2004 Nonresident Personal Income Tax Return

Arizona Form 140NR

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Are You Subject to Tax in Arizona?

You are subject to Arizona income tax on all income derived from Arizona sources. If you are in this state for a temporary or transitory purpose or did not live in Arizona but received income from sources within Arizona during 2004, you are subject to Arizona tax. Income from Arizona sources includes wages, rental income, business income, the sale of Arizona real estate, interest and dividends having a taxable or business situs in this state, or any other income from an Arizona source.

Do You Have to File?

Arizona Filing Requirements **These rules apply to all Arizona taxpayers.**		
You must file if you are:	**AND** your Arizona adjusted gross income is at least:	**OR** your gross income is at least:
• Single	$ 5,500	$15,000
• Married filing jointly	$11,000	$15,000
• Married filing separately	$ 5,500	$15,000
• Head of household	$ 5,500	$15,000
If you are a nonresident, you must report income derived from Arizona sources.		
To see if you have to file, figure your gross income the same as you would figure your gross income for federal income tax purposes. Then you should exclude income Arizona law does not tax.		
You can find your Arizona adjusted gross income on line 20 of Arizona Form 140NR.		

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

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

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

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

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

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

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

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

You must file if you meet the Arizona filing requirements.

If you are an Arizona resident, you must report all of your income, no matter where stationed. You must include your military pay. If you were an Arizona resident when you entered the service, you remain an Arizona resident, no matter where stationed, until you establish a new domicile.

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

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

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

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

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

Residency Status

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

Residents

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

If you are a full year resident, you must file Form 140, Form 140A, or Form 140EZ.

Part-Year Residents

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

You are a part-year resident if you did either of the following during 2004.

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

Nonresidents

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

What if a Taxpayer Died?

If a taxpayer died before filing a return for 2004, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund.

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

If your spouse died in 2004 and you did not remarry in 2004, or if your spouse died in 2005 before filing a return for 2004, you may file a joint return. If your spouse died in 2004, the joint return should show your spouse's 2004 income before death, and your income for all of 2004. If your spouse died in 2005, before filing the 2004 return, the joint return should show all of your income and all of your spouse's income for 2004. Print "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign the return.

e-file ***e-File*** the return to receive the refund in as little as 7 days.

Are Any Other Returns Required?

You may also have to file fiduciary income tax or estate tax returns. For details about filing a fiduciary income tax return, call the department at (602) 255-3381. For details about filing an estate tax return, call the department at (602) 716-7809.

Claiming a Refund For a Deceased Taxpayer

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

What Are the Filing Dates And Penalties?

When Should You File?

Your 2004 calendar year tax return is due no later than midnight, April 15, 2005. File your return as soon as you can after January 1, but no later than April 15, 2005.

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

What If You Cannot File On Time?

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

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

To get a filing extension, you can either:

1. Apply for a state extension (Form 204). To apply for a state extension, file Arizona Form 204 by April 15. See Form 204 for details. You do not have to attach a copy of the extension to your return when you file, but make sure that you check either box 82D or 82F on page 1 of the return. If you must make a payment, use Arizona Form 204.
2. You may use your federal extension (federal Form 4868 or 2688). File your Arizona return by the same due date. You do not have to attach a copy of your federal extension to your return, but make sure that you check either box 82D or box 82F on page 1 of the return.

When Should You File if You Are a Nonresident Alien?

You must file your Arizona tax return by April 15, even though your federal income tax return is due on June 15. If you want to file your Arizona return when you file your federal return, you may ask for an extension. See Form 204 for extension filing details.

What if You File or Pay Late?

If you file or pay late, the department can charge you interest and penalties on the amount you owe. If the U.S. Post Office postmarks your 2004 calendar year return by April 15, 2005, your return will not be late. You may also use certain private delivery services designated by the IRS to meet the “timely mailing as timely filed” rule.

Late Filing Penalty

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

Late Payment Penalty

If you pay your tax late, the department can charge you a late payment penalty. This penalty is ½ of 1 percent (.005) of the amount shown as tax for each month or fraction of a month for which the failure continues. This penalty cannot exceed a total of 10 percent.

Extension Underpayment Penalty

If you file your return under an extension, you must pay 90 percent of the tax shown on your return by the return's original due date. If you do not pay this amount, the department can charge you a penalty. This penalty is ½ of 1 percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. The department charges this penalty from the original due date of the return until the date you pay the tax. This penalty cannot exceed 25 percent of the unpaid tax.

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

Interest

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

When Should You Amend a Return?

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

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

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

Option 1

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

Option 2

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

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

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

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

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

Do You Need To Make Estimated Payments in 2005?

You must make Arizona estimated income tax payments during 2005 if:		
Your filing status is:	**AND** Your Arizona gross income for 2004 was greater than:	**AND** Your Arizona gross income for 2005 exceeds:
Married Filing Joint	$150,000	$150,000
Single	$75,000	$75,000
Head of Household	$75,000	$75,000
Married Filing Separately	$75,000	$75,000

If you met the income threshold for 2004, you must make estimated payments during 2005 unless you are sure you will not meet the threshold for 2005.

As a nonresident, your Arizona gross income is that part of your federal adjusted gross income derived from Arizona sources. Your Arizona gross income is on line 15 of the 2004 Arizona Form 140NR.

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

What if You Make Your Estimated Payments Late?

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

For details, see Arizona Form 221.

Can You Make Estimated Payments if You Do Not Have to?

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

For details, see Arizona Form 140ES.

Line-by-Line Instructions

Tips for Preparing Your Return:

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

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

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

Lines 1, 2, and 3 -

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

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

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

If you are filing a joint return, enter your SSNs in the same order as your names. *If your name appears first on the return, make sure your SSN is the first number listed*. If you are a nonresident of the United States or a resident alien who

does not have an SSN use the identification number (ITIN) the IRS issued to you.

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

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

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

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

Identification Numbers for Paid Preparers

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

A paid preparer may use any of the following.

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

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

Determining Your Filing Status

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

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

Line 4 Box - Married Filing a Joint Return

You may use this filing status if married as of December 31, 2004. It does not matter whether or not you were living with your spouse. You may elect to file a joint return, even if you and your spouse filed separate federal returns.

You may use this filing status if your spouse died during 2004 and you did not remarry in 2004. See page 2 of these instructions for details.

If you are married to an Arizona full year resident, you may file a joint return using the 140NR. For more information, see Arizona Department of Revenue Income Tax Ruling *ITR 95-2*.

Line 5 Box - Head of Household

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

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

Line 6 Box - Married Filing Separately

You may use this filing status if married as of December 31, 2004, and you elect to file a separate Arizona return. You may elect to file a separate return, even if you and your spouse filed a joint federal return.

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

If you are filing a separate return and your spouse is an Arizona resident, you must figure how much income to report using community property laws. Under these laws, a separate return must reflect one-half of the community income taxable to Arizona plus any separate income taxable to Arizona. For details, see Arizona Department of Revenue Income Tax Ruling *ITR 93-20*.

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

Line 7 Box - Single

Use this filing status if you were single on December 31, 2004. You are single if any of the following apply to you.

- You have never been married.
- You are legally separated under a decree of divorce or of separate maintenance.
- You were widowed before January 1, 2004, and you did not remarry in 2004, and you do not qualify to file as a qualifying widow or widower with dependent children on your federal return.

Exemptions

Write the number of exemptions you are claiming in boxes 8, 9, and 10. Do not put a checkmark. You may lose the exemption if you put a checkmark in these boxes. You may lose the dependent exemption if you do not complete Part A on page 2.

Line 8 Box - Age 65 or Over

Write "1" in box 8 if you or your spouse were 65 or older in 2004. Write "2" in box 8 if both you and your spouse were 65 or older in 2004.

Line 9 Box - Blind

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

If you or your spouse were partially blind as of December 31, 2004, you must get a statement certified by your eye doctor or registered optometrist that:

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

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

You must keep the statement for your records.

Line 10 Box - Dependents

You must complete Part A on page 2 of your return before you can total your dependent exemptions.

You may claim only the following as a dependent.

- A person that qualifies as your dependent on your federal return.
- A person who is age 65 or over (related to you or not) that does not qualify as your dependent on your federal return, but one of the following applies.

1. In 2004, you paid more than one-fourth of the cost of keeping this person in an Arizona nursing care institution, an Arizona residential care institution, or an Arizona assisted living facility. Your cost must be more than $800.
2. In 2004, you paid more than $800 for either Arizona home health care or other medical costs for the person.

- A stillborn child if the following apply:

1. The stillbirth occurred in Arizona during 2004.
2. You received a certificate of birth resulting in stillbirth from the Arizona Department of Health Services.
3. The child would have otherwise been a member of your household.

Completing Line(s) A1

Enter the following on line(s) A1.

1. The dependent's name. If you are claiming an exemption for a stillborn child and the child was not named, enter "stillborn child" in place of a name.
2. The dependent's social security number. If you are claiming an exemption for a stillborn child enter the certificate number from the certificate of birth resulting in stillbirth.
3. The dependent's relationship to you.
4. The number of months the dependent lived in your home during 2004. If you are claiming an exemption for a stillborn child, enter the date of birth resulting in the stillbirth.

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

Line A2 - Total Dependents

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

Line A3 - Persons You Cannot Take as Dependents on Your Federal Return

Enter the names of any dependents age 65 or over listed on line(s) A1 that you cannot take as a dependent on your federal return. Also enter the name of any stillborn child listed on line(s) A1, if the stillborn child was named. If the stillborn child was not named, enter "stillborn child" on line A3. In the case of a stillborn child, also enter the date of birth resulting in the stillbirth.

Reporting Your Residency Status

Check the appropriate box (11 through 13). Check only one box.

Line 11 Box - Nonresident

Check box 11 if you were not an Arizona resident during 2004 and were not on active military duty in Arizona.

Line 12 Box - Nonresident Active Military

Check box 12 if you were a nonresident on active duty military assignment in Arizona in 2004.

Line 13 Box - Composite Return

Check box 13 if this is a composite return being filed by one of the following.

1. A partnership filing on behalf of its nonresident partners.
2. An S corporation filing on behalf of its nonresident shareholders.

For information on filing an Arizona nonresident composite income tax return, see Arizona Department of Revenue Income Tax Ruling *ITR 97-1*.

Determining Arizona Income

Now complete Parts B, C, and D on page 2 of the return.

Use Part B to determine what portion of your total income is taxable by Arizona.

NOTE: *If you are unable to determine the proper line to use, please call one of the numbers listed on the back cover.*

FEDERAL Column

Enter the actual amounts shown on your 2004 federal income tax return in the FEDERAL column. Complete lines B4 through B14. Line B14 should equal the federal adjusted gross income shown on your 2004 federal return Form 1040, Form 1040A, or Form 1040EZ.

ARIZONA Column

Enter that portion of your federal income received from Arizona sources in the ARIZONA column. Such income includes wages earned in Arizona, Arizona rental and business income, and gains on the sale of Arizona property.

NOTE: *If you are filing a joint return with your full year resident spouse, you must enter your Arizona source income in the ARIZONA column and your spouse must enter all income from all sources in the ARIZONA column. For details, see Arizona Department of Revenue Income Tax Ruling ITR 95-2.*

The Tax Reform Act of 1986 limits the amount of losses that you may deduct from passive activities. A passive activity is one that involves the conduct of any trade or business in which the taxpayer does not materially participate.

As a nonresident, your Arizona gross income may include some of these losses. You may consider only those passive losses that arose from Arizona sources. Your 2004 Arizona gross income can include only Arizona source losses you used on your 2004 federal return.

The following line-by-line instructions apply to the ARIZONA column.

Line B4 - Wages, Salaries, Tips, etc.

Enter all amounts received for services performed in Arizona.

NOTE: *Do not include active duty military pay unless the active duty military member is an Arizona resident filing a joint return with his or her Arizona nonresident spouse on Form 140NR.*

Line B5 - Interest

If you have an Arizona business, enter only interest (including U.S. Government interest) you earned on accounts pledged as collateral. Also enter your distributive share of interest from a partnership doing business in Arizona or an S corporation doing business in Arizona. Do not include any other interest income even if it was earned in Arizona banks.

Line B6 - Dividends

If you have an Arizona business, enter only those dividends earned on stocks pledged as collateral, including dividends from small business corporations. Also enter your distributive share of dividend income from a partnership doing business in Arizona or an S corporation doing business in Arizona. Do **not** include any other dividend income.

Line B7 - Arizona Income Tax Refunds

Enter the amount of Arizona income tax refunds received in 2004 that you included in your federal adjusted gross income.

Line B8 - Business Income or (Loss)

Enter income or (loss) from Arizona businesses.

Line B9 - Gains or (Losses)

Enter gains or (losses) on sales of Arizona property.

Line B10 - Rents, etc.

Enter rent or royalty income earned on Arizona properties. Enter income from Form 141AZ Schedule K-1(NR), line 2, from estates or trusts. Also enter income or (loss) from Schedule(s) K-1(NR) from Arizona partnerships (Form 165), or small business corporations (Form 120S).

Line B11 - Other Income Reported on Your Federal Return

Enter other income from sources within Arizona. Do not include pension income or social security taxed by the federal government.

Net Operating Losses

Arizona does not have specific net operating loss provisions for individual taxpayers. Arizona conforms to the federal net operating loss provisions, including the carryback provisions.

As an Arizona nonresident, you may have had a loss from prior year Arizona business operations. However, the loss cannot offset this year's income unless the loss is a net operating loss for federal purposes. You can include the loss deduction in your Arizona gross income only to the extent included in your federal adjusted gross income. You cannot include any amount of that net operating loss that has already been deducted for Arizona purposes.

Enter the amount of net operating loss deduction included in your federal adjusted gross income that was derived from Arizona sources. Do not include any amount of the loss that has already been deducted for Arizona purposes. Also, do not include any loss for which you took a separate subtraction on an amended return filed for a prior tax year under the special net operating loss transition rule.

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

Line B12 - Total Income

Add lines B4 through B11 and enter the total.

Line B13 - Other Federal Adjustments

Include on line B13 any other federal adjustments included in your federal adjusted gross income that are attributable to the Arizona source income reported on your 2004 Arizona nonresident return.

Line B15 - Arizona Income

Complete line B15 as instructed on the form.

Line B16 - Arizona Percentage

Divide line B15 by line B14 and enter the result. **(Do not enter more than 100 percent.)** This is the Arizona percentage of your total income.

Example:		
Arizona Gross Income from line B15	Federal Adjusted Gross Income from line B14	Arizona percentage
$ 7,500	$ 30,000	$7,500/30,000 = 25%

Determining Additions to Income

Line C17 - Early Withdrawal of Arizona, County, City, or School Retirement System Contributions

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

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

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

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

Line C18 - Total Depreciation Included in Arizona Gross Income

Enter the amount of depreciation deducted on the federal return that is included in Arizona gross income. If you make an entry here, also see the instructions for line D30, "Other Subtractions From Income".

Line C19 - Other Additions to Income

Use line C19 if any of the special circumstances below apply. Attach your own schedule to the back of your return, explaining any amounts entered on line C19.

A. Fiduciary Adjustment

A fiduciary uses Form 141AZ, Schedule K-1(NR), to report to you your share of the fiduciary adjustment from the trust or estate. Line 5 of Form 141AZ, Schedule K-1(NR), shows your share of the fiduciary adjustment from the estate or trust.

Depending on your situation, you may either add (line C19) or subtract (line D30) this amount.

If the amount reported on line 5 of your Arizona Form 141AZ, Schedule K-1(NR), is a positive number, enter that amount as an addition on line C19.

If the amount on line 5 is a negative number, enter that amount as a subtraction from income on line D30.

B. Agricultural Water Conservation System Credit

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

C. Items Previously Deducted for Arizona Purposes

Arizona statutes prohibit a taxpayer from deducting items more than once. However, under the operation of former Arizona law (1989 and prior), you could deduct certain items in greater amounts for Arizona purposes than federal purposes. Investment interest and passive activity losses were such items. In some cases, you could have deducted such amounts in their entirety on the Arizona return. For federal purposes, the deduction for these items was limited, with the unused portions being carried forward and deducted in future years. Your Arizona return may include these previously deducted items because of the difference between the federal and former Arizona treatment. If your Arizona taxable income includes items previously deducted for Arizona purposes, you must add such amounts to your Arizona gross income.

D. Claim of Right Adjustment for Amounts Repaid in 2004

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

1. During 2004, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. The amount required to be repaid during 2004 was more than $3,000.
4. You took a deduction for the amount repaid on your 2004 federal income tax return.
5. The deduction taken on your federal income tax return is reflected in your Arizona taxable income.

If the above apply, enter the amount deducted on your federal income tax return which is reflected in your Arizona taxable income.

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

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

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

1. During a year prior to 2004 you were required to repay income held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 2004 Arizona taxable income.
5. The amount of the loss carryover included in your Arizona gross income is more than the amount allowed to be taken into account for Arizona purposes.

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

F. Addition to S Corporation Income Due to Credits Claimed

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

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

- Agricultural water conservation system credit
- Defense contracting credits
- Environmental technology facility credit
- Pollution control credit
- Recycling equipment credit
- Credit for solar hot water heater plumbing stub outs and electric vehicle recharge outlets
- Credit for employment of TANF recipients
- Credit for agricultural pollution control equipment
- Credit for taxpayers participating in agricultural preservation district

G. Solar Hot Water Heater Plumbing Stub Out And Electric Vehicle Recharge Outlet Expenses

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

H. Wage Expense for Employers of TANF Recipients

If you take a credit for employing TANF recipients, you

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

I. Amounts Deducted for Conveying Ownership or Development Rights of Property to an Agricultural Preservation District

If you take a credit for taxpayers participating in agricultural preservation district, you cannot deduct any amounts for conveying ownership or development rights of property to an agricultural district. If you take this credit, enter the amount of such deductions for which you claim a credit.

J. I.R.C. § 179 Expense in Excess of Allowable Amount

Enter the amount of IRC § 179 expense included in your Arizona gross income that exceeds $25,000. If you make an entry here, also see the instructions for line D30, "Other Subtractions From Income".

K. Medical Savings Account (MSA) Distributions

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

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

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

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

1. You have an MSA that qualifies as an MSA under Arizona law.
2. If you are an employee, your high deductible health coverage is provided by your Arizona employer. If you are self employed, your high deductible health coverage is provided by your Arizona business.
3. You withdrew money from your MSA during 2004.
4. You did not use the amount withdrawn to pay qualified medical expenses.
5. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

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

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

1. The account holder died during the year.
2. The account holder's MSA qualified as an MSA under Arizona law.
3. If the account holder was an employee, the account holder's high deductible health coverage was provided by his or her Arizona employer. If the account holder was self employed, the account holder's high deductible health coverage was provided by his or her Arizona business.
4. You are the named beneficiary of the decedent's MSA.
5. You are not the decedent's surviving spouse.
6. You did not have to include the value of the MSA as income on your federal income tax return.

In this case, the MSA ceased to be an MSA. Enter the fair market value of the MSA as of the date of death, less the amount of MSA funds used within one year of the date of death, to pay the decedent's qualified medical expenses. If the MSA has not paid all of the decedent's medical expenses by the time you file this return, reduce the fair market value by only those expenses the MSA paid. If the MSA pays additional expenses for the decedent after you file, you may file an amended return to further reduce the fair market value of the MSA.

3 - Decedent's Final Return and no Named MSA Beneficiary

Make an entry here if all of the following apply.

1. The account holder died during the year.
2. The account holder's MSA qualified as an MSA under Arizona law.
3. If the account holder was an employee, the account holder's high deductible health coverage was provided by his or her Arizona employer. If the account holder was self employed, the account holder's high deductible health coverage was provided by his or her Arizona business.
4. There is no named MSA beneficiary.
5. This is the decedent's final return.
6. The value of the MSA did not have to be included on the decedent's final federal income tax return.

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

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

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

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

L. Other Adjustments

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

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

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

Line C20 - Total Additions

Add lines C17 through C19. Enter the total on line C20 and on the front of your return, line 16.

Determining Subtractions From Income

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

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

D21 - Exemption: Age 65 or Over

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

Line D22 - Exemption: Blind

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

Line D23 - Exemption: Dependents

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

Line D24 - Total

Add lines D21 through D23 and enter the total.

Line D25 - Prorated Exemptions

Multiply the amount on line D24 by your Arizona percentage from line B16 and enter the result.

NOTE Active Duty Military Personnel Only: *If you were on active duty in Arizona during 2004, but you were a resident of another state, you must prorate these exemptions.*

Line D26 - Interest on U.S. Obligations

Enter the amount of interest income from U.S. Government obligations included as income on line B5 in the ARIZONA column. U.S. Government obligations include obligations such as savings bonds and treasury bills. You must reduce this subtraction by any interest or other related expenses incurred to purchase or carry the obligation. Reduce the subtraction only by the amount of such expenses included in your Arizona gross income.

Line D27 - Arizona Lottery Winnings

You may subtract up to $5,000 of winnings received in 2004 for Arizona lottery prizes. Only subtract those Arizona lottery winnings that you included on line B11 in the ARIZONA column and reported on your federal income tax return.

If you subtract Arizona lottery winnings here, you may have to adjust the amount of gambling losses claimed as an itemized deduction.

Line D28 - Agricultural Crops Given to Arizona Charitable Organizations

Arizona law allows a subtraction for qualified crop gifts made during 2004 to one or more charitable organizations. To take this subtraction, you must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. You must make your gift to a charitable organization located in Arizona that is exempt from Arizona income tax.

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

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

Line D29 - Construction of an Energy Efficient Residence

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

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

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

Enter the number of residences for which you are claiming a subtraction on line D29a, then enter the amount of the subtraction on line D29. Also enter the number on line D29a on Form 140NR, page 1, line 191.

Line D30 - Other Subtractions

Use line D30 if any of the following special circumstances apply. Attach your own schedule to the back of the return, explaining any amounts entered here.

A. Certain Wages of American Indians

Enrolled members of American Indian tribes may subtract wages earned while living and working on their tribe's

reservation. You can subtract only those amounts that you included on line B4, ARIZONA column. The federal government must recognize these tribes.

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

B. Adoption Expenses

You may take this subtraction only in the year the final adoption order is granted.

Enter the lesser of the total of the following adoption expenses or $3,000.

When figuring your subtraction, you may include expenses incurred in prior years.

The following expenses are qualified adoption expenses.

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

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

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

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

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

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

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

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

1. During a year prior to 2004 you were required to repay income held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. You computed your tax for that prior year under Arizona's claim of right provisions.
4. A net operating loss or capital loss was established due to the repayment made in the prior year.
5. You are entitled to take that net operating loss or capital loss carryover into account when computing your 2004 Arizona taxable income.
6. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the amount included in your Arizona gross income.

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

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

E. Deposits Made Into Your MSA

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

1. You have an MSA that qualifies as an MSA under Arizona law, but not federal law.
2. If you are an employee, your high deductible health coverage is provided by your Arizona employer. If you are self employed, your high deductible health coverage is provided by your Arizona business.
3. Either you or your employer made deposits into that MSA during the tax year.
4. You had to include the deposits in income on your federal income tax return.

You can subtract these deposits only to the extent included in your Arizona gross income. Enter these contributions here.

F. Employer Contributions Made to Employee MSAs

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

G. Certain Expenses Not Allowed for Federal Purposes

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

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

If you received any of the above federal tax credits for 2004, enter the portion of wages or salaries attributable to Arizona source income that you paid or incurred during the taxable year that is equal to the amount of those federal tax credits you received.

H. Recalculated Arizona Depreciation

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

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

With respect to property used in an Arizona business that is sold or otherwise disposed of during the taxable year by a taxpayer who has complied with the requirement to add back all depreciation with respect to that property on tax returns for all taxable years beginning from and after December 31, 1999, enter the amount of depreciation that has been allowed pursuant to 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.) You may make this adjustment for only property that was used in your Arizona business.

J. Fiduciary Adjustment

If the amount on Form 141AZ, Schedule K-1(NR), line 5, is a negative number, enter that amount as a subtraction from income on line D30.

K. Adjustment for IRC § 179 Expense Not Allowed

Enter 20% of the amount entered on line C19 for excess I.R.C. § 179 expense. This same amount can be subtracted in each of the following four taxable years also, effectively amortizing the difference in treatment over five years. If you made an addition for I.R.C. § 179 expense on your 2003 return, also enter 20% of the amount added for 2003.

L. Other Adjustments

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

- You are a qualified defense contractor that elected to amortize under Arizona Revised Statutes section 43-1024.
- You sold or disposed of property that was held for the production of income subject to Arizona tax and your basis was computed under the Arizona Income Tax Act of 1954.
- You deferred exploration expenses determined under Internal Revenue Code section 617 in a taxable year ending before January 1, 1990, and you have not previously taken a subtraction for those expenses.

Line D31 - Total Subtractions

Add lines D25 through D30. Enter the total here and on the front of your return on line 19.

Line E32 Different Last Names

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

Totaling Your Income

Line 14 - Federal Adjusted Gross Income

You must complete your federal return before completing your Arizona return. You must complete a 2004 federal return to determine your federal adjusted gross income even if not filing a federal return.

Arizona uses federal adjusted gross income as a starting point to determine Arizona taxable income. Enter your federal adjusted gross income from page 2, line B14.

Line 15 - Arizona Income

Enter your Arizona income from page 2, line B15, of your return.

Line 16 - Additions to Income

Enter the amount from page 2, line C20, of your return.

Line 18 - Do Not Use This Line For 2004

Several federal employees filed a court action in which they argued that Arizona's taxing scheme for years after 1990 discriminates against federal employees by adopting federal adjusted gross income, which includes federal employees' mandatory retirement plan contributions but not those of state and local employees, as Arizona gross income. The Arizona Supreme Court held that the tax statutes do not discriminate against federal employees based on the source of their income. The plaintiffs filed a Petition for Writ of Certiorari with the United States Supreme Court. On October 4, 2004, the United States Supreme Court denied the petition for certiorari. Therefore, the amount of mandatory retirement plan contributions that are included in federal adjusted gross income (and Arizona gross income) are subject to Arizona income tax. Line 18, which was formerly used for the elective subtraction of federal retirement contributions, will remain on the 2004 forms as an unused line since the Department of Revenue did not have time to modify all of the affected forms prior to going to print.

NOTE: *If you used this line in prior years, you must file an amended return for each of those prior years to include any subtracted amounts.*

Line 19 - Subtractions From Income

Enter the amount from page 2, line D31, of your return.

Figuring Your Arizona Tax

Line 21 - Itemized or Standard Deductions

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

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

Your Standard Deduction

Tax Tip: *The standard deduction is not prorated.*

If you take the standard deduction, check box 21S.

If your filing status is:	Your standard deduction is:
• Single	$ 4,050
• Married filing separately	$ 4,050
• Married filing jointly	$ 8,100
• Head of household	$ 8,100

Your Itemized Deduction

You may itemize deductions on your Arizona return even if you do not itemize deductions on your federal return. The itemized deductions allowed for Arizona purposes are those itemized deductions that are allowable under the Internal Revenue Code. As an Arizona nonresident, you must prorate these deductions by the percentage which your Arizona gross income is of your federal adjusted gross income.

To determine your Arizona itemized deductions, complete a federal Form 1040, Schedule A. Then complete the Arizona Form 140NR, Schedule A. If you itemize deductions, check box 21I.

NOTE: *If you itemize, you must attach a copy of your federal Schedule A and your Arizona Schedule A(NR) to your Arizona return.*

Line 22 - Personal Exemptions

Your personal exemption depends on your filing status. See Personal Exemption Chart. Then complete the Personal Exemption Worksheet.

NOTE For Active Duty Military Personnel Only: *If you were on active duty in Arizona during 2004, but were a resident of another state, do not prorate your personal exemption. You are allowed a 100 percent deduction for the personal exemption (to include spouse).*

Personal Exemption Chart

If you checked filing status:	**Personal Exemption before proration:**
• Single (Box 7)	$2,100
• Married filing joint return (Box 4) and claiming no dependents (Box 10)	$4,200
• Married filing joint return (Box 4) and claiming at least one dependent (Box 10 excluding persons listed on Page 2, line A3)	$6,300
• Head of household and you are **not** married (Box 5)	$4,200
• Head of household and you **are** a married person who qualifies to file as head of household (Box 5)	$3,150 Or Complete Form 202 *Personal Exemption Allocation Election*.
• Married filing separately (Box 6) with neither spouse claiming any dependents (Box 10)	$2,100 Or Complete Form 202 *Personal Exemption Allocation Election*.
• Married filing separately (Box 6) with one spouse claiming at least one dependent (Box 10 excluding persons listed on Page 2, line A3)	$3,150 Or Complete Form 202 *Personal Exemption Allocation Election*.

Personal Exemption Worksheet

1. Amount from personal exemption chart. If you were an active duty military member during 2004, skip lines 2 and 3 and enter this amount on Form 140NR, page 1, line 22. All other taxpayers complete lines 2 and 3.	$
2. Enter your Arizona percentage from Form 140NR, page 2, line B16.	%
3. Multiply line 1 by the percent on line 2. Enter the result here and on Form 140NR, page 1, line 22.	$

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

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

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

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

Line 23 - Taxable Income

Subtract lines 21 and 22 from line 20 and enter the result. Use this amount to calculate your tax using Tax Rate Table X or Y.

Line 24 - Tax Amount

Enter the tax from Tax Rate Table X or Y.

Line 25 - Tax From Recapture of Credits From Arizona Form 301

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

Line 26 - Subtotal of Tax

Add lines 24 and 25.

Lines 27 and 28 - Clean Elections Fund Tax Reduction

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

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

To make this designation, Check box 271 marked yourself.

If you checked box 271 and the amount on Form 140NR, page 1, line 26 is $10 or more, enter $5 on line 28. If the amount on line 26 is less than $10, complete the following worksheet.

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

If both spouses want to make this designation, one spouse should check box 271, and the other spouse should check box 272.

If you checked both box 271 and box 272 and the amount on Form 140NR, page 1, line 26 is $20 or more, enter $10 on line 28. If the amount on line 26 is less than $20, complete the worksheet below.

Clean Elections Fund Tax Reduction Worksheet	
1. Enter the amount of tax from Form 140NR, page 1, line 26.	
2. If you checked box 271, enter $5. If a joint return and your spouse also checked box 272, enter $10.	
3. Balance of tax eligible for tax reduction. Subtract line 2 from line 1. If less than zero, enter zero "0".	
4. If you checked box 271, enter $5. If a joint return and your spouse also checked box 272, enter $10.	
5. Tax reduction. Enter the lesser of line 3 or line 4. Also enter this amount on Form 140NR, page 1, line 28.	

NOTE: *Amounts designated to the Clean Elections Fund here do not qualify for the credit on line 32.*

Line 29 - Reduced Tax

Subtract line 28 from line 26. Enter the result.

Line 30 - Nonrefundable Credits From Arizona Form 301 or Forms 321, 322, and 323 if Form 301 is not Required

Complete line 30 if you can take any of the following credits. Also make sure that you attach the Arizona Form 301 if you are required to complete Form 301 and the appropriate credit form or forms to your return.

1. **Defense Contracting Credits.** You may qualify for this credit if you are an Arizona Department of Commerce certified defense contractor who has qualified increases in employment. This tax credit also includes a provision for a property tax credit. Use Form 302 to figure this credit.

2. **Enterprise Zone Credit.** You may qualify for this credit if your business in an Arizona enterprise zone had net increases in qualified employment positions. Use Form 304 to figure this credit.

3. **Environmental Technology Facility Credit.** You may qualify for this credit if your business incurred expenses in constructing a qualified environmental technology manufacturing facility. Use Form 305 to figure this credit.

4. **Military Reuse Zone Credit.** You may qualify for this credit if you have qualifying net increases in full-time employment within a military reuse zone. Use Form 306 to figure this credit.

5. **Recycling Equipment Credit.** The recycling equipment credit allowable to individuals has been repealed. You may not take this credit for taxable years beginning January 1, 2003 or later. However, the repeal did not affect any credit carryover that accrued prior to the repeal. Use Form 307 to figure any allowable credit carryover.

6. **Credit for Increased Research Activities.** You may qualify for this credit if you incurred qualified research expenses for research conducted in Arizona. Use Form 308-I to figure this credit.

7. **Credit for Taxes Paid to Another State or Country.** You may qualify for this credit if you paid tax to Arizona and another state or country on the same income. Use Form 309 to figure this credit.

8. **Agricultural Water Conservation System Credit.** You may qualify for this credit if you incurred expenses to purchase and install an agricultural water conservation system in Arizona. Use Form 312 to figure this credit.

9. **Carryover of Alternative Fuel Vehicle (AFV) Credit.** If you have an unused AFV credit carryover from taxable year **1999**, use Form 313 to claim that carryover.

10. **Underground Storage Tanks Credit.** You may qualify for this credit if you incurred expenses correcting a release of a regulated substance from an underground storage tank. To qualify for this credit, you must not have been liable or responsible for the corrective action as an owner or operator of the underground storage tank. Use Form 314 to figure this credit. **Note:** This credit was repealed effective August 25, 2004.

11. **Pollution Control Credit.** You may qualify for this credit if you purchased depreciable property used in a trade or business to reduce or prevent pollution. Use Form 315 to figure this credit.

12. **Construction Materials Credit.** You may only claim a carryover of the unused construction materials tax credit from taxable years beginning prior to January 1, 2000. Use Form 316 to claim this credit carryover.

13. **Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets.** You may qualify for this credit if you install solar hot water heater plumbing stub outs or electric vehicle recharge outlets in houses or dwelling units you construct. The taxpayer that constructed the dwelling may also transfer the credit to a purchaser. Use Form 319 to figure this credit.

14. **Credit for Employment of TANF Recipients.** You may qualify for this credit if you employed TANF recipients during the taxable year. Use Form 320 to figure this credit.

15. **Credit for Contributions to Charities that Provide Assistance to the Working Poor.** You may qualify for this credit if you made contributions to certain charities that provide help to the working poor. Use Form 321 to figure this credit.

16. **Credit for Contributions Made or Fees Paid to Public Schools.** You may qualify for this credit if you paid certain fees to public schools in Arizona. Use Form 322 to figure this credit.

17. **Credit for Contributions to School Tuition Organizations.** You may qualify for this credit if you made contributions to a school tuition organization that provides scholarships or grants to qualified schools. Use Form 323 to figure this credit.

18. **Agricultural Pollution Control Equipment Credit.** You may qualify for this credit if you are involved in commercial agriculture and incur expenses to purchase tangible personal property that is primarily used in your trade or business in Arizona to control or prevent pollution. Use Form 325 to figure this credit.

19. **Credit for Alternative Fuel Delivery Systems.** If you have an unused alternative fuel delivery system credit carryover from taxable year **1999**, use Form 326 to claim that carryover.

20. **Vehicle Refueling Apparatus Credit.** If you have an unused vehicle refueling apparatus credit from taxable year **1999**, use Form 327 to claim that carryover.

21. **Neighborhood Electric Vehicle (NEV) Credit.** If you have an unused NEV credit carryover from taxable years **1999, 2000 or 2001**, use Form 328 to claim that carryover.

22. **Credit for Donation of School Site.** You may qualify for this credit if you donated real property and improvements to a school district or a charter school for use as a school or as a site for the construction of a school. Use Form 331 to figure this credit.

Compute your credit on the appropriate form. Then complete Form 301 and enter the amount from Form 301, line 58. The credits on line 30 cannot reduce your tax below zero. These credits are not refundable credits.

Attach Arizona Form 301 along with any supporting documents to your return.

Line 31 - Credit Type

If you entered an amount on line 30, write the form number of each credit claimed.

If you are claiming:	**Write form number:**
1. Defense Contracting Credits	302
2. Enterprise Zone Credit	304
3. Environmental Technology Facility Credit	305
4. Military Reuse Zone Credit	306
5. Recycling Equipment Credit	307
6. Credit for Increased Research Activities	308-I
7. Credit for Taxes Paid to Another State or Country	309
8. Agricultural Water Conservation System Credit	312
9. Carryover of Alternative Fuel Vehicle (AFV) Credit	313
10. Underground Storage Tanks Credit	314
11. Pollution Control Credit	315
12. Construction Materials Credit	316
13. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	319
14. Credit for Employment of TANF Recipients	320
15. Credit for Contributions to Charities That Provide Assistance to the Working Poor	321
16. Credit for Contributions Made or Fees Paid to Public Schools	322
17. Credit for Contributions to School Tuition Organizations	323
18. Agricultural Pollution Equipment Credit	325
19. Carryover of Credit for Alternative Fuel Delivery Systems	326
20. Carryover of Vehicle Refueling Apparatus Credit	327
21. Carryover of Neighborhood Electric Vehicle (NEV) Credit	328
22. Credit for Donation of School Site	331

Line 32 - Clean Elections Fund Tax Credit

NOTE: *Amounts designated to the Clean Elections Fund on Form 140NR, page 1, lines 27 and 28, do not qualify for the credit. Do not include those amounts here regardless of whether you made the designation this year or in a prior year.*

For 2004, you may claim a credit for:

- Donations made directly to the fund during 2004.
- A donation made to the fund on your 2003 income tax return that you filed in 2004.

You may not claim a credit on the 2004 return for a donation made to the fund on your 2004 return. If you make a donation to the fund with your 2004 return, that you file in 2005, you may claim a credit for that donation on your 2005 return.

Complete the following worksheet to figure your credit.

Worksheet for Calculating the 2004 Clean Elections Fund Tax Credit	
1. Enter the amount donated directly to the fund during 2004.	
2. Enter the amount donated to the fund with your 2003 tax form.	
3. Add line 1 and line 2. Enter the total.	
4. Enter the amount from Form 140NR, page 1, line 29.	
5. Enter the amount from Form 140NR, page 1, line 30	
6. Subtract line 5 from line 4.	
7. Multiply line 6 by 20% (.20).	
8. Enter $550 if single, head of household, or married filing separately. Enter $1,100 if married filing joint.	
9. Enter the larger of line 7 or line 8.	
10. Enter the smaller of line 3, line 6, or line 9 here and also on Form 140NR, page 1, line 32.	
NOTE: *This credit will only reduce your tax and cannot be refunded. You may not carry forward any amount of unused credit.*	

Line 33 - Balance of Tax

Subtract lines 30 and 32 from line 29. If the sum of lines 30 and 32 is more than line 29, enter zero on line 33.

Totaling Payments

Line 34 - Arizona Income Tax Withheld

Enter the Arizona income tax withheld shown on the Form(s) W-2 from your employer. Do not include income taxes withheld by any other state. Attach the Form(s) W-2 to the back of the last page of your return.

Line 35 - Arizona Estimated Tax Payments for 2004 and Amount Applied From 2003 Return

Use this line if you did one of the following:

1. Made estimated income tax payments to Arizona for 2004.
2. Applied any of your refund from your 2003 Arizona return to 2004 estimated taxes for Arizona.

Enter the total amount paid and/or applied to 2004 taxes.

NOTE: *If you made joint Arizona estimated payments for 2004, but are filing separate 2004 Arizona income tax returns, see Arizona Department of Revenue Income Tax Ruling ITR 02-3.*

Line 36 - Amount Paid With 2004 Extension Request (Form 204)

Use this line to report the payment you sent with your extension request.

Line 37 - Refundable Credits

Enter the total of refundable credits you are claiming from Form 329, *Employer Credit for Technology Training*, or Form 330, *Credit for Taxpayers Participating in an Agricultural Preservation District.*

- If you are claiming the employer credit for technology training, enter the amount from Form 329, Part IV, line 9.
- If you are claiming the credit for taxpayers participating in agricultural preservation district from Form 330, enter the amount from Form 330, Part IV, line 9.

If you have credits from more than one form, enter the total from all forms here.

If you enter an amount on this line, be sure you check the box or boxes to show which credits you are claiming. Also be sure to attach the credit claim form (329 or 330) to your return when you file.

Line 38 - Total Payments/Refundable Credits

Add lines 34 through 37. Enter the total.

Also, do the following if you computed your 2004 tax under Arizona's claim of right provisions.

1. Write "ARS § 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.
2. Include the credit for the prior year tax reduction in the total entered on line 38.
3. Attach a schedule explaining the amounts repaid and the computation of the prior year tax reduction.

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

Figuring Your Overpayment or Tax Due

Line 39 - Tax Due

If line 33 is more than line 38, you have tax due. Subtract line 38 from line 33. Skip lines 40, 41 and 42.

Line 40 - Overpayment

If line 38 is more than line 33, subtract line 33 from line 38. Complete lines 41 and 42.

Line 41 - Amount of Line 40 to Apply to 2005 Tax

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

NOTE: *If you apply any of the amount shown on line 40 to 2005, you cannot use that amount to pay any tax that is later found to be due for 2004. You also may not claim a refund for that amount until you file your 2005 return.*

Line 42 - Balance of Overpayment

Subtract line 41 from line 40 to determine your overpayment balance before voluntary gifts and any estimated payment penalty.

Making Voluntary Gifts

You can make voluntary gifts to each of the funds shown

below. A gift will reduce your refund or increase the amount due with your return.

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

Line 43 - Aid For Education Fund

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

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

Line 44 - Arizona Wildlife Fund

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

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

Line 45 - Citizens Clean Elections Fund

You may give some or all of your refund to the Citizens Clean Elections Fund. You may also send in additional money with your return. If you send in additional money with your return, include that amount on line 56. Enter the amount you want to donate on line 45.

If you make a donation to the fund with your 2004 return, that you file in 2005, you may claim a credit for that donation on your 2005 return.

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

Line 46 - Child Abuse Prevention Fund

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

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

Line 47 - Domestic Violence Shelter Fund

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

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

Line 48 - Neighbors Helping Neighbors Fund

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

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

Line 49 - Special Olympics Fund

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

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

Line 50 - Political Gifts

Gifts go to one of the following political parties:

- Democratic
- Libertarian
- Republican

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

Line 51 - Political Party

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

Line 52 - Estimated Payment Penalty and MSA Withdrawal Penalty

Estimated Payment Penalty

NOTE: *Do not complete Form 221, Underpayment of Estimated Tax by Individuals, if the amount on Form 140NR, page 1, line 34, is more than the amount on Form 140NR, page 1, line 33. If the amount on Form 140NR, page 1, line 34, is more than the amount on Form 140NR, page 1, line 33, skip line 52, unless you must report an MSA penalty.*

You must have made Arizona estimated income tax payments during 2004 if:		
Your filing status is:	**AND** Your Arizona gross income for 2003 was greater than:	**AND** Your Arizona gross income for 2004 exceeded:
Married Filing Joint	$150,000	$150,000
Single	$75,000	$75,000
Head of Household	$75,000	$75,000
Married Filing Separately	$75,000	$75,000

If you report as a farmer or fisherman for federal purposes, you were not required to make estimated payments during 2004 if the following apply.

1. You are a calendar year filer. You file your Arizona return by March 1, 2005. You pay in full the amount stated on your return as owed.
2. You are a fiscal year filer. You file your Arizona return by the first day of the third month after the end of your fiscal year. You pay in full the amount stated on your return as owed.

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

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

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

MSA Withdrawal Penalty

You must pay a withdrawal penalty if you made an MSA withdrawal during 2004 and all of the following apply.

1. You have an MSA that qualifies as an MSA under Arizona law.
2. You used the amount withdrawn for purposes other than to pay for qualified medical expenses.
3. You made the withdrawal on a day other than the last business day of the year.
4. The withdrawal is not subject to the federal withdrawal penalty.

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

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

The following withdrawals are not subject to the penalty.

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

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

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

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

Line 53 -

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

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

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

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

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

Figuring Your Refund or Tax Due

Line 55- Refund

e-file You can get your refund in as little as 7 days when you ***e-File*** and use direct deposit.

Subtract line 54 from line 42. Enter your refund on line 55 and skip line 56.

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

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

Direct Deposit of Refund

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

Why Use Direct Deposit?

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

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

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

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

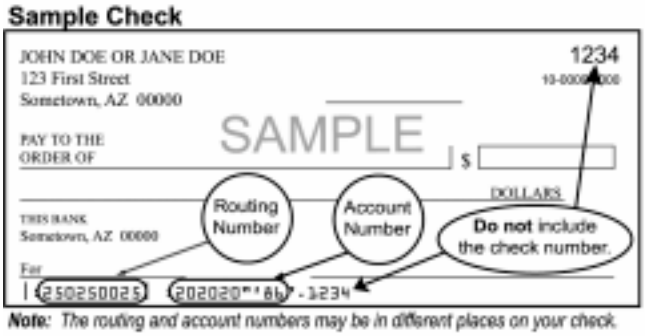
Routing Number

The routing number must be 9 digits. The first 2 digits must be 01 through 12 or 21 through 32. Otherwise, the direct deposit will be rejected and a check sent instead. On the sample check below, the routing number is 250250025.

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

Account Number

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



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

Line 56 - Amount Owed

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

Add lines 39 and 54. Enter the amount you owe on line 56. If you are making voluntary donations on lines 44 through 50 in excess of your overpayment, enter the difference on line 56.

Make your check payable to Arizona Department of Revenue. Write your social security number on the front of your check or money order. Enclose your check or money order with your return, but do not attach it to the return.

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

Installment Payments

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

If you cannot pay the full amount shown on line 56, you will be charged interest and may be charged a late payment penalty on the tax not paid by April 15, 2005. To limit the interest and penalty charges, pay as much of the tax as possible when you file.

Sign Your Return

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

Instructions Before Mailing

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

1. Attach Form(s) W-2 to the back of the last page of your return.
2. Write your social security number on the front of your check. Enclose your check with your return, but do not attach your *check* to the return.

The Department of Revenue may charge you $25 for a check returned unpaid by your financial institution.

3. Attach Arizona Form 301, applicable credit forms, and your own schedules to the back of the return.
4. If claiming a credit for taxes paid to another state or country, attach a copy of the other state's or country's filed return.
5. If you itemize, be sure to attach Arizona Schedule A(NR) and a copy of the federal Schedule A.

Filing Your Return

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

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

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

Where Should I File My Return?

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

If you are expecting a refund, or owe no tax, or owe tax but are not sending a payment, use the yellow address label attached to the envelope. If the envelope or label is missing, send the return to: Arizona Department of Revenue, PO Box 52138, Phoenix AZ 85072-2138 **(PO Box 29205, Phoenix AZ 85038-9205 if there is a bar code in the box between lines 11 and 26 of your return)**.

If you are sending a payment with this return, use the white address label attached to the envelope. If the envelope or label is missing, send the return to: Arizona Department of Revenue, PO Box 52016, Phoenix AZ 85072-2016 **(PO Box 29204, Phoenix AZ 85038-9204 if there is a bar code in the box between lines 11 and 26 of your return)**.

Make sure you put enough postage on the envelope.

e-file

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

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

How Long To Keep Your Return

Keep your records as long as they are important for any Arizona tax law. Keep all records that support your income and deductions for a tax year until the period of limitations expires for the return for that tax year. A period of limitations is the limited time after which no legal action can be brought. Usually, this is four years from the date the return was due or filed.

In some cases, the limitation period is longer than four years. The period is six years from when you file a return if you underreport the income shown on that return by more than 25 percent. The department can bring an action at any time if a return is false or fraudulent, or you do not file a return.

Keep records that establish the basis of property for a period longer than four years. Also keep net operating loss records back to the date you incurred the loss. To find out more about what records you should keep, get federal Publication 552.

When To Expect Your Refund

Expect your refund in the mail within 8 weeks of the date you filed. If you have not received your refund by that time, contact one of the numbers listed on the back cover. Before you call, be sure to have a copy of your 2004 tax return available because you will need to know the first social security number shown on your return, the filing status, your 5 digit zip code and the exact whole-dollar amount of your refund.

Calling the Department

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