

# 2021 Disallowed Federal Expense Schedule for Marijuana Establishments

# Arizona Schedule DFE

## 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* from the main menu, then click on *Legal Research* and select a Document Type and a Category from the drop down menus.

## Publications

To view or print the department's publications, go to our website, select *Reports & Legal Research* from the main menu, and click on *Publications* in the left hand column.

## General Instructions

**NOTE:** Do not complete this form if you are a nonprofit medical marijuana dispensary only or are a Dual Licensee that did not make the "for-profit" election.

### Purpose and Use of the Form

Internal Revenue Code (IRC) 280E disallows all deductions or credits for any amount paid or incurred in carrying on any trade or businesses that consist of illegally trafficking in a Schedule I or II controlled substance.

Arizona law permits taxpayers licensed by the Arizona Department of Health Services (ADHS) as a marijuana establishment, marijuana testing facility, or a dual licensee that elects to operate on a for-profit basis to subtract all ordinary and necessary expenses paid or incurred during the taxable year from federal adjusted gross income or federal taxable income to compute Arizona adjusted gross income or Arizona taxable income.

C Corporations, S Corporations, partnerships, limited liability companies, trusts and estates, or sole proprietors licensed by ADHS operating as a marijuana establishment, marijuana testing facility or a dual licensee that made the election to operate on a for-profit basis, complete *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments* and include with your tax return.

**NOTE:** Dual Licensees that did not make the election to operate on a for-profit basis who wish to make that election, contact the Arizona Department of Health Services to make that election.

## Specific Instructions

For calendar year filers, check the box, "calendar year 2021." For 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.

Enter the name and Social Security Number or EIN as indicated on Form 120, 120A, 120S, 120X, 140, 140NR, 140PY, 141, or 165.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for an individual is their social security number. For all others, the TIN is their EIN. Taxpayers that fail to include their TIN may be subject to a penalty.

Enter the ADHS Registration Identification Number of the business.

**NOTE:** When completing this schedule, report only ordinary and necessary expenses paid or incurred during the taxable year that would have been deductible at the federal level if the taxpayer's business had not been governed by IRC 280E. **Do not include any amounts included in the calculation of Cost of Goods Sold.**

### Line 1 – Compensation of Officers

Enter deductible officers' compensation. Do not include compensation deductible elsewhere on the tax return.

### Line 2 – Salaries and Wages

Enter the total salaries and wages paid for the tax year. Do not include salaries and wages deductible elsewhere on the tax return.

**NOTE:** If the taxpayer provided taxable fringe benefits to its employees, do not deduct as wages the amount allocated for depreciation and other expenses reported on line 7 or line 12 of this schedule.

### Line 3 – Repairs and Maintenance

Enter the cost of repairs and maintenance not claimed elsewhere on the tax return that do not add to the value of the property or prolong its life.

### Line 4 – Bad Debts

Enter the total debts that became worthless in whole or in part during the taxable year.

**NOTE:** A taxpayer that uses the cash method of accounting cannot claim a bad debt deduction unless the amount was previously included in income.

### Line 5 – Rents

Enter the total amount of rent or lease payments made for property used in your business during the taxable year. Sole Proprietors, this includes the rental or leasing of vehicles, machinery, and equipment, or other business property.

### Line 6 – Taxes and Licenses

Enter the total amount of taxes paid or accrued during the taxable year. Do not include:

- Federal income taxes
- Foreign or US Possession income taxes if a foreign tax credit is claimed
- Taxes not imposed on the business
- Taxes, including state or local sales taxes that are paid or incurred in connection with an acquisition or disposition of property

- Taxes assessed against local benefits that increase the value of the property assessed
- Taxes deducted elsewhere on the tax return, i.e. those taxes included in the cost of goods sold.

### Line 7 – Interest Expense

Enter the total amount of interest expense paid or incurred during the taxable year. Do not deduct the following interest:

- Interest on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from income tax.
- For cash basis taxpayers, prepaid interest allocable to years following the current tax year.
- Interest and carrying charges on straddles.
- Interest on debt allocable to the production of designated property by a business for its own use or for sale.
- Interest paid or incurred on any portion of an underpayment arising from an understatement arising from an undisclosed listed transaction or an undisclosed reportable avoidance transaction enter into in tax years beginning after October 22, 2004.

### Line 8 – Depreciation and Section 179 Expense

Enter the total amount of depreciation and the cost of certain property that the business elected to expense under section 179 from Form 4562.

### Line 9 – Depletion

Enter the total amount of depletion that occurred during the taxable year.

### Line 10 – Advertising

Enter the total amount of advertising expense paid or incurred for the taxable year.

### Line 11 – Guaranteed Payments to Partners

Partnerships enter the total amount of guaranteed payments made to partners, if any, during the taxable year.

### Line 12 – Pension & Profit-Sharing Plans

Enter the deduction for contributions to qualified pension, profit sharing or other funded compensation plans.

### Line 13 – Employee Benefit Programs

Enter the total contributions to employee benefit programs not claimed elsewhere on the tax return that are not an incidental part of a pension, profit sharing plan included on line 11.

### Line 14 – Other Expenses

Enter the total of all other deductions that are not deductible elsewhere on the tax return. Include a schedule of all other expenses not deducted elsewhere. Sole Proprietors, this includes such items as Insurance, Travel and Meals, Utilities, Legal and Professional Services, Office Expense, and Car and Truck Expense.

### Line 15 – Reserved for Future Use

### Line 16 – Total Disallowed Federal Expenses

Add lines 1 through 14. Enter the total. If the total is less than zero, enter “0”.

### Individuals/Sole Proprietors

- Individuals/Sole proprietors that *did not make the Small Business Income election*, filing Arizona Form 140 that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount in Other Subtractions on page 6, line P.
- Individuals/Sole proprietors that *did not make the Small Business Income election*, filing Arizona Form 140PY that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount in Other Subtractions on page 6, line U.
- Individuals/Sole proprietors that *did not make the Small Business Income election*, filing Arizona Form 140NR that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount in Other Subtractions on page 6, line K.
- Individuals/Sole Proprietors that *did not make the Small Business Income election*, filing Arizona Form 140X that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount include this amount on line 25.
- Individuals/Sole Proprietors that *made the Small Business Income election*, filing Arizona Form 140 that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this on line 46.
- Individuals/Sole Proprietors that *made the Small Business Income election*, filing Arizona Form 140PY-SBI that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount on line 43.
- Individuals/Sole Proprietors that *made the Small Business Income election*, filing Arizona Form 140NR-SBI that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount on line 43.
- Individuals/Sole Proprietors that *made the Small Business Income election*, filing Arizona Form 140X-SBI that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this on line 46.

### C Corporations

- C Corporations filing Arizona Form 120 that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount on the worksheet for Schedule B, line B10, on page 5 of Form 120, line O1.

- C Corporations filing Arizona Form 120A that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount on the worksheet for Schedule B, line B10, on page 3 of Form 120A, line M1.
- C Corporations filing Arizona Form 120X that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount on the worksheet for Schedule B, line B10, on page 5 of Form 120, line O1.

#### ***S Corporations***

- S Corporations that are licensed by ADHS as a marijuana establishment, marijuana testing facility or a dual licensee that made the “for-profit” election, ***with Arizona resident shareholders***, enter this amount on Form 120S Schedule K-1, line 6 for each resident shareholder.
- S Corporations that are licensed by ADHS as a marijuana establishment, marijuana testing facility or a dual licensee that made the “for-profit” election, ***with nonresident shareholders***, enter this amount on Form 120S, Schedule K-1(NR), line 19 for each nonresident shareholder.

#### ***Partnerships***

- Partnerships that are licensed by ADHS as a marijuana establishment, marijuana testing facility or a dual licensee that made the “for-profit” election, enter this amount on Form 165, Schedule B line B5, on page 4, line G.

#### ***Trusts and Estates filing Fiduciary returns***

- ***Trusts and estates filing Arizona Form 141AZ*** that are licensed by ADHS as a marijuana establishment, marijuana testing facility, or a dual licensee that made the “for profit” election, enter this amount on Form 141AZ, Schedule B, line B9.

**Include this completed schedule with your return.**