

2004 Exempt Organization Business Income Tax Return

Obtain additional information or assistance, tax forms and instructions, and copies of tax rulings and tax procedures by contacting one of the numbers listed below:

Phoenix	(602) 255-3381
From area codes 520 and 928, toll-free	(800) 352-4090
Form Orders	(602) 542-4260
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Phoenix	(602) 542-1991
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From area codes 520 and 928, toll-free	(800) 397-0256

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's Internet home page at:

www.azdor.gov

General Instructions

Organizations Which Must File This Tax Return

Organizations that have tax exempt status under ARS § 43-1201 file this return to report IRC § 512 unrelated trade or business income (UTBI).

Organizations exempt under ARS § 43-1201.8 file Form 99T to report UTBI if their income is payable to a church or to a convention or association of churches. These organizations also file this return if their income is payable to another tax exempt organization required to file Form 99T.

NOTE: Homeowners associations described in IRC § 528 are not exempt from tax under ARS § 43-1201 [associations that file federal Form 1120-H, 1120, or 1120-A]. These organizations must file an Arizona corporate income tax return on Form 120A or Form 120. However, certain homeowners associations are federally tax exempt under IRC § 501(c)(4), as social welfare organizations, or under IRC § 501(c)(7), as clubs organized for pleasure or recreation. These homeowners associations are similarly tax exempt for Arizona income tax purposes. These organizations may file the Form 99.

Taxable Year Covered by Return

File returns for the calendar year or fiscal year. Indicate the period covered by the taxable year (in an MM/DD/YYYY format) and whether the taxable year is a calendar year or a fiscal year.

Filing Original Returns

Returns are due by the 15th day of the **fifth** month after the close of the taxable year. If the organization has a valid federal or Arizona extension, file the return by the extended due date. If the organization uses a federal extension, the taxpayer must check the federal extension box on page 1 of the return. Send the return to the Arizona Department of Revenue, PO Box 29079, Phoenix AZ 85038-9079. Attach a copy of the appropriate federal tax return.

The department normally 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 list of designated private delivery services. Contact the private delivery service for information regarding how to obtain the written proof of mailing.

Filing Amended Returns

Any taxpayer who files an amended return with the Internal Revenue Service must file an Arizona amended return on Form 99T within 90 days.

The taxpayer must report changes or corrections of the taxpayer's taxable income by the Internal Revenue Service 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 include additional schedules that provide sufficient information for the department to recompute the taxpayer's Arizona unrelated trade or business taxable income based on the Revenue Agent Report (RAR) changes. The department may require the taxpayer to file an amended return if the department does not have the necessary information to recompute the tax owed to Arizona.

NOTE: File amended returns for prior taxable years on the Forms 99T for those taxable years. Use the 2004 Form 99T to amend only the taxable year 2004.

Payment of Tax

The entire amount of tax is due by the original due date of the return.

Estimated Tax Payments

Organizations 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*.

For exceptions to the estimated tax requirements, see the instructions for Form 220, *Underpayment of Estimated Tax by Corporations*.

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

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

- Ninety percent of the organization's Arizona tax liability for the current taxable year; **or**
- One hundred percent of the organization's Arizona tax liability for the prior taxable year.

Organizations required to make Arizona corporate estimated tax payments should use the 2005 Form 120W, *Estimated Tax Worksheet for Corporations*, to compute the required installments. REFER TO THE 2005 FORM 120W AND ITS INSTRUCTIONS BEFORE COMPLETING THE 2005 FORM 120ES.

ESTIMATED TAX PAYMENTS BY ELECTRONIC FUNDS TRANSFER. Refer to ARS § 42-1129 and the related Arizona Administrative Code rules (AAC R15-10-301 through R15-10-307) for detailed information regarding electronic funds transfer.

Effective for taxable years beginning on or after January 1, 1997, 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. If the taxpayer is making its estimated tax payments by electronic funds transfer (EFT), the taxpayer should **not** submit the Form 120ES to the department.

Taxpayers required to make estimated tax payments via electronic funds transfer must complete the department's electronic funds transfer authorization agreement at least 30 days prior to initiation of the first applicable transaction.

Taxpayers whose Arizona corporate income tax liability for the preceding taxable year was less than \$20,000 may elect voluntary participation in the electronic funds transfer program. Voluntary participants in the program must complete the department's electronic funds transfer authorization agreement at least 30 days prior to the first applicable transaction.

Obtain additional information about the Arizona electronic funds transfer program by contacting the EFT Helpline at (602) 542-2040 in Phoenix or at (800) 572-7037 (toll-free). The FAX line is (602) 716-7986.

Extension of Time to File a Return

The organization can apply for an Arizona extension by filing a completed Form 120EXT by the original due date of the return. The organization can also use a valid federal extension, rather than applying for an Arizona extension. The organization must use Form 120EXT to transmit any extension payments, whether the organization uses a valid federal extension or requests an Arizona extension. If the organization uses a federal extension, the taxpayer must check the federal extension box on page 1 of the return.

The organization must pay 90 percent of the tax liability (after the Clean Elections Fund tax reduction and tax credit) by the original due date of the return. The organization's tax liability may be the \$50 minimum tax. The department imposes the extension underpayment penalty on any late or underpaid extension payments.

The department grants an Arizona extension for a period of six months. Arizona will accept the federal extension for the same period of time as covered by the federal extension.

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 4½ percent (.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 for 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 percent of the tax found to be remaining due.

B. Extension Underpayment Penalty. A return filed without a check in the federal extension box on page 1 of the return (if the taxpayer uses a federal extension) is subject to the extension underpayment penalty. The organization must pay 90 percent of the tax liability (after the Clean Elections Fund tax reduction and tax credit) disclosed by the organization'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 one-half of one percent (.005) of the tax not paid. The penalty period is for 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 percent of the tax not paid.

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. The late payment penalty is one-half of one percent (.005) of the unpaid tax for each month or fraction of a month that the tax remains unpaid, not to exceed 10 percent of the unpaid tax. "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.

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

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 applies interest, compounded annually, in the same manner and at the same time as prescribed by Internal Revenue Code § 6621 with the following exception.

Exception: The Arizona rate of interest for both underpayments and overpayments *for all taxpayers* is the federal underpayment rate under IRC § 6621(a)(2) [the federal short-term rate, determined pursuant to IRC § 6621(b), plus three percentage points]. On January 1 of each year, the department adds any interest outstanding as of that date to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

E. Estimated Tax Underpayment Penalty. The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Form 220 for further details. The penalty imposed is the penalty prescribed by ARS § 43-582 for the applicable period.

IRC § 7519 Required Payments

The department will not allow the affected taxpayers to deduct the federal required payments on their Arizona tax returns as an ordinary and necessary business expense or otherwise.

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.

Records

Every organization should maintain books and records substantiating information reported on the return and keep these documents for inspection. Arizona General Tax Ruling GTR 96-1 discusses the general requirements for the maintenance and retention of books, records and other sources of information received, created, maintained or generated through various computer, electronic and imaging processes and systems. Refer to this tax ruling for further information.

Specific Instructions

Type or print the required information in the name, address, and information boxes on the top of page 1. Enter the unrelated business activity code(s) from the federal Form 990T.

Indicate the period covered by the taxable year (in an MM/DD/YYYY format) and whether the taxable year is a calendar year or a fiscal year. Indicate whether this return is an original or an amended return.

Enter the employer identification number of the organization, which is its taxpayer identification number (TIN). Enter the Arizona withholding tax number and Arizona transaction privilege tax number for the organization. If the organization does not have an Arizona withholding number or an Arizona transaction privilege tax number, leave these boxes blank.

Information item B: The department no longer requires an organization to apply for tax exempt status. If the organization does not have a letter from the department granting exemption from Arizona income tax, leave this space blank.

All returns, statements, and other documents filed with the department require a TIN. Taxpayers 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 preparer identification number or the employer identification number of the business. Paid tax return preparers that fail to include their TIN may be subject to a penalty.

Arizona Unrelated Trade or Business Taxable Income Computation

Line 1 - Unrelated Trade or Business Taxable Income

Enter the amount of unrelated trade or business taxable income from federal Form 990T.

NOTE: ARS §§ 43-1231 and 43-1241 do not allow additions to or subtractions from federal unrelated trade or business taxable income similar to those allowed for corporations.

Line 2 - Apportionment Ratio (Multistate Organizations Only)

Complete this line only if the organization must apportion its unrelated trade or business taxable income between Arizona and any other state(s). An exempt organization that has income from unrelated trade or business activities taxable in more than one state is a *multistate organization*. An exempt organization that has income from unrelated trade or business activities taxable entirely within Arizona is a *wholly Arizona organization*.

Multistate organizations - Enter the average ratio from page 2, Schedule A, line A5. The organization must carry out the decimal on line 2 to six places.

Line 3 - Taxable Income Attributable to Arizona

Multistate organizations: If the organization must apportion its unrelated trade or business taxable income, multiply the amount on line 1 by the ratio on line 2. Enter the result.

Wholly Arizona organizations: If the organization has unrelated trade or business taxable income that is taxable entirely within Arizona, enter the amount from line 1.

Arizona Tax Liability Computation

Line 4 - Arizona Tax

Multiply the net unrelated trade or business taxable income that is subject to Arizona tax (page 1, line 3) by 6.968 percent. If the computed amount of tax is less than \$50, enter the minimum tax liability of \$50. See A.R.S. § 43-1111.

Line 5 - Clean Elections Fund Tax Reduction

Check the box on line 5 to send five dollars to the fund and reduce the tax amount on line 4 by five dollars. Enter the amount of the tax reduction on line 5.

Line 6 - Clean Elections Fund Tax Credit

A taxpayer MAY CLAIM a tax credit on the 2004 tax return for:

- A donation made directly to the Clean Elections Fund during the taxable year 2004; and/or
- A donation made to the Clean Elections Fund on the taxpayer's 2003 tax return.

The 2004 tax credit is equal to the amount of the donation(s), but cannot exceed twenty percent of the tax (line 4) less the amount of the Clean Elections Fund Tax Reduction (line 5) or five hundred fifty dollars, whichever is higher.

A taxpayer MAY NOT CLAIM a tax credit on the 2004 tax return for a donation to the fund made with the original 2004 tax return (on line 15). If a taxpayer makes a donation to the fund on the 2004 tax return (line 15), the taxpayer may only claim a tax credit for the donation on the taxpayer's 2005 tax return.

The tax credit is nonrefundable and the unused portion of the tax credit may not be carried forward.

Calculation of 2004 Clean Elections Fund Tax Credit			
1.	Enter the amount donated directly to the fund during the taxable year 2004 PLUS the amount donated to the fund with the 2003 Form 99T.	\$	00
2.	Enter tax from 2004 Form 99T, line 4, LESS the Clean Elections Fund Tax Reduction from 2004 Form 99T, line 5.	\$	00
3.	Multiply amount on line 2 by 20 percent (.20).	\$	00
4.		\$	550 00
5.	Enter the larger of line 3 or line 4.	\$	00
6.	Enter the smaller of line 1, line 2, or line 5 here and on 2004 Form 99T, line 6.	\$	00

Tax Payments

Line 8 - Extension Payment

Original Returns: Enter any payment made with the request for extension of time to file the income tax return. If the organization uses a federal extension, the taxpayer must check the federal extension box on page 1 of the return.

Amended Returns: Enter any payment made with the request for an extension of time to file the original return. **Do not** include or enter the amount of any penalties or interest paid.

Line 9 - Estimated Tax Payments

Original returns: Enter the total amount paid by the organization for the taxable year. Attach a schedule listing payment dates and payment amounts.

Amended Returns: Enter the total amount of estimated tax payments made by the organization for the taxable year. DO NOT include or enter the amount of any penalties paid. DO NOT reduce the total by the amount of an overpayment (on line 17 of a prior return) that was designated as an estimated tax payment for 2005 (on line 18 of a prior return).

Line 10 - Total Payments

Original Returns: Add lines 8 and 9. Enter the total.

Amended Returns: Enter the total amount of tax payments made for the taxable year. Compute the total as follows:

- Add the amounts entered on lines 8 and 9;
- Add the amount of a payment sent with the original return (if any);
- Add the amount of any payments made after the original return was filed; and
- Subtract the amount of the overpayment of tax, if any, (from line 12 of the original return) and the total amount of any overpayments from a Department of Revenue

correction notice, an amended return (line 12), or an audit.

- Do not include or enter the amount of any penalties or interest paid.

Computation of Total Due or Overpayment

Line 11 - Balance of Tax Due

If the amount on line 7 is **larger** than the amount on line 10, there is a balance of tax due. Subtract line 10 from line 7 and enter the difference.

Line 12 - Overpayment of Tax

If the amount on line 10 is **larger** than the amount on line 7, there is an overpayment of tax. Subtract line 10 from line 7 and enter the difference (as a positive number).

Line 13 - Penalty and Interest

Calculate any penalty or interest due as a result of late filing or late payment of tax. Calculate interest on the amount shown on line 11 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 pages 2 and 3 of these instructions.

Line 14 - Underpayment of Estimated Tax Penalty

Original returns: The organization DOES NOT HAVE TO COMPLETE Form 220, *Underpayment of Tax by Corporations*, if the organization made its estimated tax payments based on either of the following methods:

- An amount equal to 90 percent of the current taxable year's tax liability after the Clean Elections Fund tax reduction and tax credit (line 7), paid in four equal installments; or
- An amount equal to 100 percent of the organization's tax liability (after the Clean Elections Fund tax reduction and tax credit) for the prior taxable year, paid in four equal installments.

The department will compute the estimated tax penalty based on either of these methods and notify the organization of any amount due. If the organization elects to have the department compute the penalty, do not check the box on line 14 or enter an amount on line 14.

The organization MUST COMPLETE Form 220, even though no penalty is due, if it made its estimated tax payments based on either of the following methods:

- The annualized income installment method; or
- The adjusted seasonal installment method.

Enter the total penalty from Form 220, Part C, line 37. Attach the completed Form 220 to the return **and** check the box on line 14.

Amended returns: Do not recompute the estimated tax penalty. Enter the amount from line 14 of the original return or the amount from a DOR correction notice.

Line 15 - Donation to Citizens Clean Elections Fund

Original Returns: Enter the amount of the donation to the fund made on this return.

Amended Returns: Enter the amount of the donation to the fund made on the original return. The amount of the donation cannot be adjusted on an amended return.

Line 16 - Total Amount Due

If the taxpayer had a balance of tax due on line 11, add lines 11, 13, 14, and 15. Enter the total on line 16. This is the total amount due. Pay this amount when the organization files the return. Make the check payable to Arizona Department of Revenue and include the taxpayer's TIN on the check.

Lines 17 - Overpayment

If the taxpayer had an overpayment of tax on line 12, subtract the total of lines 13, 14, and 15 from line 12. Enter a positive difference on line 17. This is the total overpayment. If the difference is a negative, enter the difference as a positive number on line 16.

Line 18 - Overpayment Applied to Estimated Tax

Original Returns: The organization may apply part or all of an overpayment reported on line 17 as a 2005 estimated tax payment. Enter the applicable amount on line 18.

Amended Returns: The taxpayer may apply part or all of an overpayment reported on line 17 as a 2005 estimated tax payment, if this amended return is filed during the taxpayer's taxable year 2005. Enter the applicable amount on line 18.

Line 19 - Refund

Subtract line 18 from line 17. This is the refund amount.

**Schedule A - Apportionment Formula
(Multistate Organizations Only)**

If the organization engages in unrelated trade or business activities both within and without Arizona, the organization is a multistate organization and must apportion its income. This formula apportions the unrelated trade or business taxable income based on property, payroll, and sales in Arizona compared with everywhere. Everywhere means the property, payroll, and sales factors related to the whole unrelated trade or business activity.

NOTE: ARS § 43-1139 (the apportionment ratio formula) provides that the apportionment ratio is a fraction. The numerator of the fraction is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four.

Line A1 - Property Factor

Refer to Arizona Administrative Code rules (AAC) R15-2D-601 through R15-2D-607 and R15-2D-902. The value of tangible personal property and real property owned by the organization is its original cost. The organization normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period.

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

List real property situated in and tangible personal property permanently located in this state as within Arizona only if connected with the unrelated business activity. Allocate the value of mobile property to Arizona on the basis of the total time the property was within Arizona.

Line A2 - Payroll Factor

Refer to AAC R15-2D-701 through R15-2D-705. Enter salaries, wages, or other compensation of officers, employees, etc., as within the state if performance of the services occurs here. 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 unrelated business carried on outside of Arizona.

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 this state; 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 this state.

Line A3 - Sales Factor

Refer to AAC R15-2D-801 through R15-2D-807 and R15-2D-903. Gross receipts means gross sales less returns and allowances. Gross receipts includes interest income, service charges, carrying charges, and time price differential charges incidental to such sales.

Determine sales within this state on a destination sales basis.

Complete line A3 as follows:

- Multiply the amount entered on line A3(a), column A, the total Arizona sales, by 2 (double weighted sales factor on line A3(b), column A). Enter the result on line A3(c), column A.
- Do not double the amount entered on line A3(c), column B, the everywhere sales of the taxpayer.
- *EXAMPLE:* The organization has Arizona sales of \$100,000 and everywhere sales of \$1,000,000. On line A3(c), column A, enter \$200,000 of Arizona sales. On line A3(c), column B, enter \$1,000,000 of everywhere sales for the organization.

The sales factor ratio on line A3(c), column C, may, in certain circumstances, exceed 100 percent. However, since the total ratio (line A4, column C) is divided by four, the average ratio (line A5, column C) will not exceed 100 percent.

Line A5 - Average Ratio

Divide the total ratio, line A4, column C, by four. Enter the average ratio here and on page 1, line 2. Express the ratio as a decimal carried out to six places.

NOTE: *Do not exclude a factor from the total ratio if the*

numerator of a factor is zero and the denominator of a factor is greater than zero.

Certification

An executive officer of the organization must sign the return.

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