

**2015 Arizona Corporation Income Tax Return**

Obtain additional information or assistance by calling one of the numbers listed below:

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

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's website at [www.azdor.gov](http://www.azdor.gov).

**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. This includes an Internal Revenue Code (IRC) § 528(c) homeowners association that files either federal Form 1120-H or Form 1120. However, certain homeowners associations that are federally exempt are also exempt for Arizona income tax purposes, and may file Arizona Form 99. Examples are social welfare organizations exempt under IRC § 501(c)(4) and clubs organized for pleasure or recreation exempt under IRC § 501(c)(7).

**Which Form To Use**

Use Form 120 if the corporation:

- (1) has income from business activity that is taxable in more than one state (a "multistate corporation");
- (2) is a partner in a multistate partnership and/or a partnership that conducts no business in Arizona;
- (3) is a member of a unitary group of corporations that files an Arizona return on a combined basis; or
- (4) 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 Form 120A is one that files its return on a separate company (separate entity) basis and has income from business activity that is taxable entirely within Arizona (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.

**Limited Liability Companies**

Only a limited liability company that makes a valid federal election to be taxed as a corporation must file Form 120. A single member limited liability company that is disregarded as an entity is treated as a branch or division of the owner, and is included in the tax return of its owner. Refer to Arizona Corporate Tax Ruling CTR 97-2 for further information.

**Electing Small Business Corporations**

Corporations taxed as S corporations under Subchapter S of the Internal Revenue Code must file Form 120S.

**Taxable Year Covered by Return**

Indicate whether the taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the taxable year on the top of page 1 of the return.

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

**Records**

Every corporation should maintain books and records substantiating information reported on the return and keep these documents for inspection. See Arizona General Tax Ruling GTR 96-1 for more information about record retention requirements.

**Use of Federal Figures**

**CALCULATION OF ARIZONA TAXABLE INCOME:** each corporation must compute its federal taxable income and make the adjustments required by Arizona law. (Refer to Article 3, Chapter 11, Title 43, of the Arizona Revised Statutes.)

**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.

**Extension of Time to File a Return**

File a completed Form 120EXT by the original due date of the return in order to make a request for an extension of time to file an Arizona corporate income tax return, or use a valid federal extension. If the taxpayer files under extension, do not include a copy of the extension with the return, but be sure to check the extension box (82F) on page 1 of the return. Form 120EXT must be used to transmit extension payments via check or money order, whether the taxpayer uses a valid federal extension or requests an Arizona extension. Taxpayers that make extension payments over the internet need not file Form 120EXT, unless an Arizona extension is being requested. Although six months is the maximum extension of time to file that the department itself may grant, the department accepts a valid federal extension for the same period of time covered by the federal extension.

The taxpayer must pay 90% of the tax liability (including the \$50 minimum tax) by the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments.

Either the Arizona or federal extension provide an extension of time to file, but do not provide an extension of time to pay.

**Filing Original Returns**

Returns are due by the 15th day of the fourth month following the close of the taxable year. If the taxpayer has a valid federal or Arizona extension, file the return by the extended due date. If the taxpayer files under extension, the taxpayer must check the extension box (82F) on page 1 of the return. Send the return to the Arizona Department of Revenue, PO Box 29079, Phoenix, AZ 85038-9079. One or more officers (president, treasurer, or any other principal officer) must sign the return.

Do not send in 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 and include all appropriate supplementary schedules.

The department requests that taxpayers include a copy of the as filed federal return and all its schedules and attachments with the Arizona return. Please include the consolidated Schedule M-3. To save paper, the detail of Schedule M-3 can be omitted. Instead, substitute a statement that the detail schedules are available upon request. A similar statement may be substituted for Form 5471. A.R.S. § 42-1112 prescribes the schedules required to be included.

### Timely Filing of Return(s)

The department generally determines the timeliness of a return by the postmark or other official mark of the U.S. Postal Service stamped on the envelope in which the return is mailed. Refer to Arizona General Tax Ruling GTR 93-1 for further information. The department will also 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.

### Filing Amended Returns

Any taxpayer who files an amended return with the IRS must file an Arizona amended return on Form 120X within 90 days of final determination of the federal amended return by the IRS.

The taxpayer must report changes or corrections of the taxpayer's taxable income by the IRS or as the result of renegotiation of a contract or subcontract with the United States to the department. The taxpayer must, within 90 days after 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.

The taxpayer must provide sufficient information for the department to recompute the taxpayer's Arizona taxable income based on the Revenue Agent Report changes. The department may require the taxpayer to file an amended return if the department does not have this information.

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

### 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.

### Penalties and Interest

**A. Late Filing Penalty.** A return filed after the original due date is subject to the late filing penalty unless the taxpayer has a valid federal or Arizona extension. 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. "Amount of tax required to be shown on the return" is the amount of tax imposed less the amount of any part of the tax paid on or before the beginning of the month and the amount of any credit against the tax which may be claimed 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 disclosed by the taxpayer's return on or before the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments. The extension underpayment penalty is 0.5% (.005) of the tax not paid. The penalty period is each 30-day period or fraction thereof between the original due date of the return and the date the taxpayer paid the tax. The maximum penalty is 25% of the unpaid tax. Taxpayers subject to the extension underpayment penalty are not subject to the late payment penalty prescribed under A.R.S. § 42-1125(D).

**C. Late Payment Penalty.** The department imposes the late payment penalty on any amount shown as tax on a return that is not paid by the date prescribed for its payment. "Amount of tax shown on the return" is the amount of tax imposed shown on the return less the amount of any part of the tax paid on or before the beginning of the month and the amount of any credit against the tax which may be claimed on the return. 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.

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

Refer to Arizona Corporate Income Tax Ruling CTR 09-1 regarding the application of penalties to returns filed under extension.

**D. Interest.** The department assesses interest on any portion of the tax, whether determined by the department or the taxpayer, not paid by the date prescribed for its payment. The department compounds interest annually and applies it in the same manner and at the same time as prescribed by IRC § 6621, except that the Arizona rate of interest for both underpayments and overpayments *for all taxpayers* is the federal underpayment rate under IRC § 6621(a)(2).

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

**E. Underpayment of Estimated Tax Penalty.** The department imposes the A.R.S. § 43-582 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 9, or to Form 220 for further details.

### Payment of Tax

The entire amount of tax is due by the original due date of the return. Payments can be made via check, electronic check, money order, or credit card. Visit [www.AZTaxes.gov](http://www.AZTaxes.gov) to register and make payments via the internet.

## Estimated Tax Payments

Corporations that expect an Arizona income tax liability for the taxable year of \$1,000 or more must make Arizona estimated tax payments. Use Form 120ES, *Corporation Estimated Tax Payment*, when making a payment by check or money order. A corporation that fails to make the required estimated tax payments is subject to a penalty on any estimated tax payment which is late or underpaid. For exceptions, see the instructions for Form 220, *Underpayment of Estimated Tax by Corporations*.

The Arizona required annual payment of corporate estimated tax is the smaller of:

- Ninety percent of the taxpayer's Arizona tax liability (reduced by refundable tax credits and the claim of right adjustment, 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 adjustment, if applicable) for the prior taxable year, if the taxpayer's prior year return was for a period of twelve months, and showed at least some amount of tax liability.

Use 2016 Form 120W, *Estimated Tax Worksheet for Corporations*, to compute the required installments for next year.

### ESTIMATED TAX PAYMENTS BY ELECTRONIC FUNDS TRANSFER

Taxpayers whose Arizona corporate income tax liability for the preceding taxable year was \$20,000 or more must make Arizona corporate estimated tax payments via electronic funds transfer ("EFT"). Taxpayers whose preceding taxable year's Arizona corporate income tax liability was less than \$20,000 may elect voluntary participation in the EFT program. If the taxpayer makes its estimated tax payments by EFT, the taxpayer should not submit Form 120ES to the department. Taxpayers required to make estimated tax payments via EFT must complete the department's electronic funds transfer authorization agreement at least 30 days prior to initiation of the first applicable transaction.

Refer to A.R.S. § 42-1129 and the related rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.

**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).

### ESTIMATED TAX PAYMENTS VIA THE INTERNET

Taxpayers must be licensed by the department before they can register to pay taxes online. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov) to register and make estimated tax payments over the Internet. If a taxpayer makes its estimated tax payments via the Internet, the taxpayer should not submit Form 120ES to the department.

#### Electronic payment from checking or savings account

Estimated tax payments can be made electronically from a checking or savings account. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov)

and choose the e-check option. 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. If 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.

#### Credit card payment

Estimated tax payments can be made via American Express, Discover, MasterCard or VISA credit cards. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov) and choose the credit card option. This will take you to the website of the credit card payment service provider. The service provider will charge a convenience fee based on the amount of the tax payment. The service provider will disclose the amount of the convenience fee during the transaction and the option to continue or cancel the transaction will be presented. If you accept the convenience fee and complete the credit card transaction, a confirmation number will be generated. Please keep this confirmation number as proof of payment.

### 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 Publication No 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 for the purpose of performing 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 *Publication No 720, Disaster Recovery Tax Relief*, to determine if the taxpayer qualifies for disaster relief.)

### 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: (1) it is not part of a group of corporations comprising a unitary business; or (2) it is not a member of an affiliated group that elected to file a 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 a consolidated return pursuant to A.R.S. § 43-947.

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. Refer to Arizona Administrative Code rule (A.A.C.)

R15-2D-401 for additional requirements. Refer to Arizona Corporate Tax Ruling CTR 00-2 for additional information regarding whether a bond of direct or indirect ownership or control exists.

**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 Arizona Corporate Tax Ruling CTR 01-1.

A unitary group of corporations required to file a combined return must complete Section I of Form 51 for the first taxable year the group files a combined return. Form 51 is the Combined or Consolidated Return Affiliation Schedule. In succeeding taxable years, complete Sections II (Additions) and III (Deletions) of Form 51 to report changes in the unitary group. Include the completed Form(s) 51 immediately following page 4 of Form 120. Indicate that Form 51 is included by checking the appropriate box on line D on page 1 of Form 120.

**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 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. The corporation must also have 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. This determination is made 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.

Arizona Corporate Tax Procedure CTP 02-1 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 affiliated group filing a federal consolidated return, regardless of whether each member is subject to Arizona income tax. The election made by the common parent is effective only if accompanied by written consents to the election signed by each of the members of the affiliated group. Form 122 is the written consent form. A current officer of each subsidiary in the affiliated group must sign the consent form. Include the completed Form(s) 122 with the tax return for the first taxable year the affiliated group files a consolidated return. The common parent must make the election on or before the due date, including extensions, for filing the original return. The election is binding on the group for succeeding taxable years unless the department consents to a change of filing method. The election made by the Arizona affiliated group to file an Arizona consolidated return is binding on new members that become part of the federal affiliated group in subsequent tax periods. All members of an Arizona affiliated group are jointly and severally liable for the taxes, interest, and penalties of the Arizona affiliated group under Title 42 and Title 43 of the Arizona Revised Statutes. Arizona Corporate Tax Rulings CTR 94-11, CTR 94-12, CTR 12-1 and CTR 12-2 address consolidated tax returns.

An affiliated group that elects to file a consolidated return must complete Section I of Form 51 for the first taxable year the Arizona affiliated group files a consolidated return. Form 51 is the *Combined or Consolidated Return Affiliation Schedule*. In succeeding taxable years, complete Sections II (Additions) and III (Deletions) of Form 51 to report changes in the Arizona affiliated group. Include the completed Form(s) 51 immediately following page 4 of Form 120. Indicate that Form 51 is included by checking the appropriate box on line D on page 1 of Form 120.

The Arizona gross income of an Arizona affiliated group is the consolidated federal taxable income of the affiliated group. A multistate Arizona affiliated 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) enhanced apportionment.

Air carriers are required to use revenue miles. All other taxpayers may select either the standard or the enhanced 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.

## 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 (4).

## 3. Enhanced Apportionment Formula

All non-air carrier taxpayers may use Arizona's enhanced apportionment formula, which is determined by adding five (5.0) times the property factor plus five (5.0) times the payroll factor plus ninety (90.0) times the sales factor and dividing the total by 100. Check the box on line E on page 1 and complete Schedule E using the numbers on the right-hand side of line E1d, E2b and E3e, column A, to weight each of the three apportionment factors respectively.

### MULTISTATE SERVICE PROVIDER

For taxable years beginning from and after December 31, 2013, taxpayers that qualify, may elect to treat sales from service as being sourced to Arizona based on a combination of income-producing activity sales and market sales. (See: Part A of Arizona Schedule MSP to determine if the taxpayer qualifies.) Multistate taxpayers that qualify to be a Multistate Service Provider (MSP) may use the MSP to source their Arizona sales under either the "Standard" or the "Enhanced" apportionment formulas. Taxpayers that qualify and who want to make the election, should check the applicable boxes on line F on page 1 of the return and include Schedule MSP with their original, timely-filed tax return. See the specific instructions for the apportionment formula beginning on page 14 of these instructions. Also refer to A.R.S. § 43-1147 and Schedule MSP instructions for more information.

## Specific Instructions

For calendar year filers, check the box, "calendar year 2015". For fiscal year filers, check the box, "fiscal year" and enter the beginning and ending dates for the fiscal year.

Type or print the required information in the name, address, and information boxes on the top of page 1. 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 affiliates".

All returns, statements, and other documents filed with the department require the corporation's employer identification number (taxpayer identification number or TIN). Taxpayers and their paid preparers that fail to include their TIN may be subject to a penalty. Paid tax return preparers must include their TIN where requested. The TIN for a paid tax return preparer is the

individual's social security number or the employer identification number of their business.

### Box 68

- If this is the taxpayer's first return filed to Arizona, check the box "This is a first return".
- If the taxpayer changed its name during the tax year, check the box, "Name change".
- If the tax taxpayer changed its address during the tax years, check the box, "Address change".

### Box 82F

- Check this box if this return is being filed under extension.

### Line A:

- If the taxpayer's FEDERAL return is filed on a consolidated basis?
  - If yes, check "Yes" and enter the Employer Identification Number (EIN) for the taxpayer's common parent on the line below.
  - If no, 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 4 of these instructions).
  - Box 1, "Separate Company"
  - Box 2, "Combined (unitary group)"
  - Box 3, "Consolidated"

### Line C:

- If Box 3 above is checked, enter the last day of the tax year tax 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 Form 51.
  - If Form 51 is included, check the box, "Yes".
  - If Form 51 is not included, check the box, "No"

### Line E:

- If the taxpayer is a multistate corporation, check the appropriate box indicating its method of apportioning income to Arizona.
  - If the taxpayer utilized the Air Carrier apportionment, check the box "Air Carrier", complete Form ACA and include Form ACA with this return.
  - If the taxpayer utilized the Standard apportionment formula, check the box "Standard".
  - If the taxpayer utilized the Enhanced apportionment formula, check the box "Enhanced"
- 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” check the appropriate box, “Dissolved”, “Withdrawn”, or “Merged/Reorganized” to indicate the reason for this being the final Arizona tax return. If there is a successor corporation, indicate the EIN of the successor corporation in the space provided.
  - If no, leave this line blank.

**Arizona Taxable Income Computation**

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

Enter taxable income for the Arizona taxpayer as reported on the federal income tax return filed with the IRS.

**Line 2 - Additions to Taxable Income**

Enter total adjustments from page 2, Schedule A, line A8. See instructions for Schedule A.

**Line 4 - Subtractions from Taxable Income**

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

**Line 5 - Adjusted Income**

Subtract line 4 from line 3 and enter the difference.

Wholly Arizona corporations, skip lines 6 through 12.

**Lines 6 through 12 - Apportionment Computation**

These lines apply to multistate corporations only. Complete lines 6 through 12 as instructed on the form. Wholly Arizona corporations, skip these lines and go directly to line 13.

A multistate taxpayer must allocate and apportion its net income according to the Uniform Division of Income for Tax Purposes Act (UDITPA), A.R.S. §§ 43-1131 through 43-1150. Refer to the instructions for Schedules ACA, C, D, and E for more detailed information. Compute the apportionment ratio itself on Schedule E (for non-air carrier taxpayers) or ACA (for air carrier taxpayers), and enter the average apportionment ratio on line 9. Carry out the decimal on line 9 to six places.

**Line 14 - Arizona Basis Net Operating Loss Carryover**

If the corporation incurred losses in prior taxable years, the corporation can apply those losses against current Arizona income. A net operating loss carryforward applies to the next five succeeding taxable years for net operating losses arising in taxable periods through December 31, 2011, subject to certain adjustments and rules. The amount entered on line 14 cannot exceed the amount on line 13. Include a separate computation schedule.

**NOTE:** For net operating losses that arise in taxable years beginning from and after December 31, 2011, the carryforward period is 20 succeeding taxable years. Be sure to maintain records long enough to substantiate the subtraction in the tax year taken.

Information about the Arizona net operating loss carryforward calculation can be found in A.R.S. § 43-1123, A.A.C. R15-2D-302, and Arizona Corporate Tax Rulings CTR 91-2, CTR 94-11 and CTR 99-3.

**Arizona Tax Liability Computation**

**Line 16 - Arizona Tax**

Multiply the Arizona taxable income (page 1, line 15) by 6.0%. 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 in accordance with A.R.S. § 43-1111.

A taxpayer filing a combined or consolidated return is considered a single taxpayer, subject to one minimum tax.

**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 31.

**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 56. This amount cannot be larger than the amount on Form 120, line 18.

- **Enterprise Zone Credit.** The enterprise zone credit has been repealed. The repeal did not affect carryforwards of properly established credits. Complete Form 304 to claim carryforwards established in prior years.
- **Environmental Technology Facility Credit.** This tax credit is for costs incurred in constructing a qualified environmental technology manufacturing, producing, or processing facility as described in A.R.S. § 41-1514.02. Complete Form 305 to claim this tax credit.
- **Military Reuse Zone Credit.** This tax credit is for net increases in employment of full-time employees working in a military reuse zone established under Arizona law. Complete Form 306 to claim this tax credit.
- **Credit for Increased Research Activities.** This tax credit is for taxpayers who incur qualified research expenses for research conducted in Arizona. The credit applies to taxable years beginning from and after December 31, 2000. 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. Be sure to include only the nonrefundable portion on line 19. Complete 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 Form 315 to claim this tax credit.
- **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 Form 318 to claim this tax credit.

- **Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets.** This tax credit is for the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets in houses or dwelling units constructed by the taxpayer. The houses or dwelling units must be located in Arizona. Complete Form 319 to claim this tax credit.
- **Credit for Employment of TANF Recipients.** This tax credit is for net increases in qualified employment for recipients of temporary assistance for needy families (TANF) who are residents of Arizona. Complete Form 320 to claim this tax credit.
- **Agricultural Pollution Control Equipment Credit.** This tax credit is for expenses incurred during the taxable year to purchase tangible personal property that is primarily used in the taxpayer's business in Arizona to control or prevent agricultural pollution. Complete Form 325 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 Form 331 to claim this tax credit.
- **Credits for Healthy Forest Enterprises.** These tax credits are for net increases in qualified employment positions in a healthy forest enterprise and net training and certifying costs. Use Form 332 to claim these tax credits.
- **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. Use Form 333 to claim this tax credit.
- **Motion Picture Credits.** Motion picture production companies that produced motion pictures, commercials, music videos, or television series completely or partially in Arizona may claim a transferable income tax credit for production costs. To qualify, productions must have been preapproved by the Arizona Commerce Authority by December 31, 2010. Use Form 334 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. Use Form 335 to claim this tax credit.
- **Credit for Solar Energy Devices - Commercial and Industrial Applications.** This tax credit is available to taxpayers that install solar energy devices for commercial, industrial, or any other nonresidential purpose in the taxpayer's trade or business located in Arizona. The taxpayer or an exempt organization may transfer the credit to a third party that either financed, installed, or manufactured the qualifying solar energy device. Use Form 336 to figure this tax credit.

- **Credit for Water Conservation System Plumbing Stub Outs.** The credit for water conservation system plumbing stub outs has expired. This credit may not be claimed for taxable years ending after December 31, 2011. However, any credit carryover established in calendar year 2011 and prior will be allowed for not more than five consecutive taxable years. Use Form 337 to figure any allowable credit carryover.
- **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. Use 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. Use Form 343 to claim this tax credit.
- **Solar Liquid Fuel Credit.** This tax credit is for taxpayers that increase research activities related to solar liquid fuel. Additional credits will become available in 2016 for production and delivery system costs. Use Form 344 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. Use 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. Use Form 346 to claim this tax credit.
- **Credit for Qualified Health Insurance Plans.** The credit for qualified health insurance plans has been repealed. All credits for qualified health insurance plans that were properly established can be carried forward for the respective three year carry forward period. Use Form 347 to claim this carry-forward tax credit.
- **Credit for Renewable Energy Investment and Production for Self-Consumption by Manufacturers and 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 manufacturing, or for International Operations Centers. Use Form 351 to claim this tax credit.

Complete the appropriate credit form for each tax credit. Include the completed credit form and Form 300 with the tax return.

**Line 20 - Credit Type**

Indicate which nonrefundable tax credits were claimed on line 19 by entering the applicable form number(s) in the space provided.

Nonrefundable Income Tax Credit	Form
Enterprise Zone Credit	304
Environmental Technology Facility Credit	305
Military Reuse Zone Credit	306
Credit for Increased Research Activities	308
Pollution Control Credit	315
Credit for Taxes Paid for Coal Consumed in Generating Electrical Power	318
Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	319
Credit for Employment of TANF Recipients	320
Agricultural Pollution Control Equipment Credit	325
Credit for Donation of School Site	331
Credits for Healthy Forest Enterprises	332
Credit for Employing National Guard Members	333
Motion Picture Credits	334
Credit for Corporate Contributions to School Tuition Organizations	335
Credit for Solar Energy Devices - Commercial and Industrial Applications	336
Credit for Water Conservation System Plumbing Stub Outs	337
Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students With Disabilities	341
Renewable Energy Production Tax Credit	343
Solar Liquid Fuel Credit	344
Credit for New Employment	345
Additional Credit for Increased Research Activities for Basic Research Payments	346
Credit for Qualified Health Insurance Plans	347
Credit for Renewable Energy Investment and Production for Self-Consumption by Manufacturers and International Operations Centers	351

**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, 342 and/or 349 to indicate which of these tax credits the taxpayer is claiming. Enter the amount of the credit 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, Form 300, and Form 308 with your return. Enter the amount from Form 308, Part 6, line 46.

**Credit for Renewable Energy Industry.** This tax credit is for expanding or locating qualified renewable energy operations 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 Form 342 with your tax return to claim this credit. Enter the amount from Form 342, Part 6, line 18.

**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 Form 349 with your tax return to claim this credit. Enter the amount from Form 349, Part 6, line 18.

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 Form 308, Part 6, line 46.	
2. Enter the apportioned credit from Form 342, Part 6, line 18.	
3. Enter the apportioned credit from Form 349, Part 6, line 18.	
4. Add the amounts on lines 1, 2, and 3. Enter the total here and on Form 120, line 22.	

**Lines 23 and 24 - Extension and Estimated Payments**

Complete Schedule F, *Schedule of Tax Payments*. Enter totals on page 1, lines 23 and 24. See instructions for Schedule F.

**Line 25 - Total Payments**

Add lines 22, 23 and 24. Enter the total.

**NOTE FOR CLAIM OF RIGHT RESTORATION:** *If the tax for the taxable year 2015 was computed under the provisions for a claim of right restoration, line 25 also includes the credit for the tax reduction for prior taxable year(s). Refer to Arizona Corporate Tax Procedure CTP 95-3 for further information. Write "A.R.S. § 43-1130.01" and the total amount of the tax reduction for prior taxable year(s) in the space to the left of the total payment amount entered on line 25. The amount entered on line 25 is the total of lines 22, 23 and 24 and the tax reduction for prior taxable year(s). Include a schedule computing the tax reduction for the prior taxable year(s).*

**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**

Calculate any penalty and interest due as a result of late filing, late payment of tax, or extension underpayment of tax. Calculate interest 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. See the "Penalties and Interest" section on page 2 of these instructions. Do not include or enter the amount from Form 220.

### **Line 29 - Estimated Tax Underpayment Penalty**

The taxpayer must complete Form 220, Underpayment of Estimated Tax by Corporations, if it made its estimated tax payments based on either the annualized income installment or adjusted seasonal installment methods, or if it is a large corporation that computed its first required installment based on the taxpayer's tax liability for the prior taxable year. This is required even if no penalty is due.

The taxpayer does not have to complete Form 220 if the taxpayer made its estimated tax payments in four equal installments based on an amount equal to either 90% of the current taxable year's tax liability or 100% of the prior year's tax liability. "Tax liability" here means the liability reduced by any refundable tax credits and the claim of right adjustment, if applicable.

The department will compute the estimated tax underpayment penalty based on either of these methods and notify the taxpayer of any amount due.

See the instructions for Form 220 for detailed information.

### **Line 30 - Total Due**

If the taxpayer had a balance of tax due on line 26, add lines 26, 28, and 29, and enter the total on line 30. This is the total amount due. Payments can be made via check, electronic check, money order, or credit card.

### **Check or Money Order**

Make checks payable to Arizona Department of Revenue. Include the taxpayer's EIN on the front of the check or money order. Include the check or money order with the return.

### **Internet Payments**

Corporate taxpayers must be licensed by the department before they can register to pay taxes online. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov) to register and make payments over the internet.

### **Electronic payment from checking or savings account**

Payments can be made electronically from a checking or savings account. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov) and choose the e-check option. 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. If 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.

### **Credit card payment**

Payments can be made via American Express, Discover, MasterCard or VISA credit cards. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov) and choose the credit card option. This will take you to the website of the credit card payment service provider. The service provider will charge a convenience fee based on the amount of the tax payment.

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

### **Line 31 – Overpayment**

If the taxpayer had 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 2016 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 A7 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, 244, and 245.

### **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 on line A6 the following additions to federal taxable income that are related to Arizona tax credits. Include a schedule detailing these additions.

**A. Environmental Technology Facility Credit**

- **Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the facility over depreciation or amortization computed on the Arizona adjusted basis of the facility. Make this adjustment for the facility for which the taxpayer claimed a tax credit under A.R.S. § 43-1169.

- **Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the facility exceeds the Arizona adjusted basis of the facility. Make this adjustment if the facility or any component of the facility for which the taxpayer claimed a tax credit under A.R.S. § 43-1169 was sold or otherwise disposed of during the taxable year.

**B. 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 under A.R.S. § 43-1170.

- **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 under A.R.S. § 43-1170 was sold or otherwise disposed of during the taxable year.

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

Enter the amount of expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed the credit for taxes paid for coal consumed in generating electrical power, in Arizona, under A.R.S. § 43-1178. 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 credit is claimed.

**D. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets**

Enter the amount of expenses deducted in computing federal taxable income for the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets for which the taxpayer claimed a tax credit under A.R.S. § 43-1176.

**E. Credit for Employment of TANF Recipients**

Enter the amount of wage expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed a tax credit for employment of TANF recipients under A.R.S. § 43-1175.

**F. Agricultural Pollution Control Equipment 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 under A.R.S. § 43-1170.01.

- **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 under A.R.S. § 43-1170.01 was sold or otherwise disposed of during the taxable year.

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

Enter the amount deducted pursuant to the Internal Revenue Code representing a donation of a school site for which the taxpayer claimed a tax credit under A.R.S. § 43-1181.

**H. Motion Picture Credits**

This credit is in lieu of any allowance for deduction of expenses related to the production or related to a transferred credit. Enter the amount of any such expenses that were deducted in computing federal taxable income for which a tax credit was claimed or transferred under former A.R.S. § 43-1163.

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

Enter the amount deducted in computing federal taxable income as contributions for which a tax credit is claimed under A.R.S. § 43-1183. This includes any amounts passed through from partnership interests.

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

Enter the amount deducted in computing federal taxable income as contributions for which a tax credit is claimed under A.R.S. § 43-1184. This includes any amounts passed through from partnership interests.

**Line A7 - Other Additions to Federal Taxable Income**

Enter on line A7 the following "other additions" to federal taxable income. Include a schedule detailing these additions.

**A. Excess of Partner's Share of Partnership Taxable Income or Loss**

Enter the excess of a partner's share of partnership taxable income included under A.R.S. §§ 43-1401 through 43-1413 over the partner's share of income reported under IRC § 702(a)(8). Enter the excess of a partner's share of partnership losses determined according to IRC § 702(a)(8) over the losses allowable under A.R.S. §§ 43-1401 through 43-1413.

**Wholly Arizona corporation** - If the amount on Form 165, Schedule K-1(NR), Part II, line 17, column (c), is positive, enter that amount here.

**Multistate corporation** - If the amount on Form 165, Schedule K-1(NR), Part II, line 17, column (c), from a *wholly*

*Arizona partnership* is positive, enter that amount here. For a *multistate partnership*, add the amount on Form 165, Schedule K-1(NR), Part II, line 17, column (a), to the amount of any nonapportionable income or (loss) included in the schedule [for Part II, line 17, column (a)]. If the total is positive, enter that amount here.

#### **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 Internal Revenue Code 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) or A.R.S. § 43-1121(4).

#### **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 a capital loss carryover allowable pursuant to IRC § 1341(b)(5) exceeds the capital loss carryover allowable pursuant to A.R.S. § 43-1130.01(F).

#### **H. Exclusion of Deduction for Original Issue Discount**

Enter the amount of the federally deferred original issue discount previously taken as a deduction for Arizona as a result of Arizona not adopting the provisions of the federal American Recovery and Reinvestment Act of 2009. The taxpayer is required to add back this amount to prevent taking the deduction twice.

#### **I. 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 payor 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 payor corporation.

No addition is required if:

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

#### **J. Treatment of Installment Obligations When Corporate Activities Cease**

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 here.

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 no longer subject to tax.

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

On lines B1 through B10 of Schedule B, enter all income that is exempt from Arizona tax that 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 - Adjustment for IRC § 179 Expense Not Allowed**

Enter the total of 20% of each addition made for IRC § 179 expense in 2011 and 2012.

#### **Line B4 - 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 payor

corporation by the recipient corporation. Dividends shall have the meaning provided in IRC § 316. Do not include IRC § 78 dividends.

### Line B5 - Foreign Dividend Gross-up

Enter IRC § 78 ("Gross-up") dividends.

### Line B6 - Dividends from Foreign Corporations

Enter the dividend income received from foreign corporations as defined in A.R.S. § 43-1101. Refer to Arizona Corporate Tax Ruling CTR 02-3 for information regarding the treatment of income from a qualified electing fund.

### Line B7 - Interest on U.S. Obligations

Enter the interest on qualifying U.S. obligations not taxed by Arizona, but subject to federal tax. (See Corporate Tax Ruling 06-1 for a listing of qualifying U.S. obligations.)

### Line B8 - 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 Arizona Individual Income Tax Procedure ITP 12-1 for information on how to determine if the contribution qualifies for the subtraction.

### Line B9 - Expenses Related to Certain Federal Tax Credits

Enter the amount of wages or salaries paid or incurred by the taxpayer for the taxable year not deducted in the computation of Arizona gross income if the taxpayer received the following federal credits:

- (1) The work opportunity credit,
- (2) The empowerment zone employment credit,
- (3) The credit for employer-paid social security taxes on employee cash tips, and/or
- (4) The Indian employment credit.

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

Enter on line B10 the following "other subtractions" from federal taxable income. Include a schedule detailing these subtractions.

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

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

#### B. Excess of Partner's Share of Partnership Income or Loss

Enter the excess of a partner's share of income included under IRC § 702(a)(8) over the income included under A.R.S. §§ 43-1401 through 43-1413. Enter the excess of a partner's share of partnership losses determined according to A.R.S. §§ 43-1401 through 43-1413, over the losses allowable under IRC § 702(a)(8).

**Wholly Arizona corporation** - If the amount on Form 165, Schedule K-1(NR), Part II, line 17, column (c), is negative, enter that amount here.

**Multistate corporation** - If the amount on Form 165, Schedule K-1(NR), Part II, line 17, column (c), from a *wholly Arizona partnership* is negative, enter that amount here. For a *multistate partnership*, add the amount on Form 165, Schedule K-1(NR),

Part II, line 17, column (a), to the amount of any nonapportionable income or (loss) included in the schedule [for Part II, line 17, column (a)] attached to the Schedule K-1(NR). If the total is negative, enter that amount here.

### 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 A7, item B (refer to A.R.S. § 43-1121(15)). 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 A7, item B, and line B10, items D and E. 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 Form 165. The adjustment to Arizona basis from Form 165, Schedule K-1(NR), Part II, 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 an Arizona capital loss carryover allowable pursuant to A.R.S. § 43-1130.01(F), exceeds the federal capital loss carryover allowable pursuant to IRC § 1341(b)(5).

**K. Deferred Deduction for Original Issue Discount**

Enter the subtraction to income resulting from Arizona not adopting the federal deferral of deduction for original issue discount issued in debt-for-debt exchanges elected by the taxpayer under IRC § 108(i). In those years when the Internal Revenue Code permits this deduction, "other additions" will include an addition to income to prevent the taxpayer from taking the deduction twice.

**L. Inclusion of Discharge of Indebtedness Income**

If the taxpayer included the discharge of indebtedness income in Arizona income in the year deferred federally (2009 or 2010), then when the income is included federally, the taxpayer is allowed a subtraction to avoid the income being taxed twice. Enter the amount of the federal inclusion.

**M. DISC Dividends**

Enter any income from a Domestic International Sales Corporation (DISC) which federal law requires its shareholders to include in income. Refer to IRC § 995.

**N. 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 which is part of a unitary group filing a combined return, and is in Arizona on a temporary basis solely for the purpose of performing disaster recovery from a declared disaster during a disaster period. (See *Publication No. 720, Disaster Recover Tax Relief*, for additional information.)

**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. Refer to A.R.S. § 43-1131(1). "Nonbusiness income" means all income other than business income. Refer to A.R.S. § 43-1131(4).

On lines C1 through C5, enter all income or (loss) which is nonapportionable or specifically allocable to Arizona. 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. 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.

**Line C2 - Nonbusiness Net Royalties**

Enter any net royalties from nonbusiness real property 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 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) recognized on the disposal of nonbusiness property. Identify each item of nonbusiness property and the gain or (loss) recognized on such property on a separate detailed schedule. 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.

Enter the amount of any nonapportionable income or (loss) from the schedule included with Form 165, Schedule K-1(NR) for Part II, line 17, column (a), from a multistate partnership.

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

**Wholly Arizona nonbusiness partnership** - Enter the total amount of income or (loss) from the partnership. This is the amount included in the corporation's Arizona gross income plus the amount

included in Schedule A or B. This amount is nonapportionable income and it is specifically allocable to Arizona.

**Multistate nonbusiness partnership** - Enter only the amount of income or (loss) from the partnership included in the corporation's Arizona gross income as nonapportionable income. Line C5 of Schedule C already includes the nonapportionable income or (loss) from the partnership on Form 165, Schedule K-1(NR).

#### **Line C7 - Foreign Income Expenses**

Enter any expenses attributable to foreign income producing activities. 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 (loss) on lines C1 through C5 net of expenses on line C7. Enter this amount here and on page 1, line 7.

**NOTE:** *If this amount is negative, enter the amount here and on page 1, line 7. To calculate the amount for page 1, line 8, remember to add line 6 to line 7 instead of subtracting, as the instructions indicate.*

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

On lines D1 through D5, enter all income or (loss) which 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 payor uses the patent or copyright in Arizona.
- The payor 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 and (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 and losses from sales of 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) which is specifically allocable to Arizona from the schedule (for Part II, line 17, column (c)) included with Form 165, Schedule K-1(NR), from a multistate partnership.

#### **Treatment of a nonbusiness partnership on line D6**

**Wholly Arizona nonbusiness partnership** - Enter the total amount of income or (loss) from the partnership (the amount from Schedule C, line C5) as income specifically allocable to Arizona.

**Multistate nonbusiness partnership** - Enter only the amount of income or (loss) from the partnership included in the corporation's Arizona gross income as income specifically allocable to Arizona. Schedule D, line D5, already includes the income or (loss) from the partnership on Form 165, Schedule K-1(NR), which is specifically allocable to Arizona.

### **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.

**NON-APPORTIONABLE INCOME**

Apportionment factors generating nonapportionable or non-taxable 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 which 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.

This section permits a departure from the allocation and apportionment provisions only in limited cases. A.R.S. § 43-1148 may be invoked only if unusual fact situations produce incongruous results under the apportionment and allocation provisions. 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.

The department normally makes such determinations only upon 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 (6) places after the decimal. If the seventh (7<sup>th</sup>) place after the decimal is five (5) or more, round the sixth (6<sup>th</sup>) decimal place up to the next higher digit. If the seventh (7<sup>th</sup>) place after the decimal is less than five (5), leave the sixth (6<sup>th</sup>) place decimal as it is.

**Example #1:**

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

The seventh (7<sup>th</sup>) digit after the decimal is "8". Since "8" is greater than "5", the sixth (6<sup>th</sup>) digit after the decimal is increased to the next higher digit, "2".

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

**Example #2:**

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

The seventh (7<sup>th</sup>) digit after the decimal is "2". Since "2" is less than "5", the sixth (6<sup>th</sup>) digit after the decimal remains "6". No increase to the sixth (6<sup>th</sup>) digit after the decimal is made.

The average rounded to six (6) 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 enhanced 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 "Enhanced", will be used to calculate the apportionment ratio on the corporation's return. Whichever apportionment method is indicated, the taxpayer must complete the apportionment ratio using that formula. (The taxpayer cannot use "Standard" to calculate one portion of the ratio, and "Enhanced" to calculate another portion of the ratio.)

For the standard apportionment ratio, the numerator of the fraction of the standard apportionment formula is the property factor plus the payroll factor plus two (2) times the sales factor. The denominator of the fraction is four (4). Use the numbers located on the left-hand side of Schedule E, column A, to double-weight the sales factor.

For the enhanced apportionment ratios, the numerator of the fraction is five (5) times the property factor plus five (5) times the payroll factor plus ninety (90) times the sales factor. The denominator of the fraction is 100. Use the numbers located on the right-hand side of Schedule E, column A to weight the property, payroll, and sales factors respectively.

**Line E1 - Property Factor**

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 non-apportionable or non-taxable 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 Corporate Tax Ruling (CTR) 01-2.

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"***

- Check the box on Line E of the return labeled "STANDARD".
- Divide the numerator of the property factor by the denominator. The result is the "Standard" property factor. Express the ratio as a decimal carried out to six (6) places. The property factor will not exceed 100%.

***Taxpayers Electing "ENHANCED APPORTIONMENT"***

- Check the box on Line E of the return labeled, "ENHANCED".
- Multiply the numerator of the property factor by five (5). Divide that result by the denominator. The result is the "Enhanced" property factor. Express the ratio as a decimal carried out to six (6) places. The property factor may exceed 100%

For additional information on the property factor, refer to:  
A.R.S. §§ 43-1140 through 1142  
A.A.C. R15-2D-601 through R15-2D-607 and R15-2D-902  
Corporate Tax Ruling (CTR) 01-2

**Line E2 - Payroll Factor**

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 non-apportionable or non-taxable 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"***

- Check the box on Line E of the return labeled "STANDARD".
- Divide the numerator of the payroll factor by the denominator. The result is the "Standard" payroll factor. Express the ratio as a decimal carried out to six (6) places. The payroll factor will not exceed 100%.

***Taxpayers Electing "ENHANCED APPORTIONMENT"***

- Check the box on Line E of the return labeled, "ENHANCED".
- Multiply the numerator of the payroll factor by five (5). Divide that result by the denominator. The result is the "Enhanced" payroll factor. Express the ratio as a decimal carried out to six (6) places. The payroll factor may exceed 100%

For additional information on the payroll factor, refer to:  
A.R.S. §§ 43-1143, 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 non-apportionable or non-taxable 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 box below for a description of an MSP.)



**TAXPAYERS THAT QUALIFY AS MULTISTATE SERVICE PROVIDERS ELECTING TO SOURCE SALES OF SERVICES TO ARIZONA USING A COMBINATION OF INCOME PRODUCING ACTIVITY SALES AND MARKET SALES**

For taxable years beginning from and after December 31, 2013, taxpayers that qualify as a Multistate Service Provider (MSP) may elect to treat sales from service as being sourced to Arizona based on a combination of income-producing activity sales and market sales. 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 (5) years. For each year of the election period, Schedule MSP must be completed by the taxpayer to source sales from services to Arizona. Once Schedule MSP is completed, the taxpayer can compute the sales factor.

Taxpayers that qualify, and who 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 from the completed Schedule MSP, Line B5.
- Complete the calculation of the sales factor following the instructions for the taxpayer's choice of the "STANDARD" or "ENHANCED" apportionment formula.

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

- Enter the Arizona sales from services on line E3b from the completed Schedule MSP, line B5.

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

- Include 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 (2). Divide that result by the denominator. The result is the "Standard" sales factor. Express the ratio as a decimal carried out to six (6) places. The sales factor will not exceed 100%.

**Taxpayers Electing "ENHANCED APPORTIONMENT"**

- Check the box on Line E of the return labeled "ENHANCED".
- Multiply the numerator of the sales factor by ninety (90). Divide that result by the denominator. The result is the "Enhanced" sales factor. Express the ratio as a decimal carried out to six (6) places. The sales factor may exceed 100%.

For more information on the sales factor, refer to:

A.R.S. §§ 43-1145 – 1147

A.A.C. R15-2D-801 through R15-2D-807, and R15-2D-903

Corporate Tax Ruling (CTR) 02-2

CTR 07-1

**Line E4 – Total Ratio**

Add the ratios for the property factor, the payroll factor, and the sales factor in Column C. Enter the result.

**Line E5 - Average Apportionment Ratio**

**NOTE:** Taxpayers must exclude a factor if both the numerator and the denominator of a factor are zero (0). Do not exclude a factor if the numerator of the factor is zero (0) and the denominator of a factor is greater than zero (0).

**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 (3). If the sales factor is excluded, determine the average ratio by dividing the total ratio by two (2). If two of the factors are excluded, the remaining factor, without respect to any weighting, is the apportionment ratio.

**Taxpayers Electing "ENHANCED APPORTIONMENT"**

If the either property or the payroll factor is excluded, determine the average ratio by dividing the total ratio by ninety-five (95.0). If the sales factor is excluded, determine the average ratio by dividing the total ratio by ten (10). 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 (4). Express the ratio as a decimal carried out to six (6) places. Enter the average ratio here and on page 1, line 9 of Arizona Form 120.

**Taxpayers Electing "ENHANCED APPORTIONMENT"**

Divide the total ratio, line E4, column C by 100. Express the ratio as a decimal carried out to six (6) places. Enter the average ratio here and on page 1, line 9 of Arizona Form 120.

**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.

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

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

<b>Schedule G - Other Information</b>
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All taxpayers must complete lines G1 through G8. Multistate taxpayers must also complete lines G9 and G10. If the answers are lengthy, continue the answers on a separate sheet of paper.

**Line G3:** List the name, title and telephone number of the individual who Arizona Department of Revenue employees may contact to schedule an audit of this return. 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 in a valid power of attorney. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary. Refer to Arizona General Tax Ruling GTR 02-1 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.

<b>Certification</b>
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One or more of the following officers (president, treasurer, or any other principal officer) must sign the return.

**Paid preparers:** Sign and date the return. Complete the firm name and address lines (the paid preparer's name and address, if self-employed). Enter the paid preparer's TIN, which is the firm's EIN or the individual paid preparer's social security number.