to be reported are listed below. If no "other subtractions" are required to be included, leave blank.

Complete the worksheet for Schedule B, lines B10 on page 5 of the return before entering the total. If you enter an amount on line B10, include the worksheet with your return.

##### **A. Refunds of Taxes Based on Income**

Enter any refunds of taxes based on income from states (including Arizona) and from foreign governments or their political subdivisions included in federal taxable income.

**B. Negative Partnership Income Adjustment**

If you received Arizona Form 165 Schedule K-1(NR) and the amount on line 15 is negative, enter the amount from column (a) as a positive number on line B10. If you received more than one Arizona Form 165 Schedule K-1(NR), total the negative amounts from line 15, column (a) and enter that total on line B10 as a positive number.

If the amounts on Arizona Form 165 Schedule K-1(NR), line 15 are positive, enter the amount from column (a) on Schedule A, line A8. See the instructions for Schedule A, line A8 on page 13 for additional information.

**C. Expense Recapture, Mine Explorations**

Enter any expense recapture for mine exploration expenses included in income under federal law. Refer to IRC § 617.

**D. Deferred Exploration Expenses**

Arizona law allows a subtraction for exploration expenses added to Arizona gross income on line A8, item B (refer to A.R.S. § 43-1121(10)). The taxpayer claims the subtraction on a ratable basis as the units of produced ores or the minerals discovered or explored by reason of such expenditures are sold. Refer to A.A.C. R15-2D-305 for detailed information regarding additional requirements.

Treat property sold in the same manner and on the same basis as other property held for the production of income. Refer to A.R.S. § 43-1121(4) or to A.R.S. § 43-1122(3).

**E. Exploration Expenses; Oil, Gas or Geothermal Resources**

Enter exploration expenses related to exploration of oil, gas, or geothermal resources. Compute the expenses in the same manner and on the same basis as a deduction for mine exploration under IRC § 617. The computation is subject to certain adjustments shown above for line A8, item B and line B10, items C and D. Refer to A.A.C. R15-2D-305 for detailed information regarding additional requirements.

**F. Arizona Amortization of Facilities and Equipment****• Pollution Control Devices**

Any taxpayer may choose to amortize the adjusted basis of any device, machinery, or equipment used for collection and control of the source of atmospheric and water pollutants and contaminants. The taxpayer may take the subtraction over a period of 60 months. If a taxpayer chooses not to amortize pollution control devices over a period of 60 months, the taxpayer may take a deduction for depreciation computed under IRC § 167.

Refer to A.A.C. R15-2D-306 for detailed information regarding additional requirements.

**• Cost of Child Care Facilities**

Any taxpayer operating a childcare facility for profit may elect to subtract any expenditure made to purchase, construct, renovate, or remodel the facilities or equipment. The taxpayer may take the subtraction ratably over 60 months, beginning with the month in which the taxpayer places the property in service.

Any taxpayer operating a childcare facility within Arizona primarily for its employees' children may elect to subtract expenditures made to acquire, construct, renovate, or remodel the facilities or equipment. The taxpayer may take the subtraction over a period of 24 months, beginning with the month in which the taxpayer places the property in service.

The amortization is in lieu of federal depreciation or amortization on the facilities.

Refer to A.A.C. R15-2D-307 for detailed information regarding additional requirements.

**G. Interest on Federally Taxable Arizona Obligations Evidenced by Bonds**

Enter the amount of interest income received on obligations of the State of Arizona or any of its political subdivisions, evidenced by bonds, that is included in federal taxable income.

Corporations should not make this adjustment on the corporation's Arizona tax return for such income included in the corporate partner's share of partnership income or (loss). The partnership makes this adjustment on Arizona Form 165. The adjustment to Arizona basis from Arizona Form 165, Schedule K-1(NR), Part 2, line 17 already includes this adjustment.

**H. Expenses and Interest Relating to Tax-Exempt Income**

Effective for taxable years beginning from and after December 31, 1996, this subtraction applies only to financial institutions as defined in A.R.S. § 6-101. Enter expenses and interest relating to tax-exempt income disallowed pursuant to IRC § 265 in the computation of Arizona gross income.

**I. Tax-Exempt Insurance Company Income**

Enter the income of an insurance company exempt under A.R.S. § 43-1201 to the extent included in computing Arizona gross income on a consolidated return pursuant to A.R.S. § 43-947.

**J. Claim of Right Adjustment**

Enter the amount by which the loss carryover allowed to be taken for the taxable year under Arizona law is greater than the amount included in your federal taxable income.

**K. Dividends from Domestic International Sales Corporation (DISC)**

Enter any income from a DISC which federal law requires its shareholders to include in income. Refer to IRC § 995.

**L. Income from Disaster Relief Efforts**

Enter any Arizona income generated from performing disaster recovery for a declared disaster during a disaster period by an out-of-state business that is part of a unitary group filing a combined return and is in Arizona on a temporary basis solely to perform disaster recovery from a declared disaster during a disaster period. (See the department's publication, Pub. 720, *Disaster Recovery Tax Relief*, for additional information.)

**M. Expenditures for the Americans with Disabilities Act**

Enter the amount of expenditures paid or incurred during the taxable year to comply with the Americans with Disabilities Act of 1990 or A.R.S. Title 41, chapter 9, article 8 by retrofitting real property that was originally placed in service at least ten years before the current taxable year. (See A.R.S. §§ 43-1122 and 43-1124)

"*Eligible business access expenditures*" include reasonable and necessary amounts paid or incurred to:

- Remove any barriers that prevent a business from being accessible to or usable by individuals with disabilities.
- Provide qualified interpreters or other methods of making audio materials available to hearing-impaired individuals.



- Provide qualified readers, taped texts, and other effective methods of making visually delivered materials available to individuals with visual impairments.
- Acquire or modify equipment or devices for individuals with disabilities.
- Provide other similar services, modifications, materials, or equipment.

**NOTE:** *A taxpayer who has been cited for noncompliance with the Americans with Disabilities Act of 1990 or A.R.S. title 41, chapter 9, article 8 by either federal or state enforcement officials is ineligible for a subtraction under this section for any expenditure required to cure the cited violation.*

**N. Contributions in Aid of Construction**

Enter the amount of monies or other property contributed to a public service corporation that provides water or sewage disposal services to the extent that the purpose of the contribution is to provide for expanding, improving or replacing the public service corporation's water system or sewage disposal facilities. Include any amount of monies or other property contributed to a public service corporation for a water system or sewage disposal facility subject to a contingent obligation to repay the amount, in whole or in part, to the contributor.

**NOTE:** *A public service corporation means all corporations other than municipal engaged in furnishing...water for irrigation, fire protection, or other public purposes...or engaged collecting, transporting, treating, purifying and disposing of sewage through a system... See Article XV, Section 2 of the Arizona Constitution: <https://www.azleg.gov/viewDocument/?docName=http://www.azleg.gov/const/15/2.htm>.*

**O. Marijuana Establishments only**

**Line O1 – Disallowed Federal Expenses**

*If the corporation is licensed by ADHS as a Marijuana Establishment or as a Marijuana Testing Facility*, enter the amount of the disallowed federal expenses from *Arizona Schedule DFE, Disallowed Federal Expense Schedule for Marijuana Establishments*. **Do not enter an amount on line O2.**

*If the corporation is licensed by ADHS as a Dual Licensee that has made the election to operate on a for-profit basis*, enter the amount of disallowed federal expenses from *Arizona Schedule DFE, Disallowed Federal Expense Schedule for Marijuana Establishments*. **Do not enter an amount on line O2.**

**Line O2 – Federal Taxable Income Attributable to NMMD Operations**

*If the corporation is licensed by ADHS as a Dual Licensee that has not made the election to operate on a for-profit basis*, enter the amount of its federal taxable income attributable to its operations as an NMMD. **Do not enter an amount on line O1.**

**P. Total Other Subtractions from Federal Taxable Income**

Add the amounts on lines A through O2. Enter the total. Also, enter the total on page 2, Schedule B, line B10.

**Schedule C - Nonapportionable Income and Expenses  
(Multistate Corporations Only)**

Nonbusiness income is nonapportionable and specifically allocable to a particular state. Use Schedule C to compute the amount of nonapportionable income (and expenses) to subtract on page 1, line 7.

"Business income" under the transactional and functional tests means income arising from transactions and activity in the regular course of the taxpayer's trade or business, and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. "Nonbusiness income" means all income other than business income.

**NOTE:** *Refer to A.R.S. §§ 43-1134 through 43-1138 and A.A.C. R15-2D-501 through R15-2D-508 for the methods of allocating certain types of nonbusiness income.*

On lines C1 through C5, enter all income or (loss) that is nonapportionable or specifically allocable to Arizona. Refer to the specific line instructions listed below.

**Line C1 - Nonbusiness Dividends and Interest Income**

- Enter all nonbusiness dividend income not deducted in Schedule B.
- Enter nonbusiness interest income not deducted in Schedule B.

**Line C2 - Nonbusiness Net Royalties**

Enter any net royalties from nonbusiness real and tangible personal property. Also, include the net royalties from nonbusiness patents and copyrights. Include a separate detailed schedule with the return showing each royalty.

**Line C3 - Nonbusiness Net Rental Income**

Enter any net rental income or (loss) from nonbusiness real property and tangible personal property. Include a separate detailed schedule with the return showing each rental property.

**Line C4 - Net Capital Gain or (Loss) from Sale or Exchange of Nonbusiness Assets**

- Enter any gain or (loss) from the sale of nonbusiness real property.
- Enter any gain or (loss) from the sale of nonbusiness tangible personal property.
- Enter any gain or (loss) from the sale of nonbusiness intangible personal property.
- Identify each item of nonbusiness asset and the gain or (loss) recognized from the sale of that nonbusiness asset on a separate detailed schedule.

**NOTE:** *Do not include any gain or (loss) recognized on the disposal of property used in connection with the unitary business or the business activities of the Arizona affiliated group. Such income is business income and is subject to apportionment.*

**Line C5 - Other Income or (Loss)**

Enter any other nonapportionable or wholly allocable items. Include a schedule detailing the items.

**Treatment of a nonbusiness partnership on line C5**

**If the partnership income is nonbusiness** - Enter the total amount of income or (loss) from the partnership *plus* the income adjustment received from that partnership, reported on Schedule 165K-1(NR), Part 2, Line 17, column (a).

**Line C7 - Expense Attributable to Income from a Foreign Corporation Which is Not Itself Subject to Tax in Arizona**

Enter any expenses attributable to a foreign corporation that is not subject to tax. Refer to A.R.S. § 43-1132. Include a schedule showing the expenses included on this line.

**Line C8 - Total Nonapportionable Income and Expense**

This is the total amount of nonapportionable income or (loss) on lines C1 through C5 net of expenses on line C7. Enter the amount. Also, enter the amount on page 1, line 7.

**Schedule D - Other Income Allocated to Arizona (Multistate Corporations Only)**

On lines D1 through D5, enter all income or (loss) that is allocable to Arizona. A.R.S. §§ 43-1134 through 43-1138 specify the methods for allocating certain types of income to Arizona. The specific line instructions below summarize the provisions of these statutes.

**Line D1 - Nonbusiness Dividends and Interest Income Allocable to Arizona**

Enter all nonbusiness dividends and interest allocable to Arizona. Dividends and interest are allocable to Arizona if the taxpayer's commercial domicile is in Arizona, unless the dividend or interest constitutes business income.

**Line D2 - Net Royalties from Nonbusiness Assets**

Net royalties from nonbusiness real property located in Arizona are allocable to Arizona.

Net royalties from nonbusiness tangible personal property are allocable to Arizona to the extent that the property is utilized in Arizona. Such nonbusiness net royalties are entirely allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not organized under the laws of or taxable in the state in which the taxpayer uses the property. The extent of use for net royalties is determined by Arizona law. Refer to A.R.S. § 43-1135(C).

Nonbusiness patent and copyright royalties are allocable to Arizona to the extent that:

- The payer uses the patent or copyright in Arizona.
- The payer uses the patent or copyright in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in Arizona.

The extent of use for patents and copyrights is determined by Arizona law. Refer to A.R.S. § 43-1138(B) and A.R.S. § 43-1138(C).

**Line D3 - Net Rental Income of Nonbusiness Assets**

Net rents from nonbusiness real property located in Arizona are allocable to Arizona. Net rents from nonbusiness tangible personal property are allocable to Arizona to the extent that the taxpayer uses the property in Arizona. Such nonbusiness net rents are entirely allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not organized under the laws of or taxable in the state in which the taxpayer uses the property. The extent of use for net rents is determined by Arizona law. Refer to A.R.S. § 43-1135(C).

**Line D4 - Net Capital Gain or (Loss) from Sale or Exchange of Nonbusiness Assets**

Capital gains or (losses) from sales of nonbusiness real property located in Arizona are allocable to Arizona.

Capital gains or (losses) from sales of nonbusiness tangible personal property are allocable to Arizona if the property had a situs in Arizona at the time of the sale. Such nonbusiness capital gains or (losses) are also allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not taxable in the state in which the property had a situs.

Capital gains or (losses) from sales of nonbusiness intangible personal property are allocable to Arizona if the taxpayer's commercial domicile is in Arizona.

**Line D5 - Other Income or (Loss)**

Enter any other income or (loss) directly allocable to Arizona. Include a schedule detailing the items.

Enter any income or (loss) that is specifically allocable to Arizona from the schedule [for Part 2, line 17, column (c)] included with Arizona Form 165, Schedule K-1(NR), from a multistate partnership.

**Treatment of a nonbusiness partnership on line D5**

**Wholly Arizona nonbusiness partnership** - Enter the total amount of income or (loss) from the partnership *plus* the income adjustment received from that partnership which was reported on Schedule 165K-1(NR), Part 2, Line 17, column (a).

**Multistate nonbusiness partnership** - Enter the total amount of allocable income or (loss) from the partnership *plus* the income adjustment received from that partnership which was reported on Schedule 165K-1(NR), Part 2, Line 17, column (c).

**Schedule E - Apportionment of Income (Multistate Corporations Only)**

A.R.S. §§ 43-1131 through 43-1150 govern the apportionment of income. A corporation that engages in activities both within and without Arizona must apportion its business income based on property, payroll, and sales in Arizona as compared to these factors everywhere. "Everywhere" means the property, payroll, and sales factors related to the whole combined or consolidated business.

A combined return excludes the factors of a unitary foreign corporation unless the foreign corporation is itself subject to the Arizona corporate income tax. A consolidated return includes the factors of a foreign corporation that is a member of the affiliated group. Both combined and consolidated returns exclude the factors of an insurance company exempt under A.R.S. § 43-1201(A)(14).

Taxpayers apportioning income shall complete lines 6 through 12 on page 1 of Arizona Form 120.

**NONAPPORTIONABLE INCOME**

Apportionment factors generating nonapportionable or nontaxable income are not to be included in the calculation of the apportionment ratio.

**ADMINISTRATIVE RELIEF REQUESTS**

A.R.S. § 43-1148 provides administrative relief if the allocation and apportionment provisions of UDITPA do not fairly represent the extent of the taxpayer's business activity in this state. The taxpayer may petition for or the department may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

- Separate accounting, except with respect to an Arizona affiliated group, as defined in A.R.S. § 43-947.
- The exclusion of any one or more of the factors.
- The inclusion of one or more additional factors that will fairly represent the taxpayer's business activity in this state.
- The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income, other than disallowance of a properly elected consolidated return.

A.R.S. § 43-1148 permits a departure from the allocation and apportionment provisions only in limited cases. A.R.S. § 43-1148 may be invoked only if the allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in Arizona. Taxpayers seeking such relief should submit a letter to the Corporate Income Tax Audit Section 60 days prior to the filing of the return setting forth the relief that is requested and the justification for the relief. Please include a contact phone number and email address with your request.

The department normally makes such determinations only upon an audit of the taxpayer. Such a detailed examination of the specific facts and circumstances reveals whether such unusual fact situations and incongruous results exist.

**COMPUTING THE APPORTIONMENT RATIO**

When computing the factors of the apportionment ratio, carry the result out to six places after the decimal. If the seventh place after the decimal is five or more, round the sixth decimal place up to the next higher digit. If the seventh place after the decimal is less than five, leave the sixth place decimal as it is.

**Example #1:**

Arizona Amount	<u>123,456</u>
Everywhere Amount	789,654
Factor	.1563418

The seventh digit after the decimal is "8". Since "8" is greater than "5," the sixth digit after the decimal is increased to the next higher digit, "2".

The factor rounded to six (6) decimal places is .156342.

**Example #2:**

Total Ratio	<u>.179865</u>
Divided by	4
Apportionment Ratio	.0449662

The seventh digit after the decimal is "2". Since "2" is less than "5," the sixth digit after the decimal remains "6". No increase to the sixth digit after the decimal is made.

The average rounded to six decimal places is .044966.

**SCHEDULE ACA - AIR CARRIER APPORTIONMENT FORMULA (MULTISTATE AIR CARRIERS ONLY)**

A.R.S. § 43-1139 requires a taxpayer that is a qualifying air carrier to use revenue miles to apportion its business income to Arizona. The taxpayer must be engaged in air commerce. "Air commerce" means transporting persons or property for hire by aircraft in interstate, intrastate or international transportation. If the taxpayer files a combined or consolidated return, the combined group or the Arizona affiliated group must use this method of apportionment if 50% or more of the taxpayer's gross income is derived from air commerce. The taxpayer will apportion its business income by means of a single apportionment ratio computed under this method for all group members.

Check the box labeled "AIR CARRIER" on line E on page 1 of the return. Do not complete Schedule E on page 3 of the return. Complete Schedule ACA and include with the return. Schedule ACA is available on the department's website at <http://www.azdor.gov/Forms/Corporate.aspx>.

**NON-AIR CARRIER APPORTIONMENT FORMULA (MULTISTATE CORPORATIONS ONLY)**

Non-air carrier multistate corporations have the opportunity to choose one of two apportionment formulas for calculating the apportionment ratio:

- The sales factor only apportionment formula or
- The standard apportionment formula.

Check the box on line E of page 1 of the return to indicate which apportionment formula, "STANDARD" or "SALES FACTOR ONLY," will be used to calculate the apportionment ratio on the corporation's return. Whichever apportionment method is indicated, the taxpayer must compute the apportionment ratio using only that formula. (The taxpayer cannot use "STANDARD" to calculate one portion of the ratio and "SALES FACTOR ONLY" to calculate another portion of the ratio.)

For the standard apportionment total ratio, the numerator of the fraction is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four.

For taxable years beginning after December 31, 2016, Sales Factor Only Apportionment replaced the enhanced apportionment ratio. The numerator is Arizona Sales. The denominator is Everywhere Sales. The property factor and the payroll factor are not included in this computation.

**Line E1 - Property Factor – Standard Apportionment Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT" – leave blank.**

The Property Factor is a fraction that represents the average value of the taxpayer's property owned or rented and used in Arizona to the total average value of the taxpayer's property owned or rented and used during the tax period.

The value of tangible personal property and real property owned by the taxpayer is its original cost. The taxpayer normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period. Property used to generate nonapportionable or nontaxable income is not included in the property factor.

The value of tangible personal property and real property rented by the taxpayer is eight (8) times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the taxpayer for rented property, less the aggregate annual subrental rates paid by subtenants of the taxpayer. The taxpayer automatically achieves averaging for rented property by the method of determining the net annual rental rate of such property.

For a discussion of the treatment of computer software in the property factor, refer to the department's ruling, CTR 01-2, *How Does a Taxpayer Filing an Arizona Corporate Income Tax Return Determine Whether Computer Software is Included in the Property Factor*.

Report real property situated and tangible personal property permanently located in Arizona as property within Arizona during the tax year. Attribute the value of mobile property to Arizona based on the total time that the property was within Arizona.

***Taxpayers electing "STANDARD APPORTIONMENT"***

Divide the numerator of the property factor by the denominator. Express the ratio as a decimal carried out to six places. (The property factor may not exceed 1.0.) Enter the result on line E1c, Column C.

**Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT,"** *leave lines E1a through E1c, Columns A through C blank.*

**For additional information on the property factor, refer to:**  
 A.R.S. §§ 43-1140 through 43-1142  
 A.A.C. R15-2D-601 through R15-2D-607 and R15-2D-902  
 CTR 01-2, *How Does a Taxpayer Filing an Arizona Corporate Income Tax Return Determine Whether Computer Software is Included in the Property Factor*

**Line E2 - Payroll Factor – Standard Apportionment**

***Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT" – leave blank.***

The Payroll Factor is a fraction that represents the compensation paid in Arizona by the taxpayer to the total compensation paid by the taxpayer during the tax year.

Report the salaries, wages, or other compensation of officers, employees, etc., as being within Arizona if the performance of those services occurs entirely in Arizona. This rule applies regardless of where payment is made or control exercised. This rule also applies regardless of whether the performance of the services is partly or wholly in connection with the apportionable business carried on outside the state or in interstate or foreign commerce. Payroll used to generate nonapportionable or nontaxable income is not included in the payroll factor.

Allocate the compensation of officers and employees who perform services partly within and partly without Arizona to this state when:

- The services performed outside of Arizona are incidental to the employee's service within Arizona; or
- The employee's base of operation is in Arizona; or
- The employee has no base of operation in any state but the direction or control of the employee is from Arizona; or
- The employee has no base of operation in any state and there is no direction or control from a state in which the employee performs some part of his services, but the employee's residence is in Arizona.

***Taxpayers electing "STANDARD APPORTIONMENT"***

Divide the numerator of the payroll factor by the denominator. Express the ratio as a decimal carried out to six places. (The payroll factor may not exceed 1.0.) Enter the result on line E2, Column C.

**Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT,"** *leave Line E2, Columns A through C, blank.*

For additional information on the payroll factor, refer to:  
 A.R.S. §§ 43-1143 and 43-1144  
 A.A.C. R15-2D-701 through R15-2D-705

**Line E3 - Sales Factor**

The Sales Factor is a fraction that represents the total sales of the taxpayer in Arizona to the total sales of the taxpayer during the tax period.

"Sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income. Gross receipts from nonapportionable or nontaxable income are not included in the sales factor.

Sales of tangible personal property is determined on a destination sales basis. Sales of real property is determined based on the location of the property. Generally, sales of other than tangible personal property is determined based on the location where the income producing activity occurs. Service income is determined based on the location of the income producing activity, *unless* the taxpayer elected to be treated as a Multistate Service Provider (MSP). See the following box for a description of an MSP.

***TAXPAYERS THAT QUALIFY AS MULTISTATE SERVICE PROVIDERS ELECTING TO SOURCE SALES FROM SERVICES AND FROM DESIGNATED INTANGIBLES TO ARIZONA USING MARKET SALES***  
*Taxpayers that qualify as a Multistate Service Provider (MSP) may elect to treat sales from services and from designated intangibles as being sourced to Arizona based on market sales.*  
***[NOTE: For purposes of the Multistate Service Provider Election and Computation, sales from designated intangibles means sales derived from credit and charge card receivables, including fees, merchant discounts, interchanges, interest, and related revenue (A.R.S. § 43-1147(E)(3)(a)). The sale of any other intangible may not be included in the calculation of this election.***

Multistate taxpayers complete Schedule MSP to determine if they qualify as an MSP. If the taxpayer qualifies, and wishes to make the election, the completed Schedule MSP must be included with the taxpayer's original, timely-filed tax return. (The election to be treated as an MSP **cannot** be made on an amended return.) Once made, the election is binding for five years. For each year of the election period, Schedule MSP must be completed by the taxpayer to source sales from services and from designated intangibles to Arizona. Once Schedule MSP is completed, the taxpayer can compute the sales factor.

Taxpayers that qualify and want to make the election should:

- Ensure the completed Schedule MSP is included with the return.
- Ensure the box on line F of the return is checked.
- Ensure the box indicating the year of the taxpayer's election cycle is checked.
- Enter on line E3b, column A, the Arizona sales from services and from designated intangibles from the completed Schedule MSP, line B.
- Complete the calculation of the sales factor following the instructions for the taxpayer's choice of the "STANDARD" or "SALES FACTOR ONLY" apportionment formula.

**Taxpayers qualifying as an MSP, and electing to be treated as an MSP:**

- Enter the Arizona sales from services and from designated intangibles on line E3b from the completed Schedule MSP, line B.

**Taxpayers not making the election to be treated as an MSP:**

- Leave line E3b blank.
- Enter Arizona sales from services on line E3c.

**Taxpayers electing "STANDARD APPORTIONMENT"**

- Check the box on line E of the return labeled "STANDARD".
- Multiply the numerator of the sales factor by two. Divide that result by the denominator. Express the ratio as a decimal carried out to six places. (The sales factor may not exceed 2.0.) Enter the result on line E3f, Column C.

**Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT"**

- Check the box on line E of the return labeled "SALES FACTOR ONLY."
- Divide the numerator (Arizona sales) by the denominator (Everywhere sales). Express the ratio as a decimal carried out to six places. (The sales factor may not exceed 1.0.) Enter the result in column C of line E3f and on page 1, line 9.

For more information on the sales factor, refer to:  
 A.R.S. §§ 43-1145 through 43-1147  
 A.A.C. R15-2D-801 through R15-2D-807, and R15-2D-903  
 CTR 02-2, Apportionment of Installment Sale Gain  
 CTR 07-1, Inclusion of Short Term Investments in the Sales Factor

**Line E4 - Total Ratio**

**Taxpayers electing "STANDARD APPORTIONMENT"**

Add the amounts in Column C of lines E1c, E2, and E3f and enter the total.

**Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT," leave this line blank.**

**Line E5 - Average Apportionment Ratio**

**NOTE:** Taxpayers must exclude a factor if both the numerator and the denominator of a factor are zero. Do not exclude a factor if the numerator of the factor is zero and the denominator of that factor is greater than zero. See A.A.C. R15-2D-901(B).

**Taxpayers electing "STANDARD APPORTIONMENT"**

If either the property or the payroll factor is excluded, determine the average ratio by dividing the total ratio by three. If the sales factor is excluded, determine the average ratio by dividing the total ratio by two. If two of the factors are excluded, the remaining factor, without respect to any weighting, is the apportionment ratio.

**Taxpayers electing "STANDARD APPORTIONMENT"**

Divide the total ratio, line E4, column C, by four. Express the ratio as a decimal carried out to six places. Enter the average ratio. Also, enter the average ratio and on page 1, line 9 of Arizona Form 120.

**Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT," leave this line blank.**

**NOTE:** If line E5 is "0.000000", the corporation is considered to have no Arizona nexus.

If line E5 is blank, the corporation is considered to be taxable entirely within Arizona (100% Arizona company).

**Schedule F - Schedule of Tax Payments**

Use this schedule to list any corporate estimated tax payments and extension payments made which the taxpayer is applying to this return. Include additional sheets if necessary.

- Enter the total amount of "Estimated Payments" on page 1, line 24, box 24a.
- Enter the total amount of "Extension Payments" on page 1, line 23.

DO NOT include the claim of right credit computed under A.R.S. § 43-1130.01 on this schedule.

**NOTE:** The total extension payments and estimated payments reported on this schedule must equal the amounts reported on page 1, lines 23 and 24a, respectively.

### Schedule G - Other Information

All taxpayers must complete lines G1 through G7. Multistate taxpayers must also complete lines G8 and G9. If the answers are lengthy, continue the answers on a separate sheet of paper.

#### Line G3 -

List the name, title, telephone number, email address, and cell phone number, of the individual who Department of Revenue employees may contact to:

- Schedule an audit of this return;
- Ask questions related to the processing of this return; or
- Provide the status of any refund or tax due that may result from the processing of this return.

This does not authorize the individual named to:

- Enter into any agreements on the taxpayer's behalf;
- Bind the taxpayer in any way; or
- Make any changes to the taxpayer's account, such as an address change.

Confidential information may be disclosed to a principal officer, any person designated by a principal officer, any person designated in a resolution by the corporate board of directors or other similar governing body, or to an individual designated as an authorized representative by a valid power of attorney. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary. Refer to the department's ruling, GTR 02-1, *What is a controlled subsidiary for purposes of Arizona Revised Statutes § 42-2003*, for additional information on the definition of a controlled subsidiary. IF THIS INDIVIDUAL IS NOT A PRINCIPAL OFFICER OR IS NOT DESIGNATED AS AN AUTHORIZED REPRESENTATIVE IN A VALID POWER OF ATTORNEY, THE TAXPAYER UNDERSTANDS AND AGREES THAT CONFIDENTIAL INFORMATION MAY BE DISCLOSED TO THIS INDIVIDUAL.

### Certification

The president, treasurer, or other principal corporate officer must sign the return. If receivers, trustees in bankruptcy, or assignees are in control of the property or business of the organization, such receivers, trustees, or assignees must sign the return.

**Paid preparers:** Sign and date the return. Print the paid preparer's name on the line provided. Complete the firm name and address lines (the paid preparer's name and address, if self-employed).

Paid preparers must provide a Tax Identification Number (TIN). Paid preparers that fail to include their TIN may be subject to a penalty.

The TIN for a paid preparer may be one of the following:

- The preparer's PTIN,
- The EIN for the business,
- The individual preparer's social security number (SSN), if self-employed.