

INCOME TAX UPDATE

Arizona Department of Revenue

Subtractions

2

- **Net Long-Term Capital Gains From Assets Acquired after December 31, 2011**
 - ▣ Beginning in 2013, individuals may take a subtraction from Arizona gross income for a percentage of any net long-term capital gain included in a resident's federal adjusted gross income (Arizona gross income for nonresidents) that is derived from assets acquired **after** December 31, 2011, pursuant to A.R.S. § 43-1022(35). (Laws 2012, Ch. 343)

Subtractions (con't)

3

- **Net Long-Term Capital Gains From Assets Acquired after December 31, 2011 (con't)**
 - ▣ Laws 2013, Ch. 114, added language to make it clear that assets acquired through gift or at the death of a transferor will be considered “acquired” when the asset was acquired by the transferor. If the date cannot be verified then a subtraction is not allowed. Taxpayers must complete a worksheet included in the tax form instructions to take this subtraction.

Subtractions (con't)

4

- **Net Long-Term Capital Gains From Assets Acquired after December 31, 2011 (con't)**
 - Subtraction percentages:
 - 10% in 2013
 - 20% in 2014
 - 25% in 2015 and after

140 UPDATE

- Line 14 – added subtotal of lines 12 & 13
- Line 16 – Net capital gain or (loss)/Net long-term capital gain subtraction (from page 2, line D34)

12	Federal adjusted gross income (from your federal return)	12		00
13	Additions to income (from page 2, line B12)	13		00
14	Subtotal: Add lines 12 and 13, and enter the total	14		00
15	Subtractions from income (from page 2, line C17 or line C30)	15		00
16	Net capital gain or (loss): 16A <input type="text" value="00"/> . Net long-term capital gain subtraction (from page 2, line D34)	16		00
17	Arizona adjusted gross income. Subtract lines 15 and 16 from line 14, and enter the difference	17		00

- Back page – Part D: Capital gain/loss

PART D: Cap Gain Subtr	D31	Enter the total net short-term capital gain or (loss) included on page 1, line 12	D31	00
	D32	Enter the total net long-term capital gain or (loss). Enter the amount from your worksheet, line 12, column (b)	D32	00
	D33	Enter the net long-term capital gain from assets acquired after December 31, 2011 (from your worksheet, line 12, column (d))	D33	00
	D34	Multiply line D33 by 10% (.10). Enter here and on page 1, line 16	D34	00

AZ Form 140
2013

Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired *after* December 31, 2011

Original return Amended return

(a) Long-Term Capital Gain or (loss) as reported on Federal Schedule D (or other form/schedule) and included in computation of federal adjusted gross income. <i>Enter the total net long-term capital gains or (losses) from the following forms in each applicable column. See page 2 for instructions.</i>		(b) Total net long-term capital gains or (losses) from all assets	(c) Net long-term capital gains or (losses) included in column (b) from assets acquired before January 1, 2012	(d) Net long-term capital gains or (losses) included in column (b) from assets acquired after December 31, 2011
1	Form(s) 8949 <i>Sales and Other Dispositions of Capital Assets</i>	1 \$10,000	\$6,000	\$4,000
2	Form(s) 4797 <i>Sales of Business Property</i>	2 \$ 1,000	\$ 700	\$ 300
3	Form(s) 2439 <i>Notice to Shareholder of Undistributed Long-Term Capital Gains</i>	3		
4	Form(s) 6252 <i>Installment Sale Income</i>	4		
5	Form(s) 4684 <i>Casualties and Thefts</i>	5		
6	Form(s) 6781 <i>Gains and Losses from Sec. 1256 Contracts and Straddles</i>	6		
7	Form(s) 8824 <i>Like-Kind Exchanges</i>	7		
8	Partnerships, S corporations, estates, and trusts—from AZ 120S Schedule K-1; AZ 165 Schedule K-1; and AZ 141 Schedule K-1	8 (\$ 1,000)	\$1,000	(\$2,000)
9	Form(s) 1099-DIV <i>Dividends and Distributions</i>	9		
10	Subtotal: for each column, combine the amounts and enter the total.	10 \$10,000	\$7,700	\$2,300
11	Available long-term capital loss carryover. Enter the amount, if any, in each applicable column.	11 (\$13,000)	(\$13,000)	0.00
12	<p>Net Long-term capital gain or (loss) included in computation of your federal adjusted gross income. Subtract line 11 from line 10 and enter the result in each applicable column.</p> <ul style="list-style-type: none"> If the result for line 12, column (d) is a net capital (loss), you do not qualify to take the subtraction. If the result for line 12, column (d) is a net capital gain, enter the result on Form 140, page 2, line D33. <p>Also enter the amount from line 12, column (b) on Form 140, page 2, line D32.</p>	12 (\$ 3,000)	(\$5,300)	\$2,300

Form 165 Schedule K-1 Back

Name of Partnership (as shown on page 1)	Employer identification number
--	--------------------------------

Part II: Net Long-Term Capital Gain Subtraction – Information Schedule

INSTRUCTIONS FOR THE PARTNERSHIP:
 Beginning in 2013, Arizona allows a subtraction from Arizona gross income for a percentage of any net long-term capital gain from assets acquired after December 31, 2011, and included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate or trust. Although the subtraction is only available to individuals, estates and trusts, a partner that is a pass-through entity (estate or trust) will need this information to calculate the subtraction for the estate or trust or complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

If the partner's federal Schedule K-1 (Form 1065) does not include any capital gain (loss), the partnership is not required to complete Part II.

	(a)	(b)	(c)
Pro Rata Share Items From Federal Form 1065, Schedule K-1	Distributive Share Amount	Net long-term capital gain (loss) included in column (a) from assets acquired before January 1, 2012	Net long-term capital gain (loss) included in column (a) from assets acquired after December 31, 2011
4 Net short-term capital gain (loss).....	4		
5 Net long-term capital gain (loss).....	5		

INSTRUCTIONS FOR THE INDIVIDUAL PARTNER:
 To determine if you qualify to take a subtraction from income on your Arizona personal income tax return, the individual partner must complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*. The worksheet is included in the instructions for the resident and part-year resident income tax returns (Arizona Form 140 and Arizona Form 140PY).
Full-year residents use the amount on line 5, column (c) to figure the allowable subtraction on the worksheet included with Arizona Form 140.
Part-year residents use only the amount on line 5, column (c) that is included in your Arizona gross income to figure the allowable subtraction on the worksheet that is included with Arizona Form 140PY.

INSTRUCTIONS FOR THE FIDUCIARY PARTNER:
 If the net long-term capital gain (loss) on line 5, above, is taxed at the estate or trust level, use the information above to complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*, included in the instructions of Arizona Form 141AZ for the estate or trust.
 If the net long-term capital gain (loss) on Part II, line 5, above, is distributed to the beneficiaries, use the information above to complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*, included in the instructions of Arizona Form 141AZ. This worksheet will assist the estate or trust in completing the *Net Long-Term Capital Gain Subtraction – Information Schedule* on Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

DRAFT

Form 120S Schedule K-1

ARIZONA FORM
120S

Schedule K-1

Resident Shareholder's Information Schedule

2013

For the calendar year 2013 or fiscal year beginning 2012, 0, 1, 3 and ending 2012, 0, 1, 3.

CHECK ONE: Original Amended

Shareholder's Identifying Number	S Corporation's Employer Identification Number (EIN)
Shareholder's Name	S Corporation's Name
Shareholder's Address – number and street or rural route	S Corporation's Address – number and street or rural route
Shareholder's City, Town or Post Office State ZIP Code	S Corporation's City, Town or Post Office State ZIP Code
Shareholder's percentage of stock ownership for the taxable year:	%

Net Long-Term Capital Gain Subtraction – Information Schedule

INSTRUCTIONS FOR THE S CORPORATION:

Beginning in 2013, Arizona allows a subtraction from Arizona gross income for a percentage of any net long-term capital gain from assets acquired after December 31, 2011, and included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate or trust. Although the subtraction is only available to individuals, estates and trusts, an S corporation shareholder that is a pass-through entity (estate or trust) will need this information to calculate its subtraction or complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

If the shareholder's federal Schedule K-1 (Form 1120-S) includes capital gain (loss), complete line 1, column (a) and line 2, columns (a) through (c). If the shareholder's federal Schedule K-1 (Form 1120-S) does not include any capital gain (loss), the S corporation is not required to complete this schedule or provide a copy to resident shareholders.

Pro Rata Share Items From Federal Form 1120-S, Schedule K-1	(a) Distributive Share Amount	(b) Net long-term capital gain (loss) included in column (a) from assets acquired before January 1, 2012	(c) Net long-term capital gain (loss) included in column (a) from assets acquired after December 31, 2011
1 Net short-term capital gain (loss)..... 1			
2 Net long-term capital gain (loss)..... 2			

INSTRUCTIONS FOR THE INDIVIDUAL SHAREHOLDER:

To determine if you qualify to take a subtraction from income on your Arizona personal income tax return, the individual shareholder must complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*. The worksheet is included in the instructions for the resident and part-year resident income tax returns (Arizona Form 140 and Arizona Form 140PY).

Full-year residents use the amount on line 2, column (c) to figure the allowable subtraction on the worksheet included with Arizona Form 140.

Part-year residents use only the amount on line 2, column (c) that is included in your Arizona gross income to figure the allowable subtraction on the worksheet that is included with Arizona Form 140PY.

INSTRUCTIONS FOR THE FIDUCIARY SHAREHOLDER:

If the net long-term capital gain (loss) on line 2, above, is taxed at the estate or trust level, use the information above to complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*, included in the instructions of Arizona Form 141AZ for the estate or trust.

If the net long-term capital gain (loss) on line 2, above, is distributed to the beneficiaries, use the information above to complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*, included in the instructions of Arizona Form 141AZ. The worksheet will assist the estate or trust in completing the *Net Long-Term Capital Gain Subtraction – Information Schedule* on Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Subtractions (con't)

□ **Qualified IRC § 179 Expenses**

- For federal purposes taxpayers may elect to expense IRC § 179 property acquired during the taxable year rather than charging the cost to a capital account. The current federal maximum is \$500,000.
- Prior to 2013, taxpayers were required to add back on the Arizona return everything that was deducted under IRC § 179 on the federal return that exceeds \$25,000 (the IRC currently allows \$500,000). The taxpayer was then allowed to deduct 1/5th of the difference each year for 5 years.

Subtractions (con't)

10

- **Qualified IRC § 179 Expenses (con't)**
 - For example, Company X elected to expense the maximum \$500,000 on their 2012 federal return. On Company X's 2012 Arizona return, they would be required to make an addition for \$475,000 and a subtraction for \$95,000 ($\$475,000/5$). The taxpayer would also take subtractions of \$95,000 each for the next 4 years.

Subtractions (con't)

11

□ **Qualified IRC § 179 Expenses (con't)**

- Starting with property purchased and placed in service in a taxable year beginning from and after January 1, 2013, Arizona will no longer require the add back of the section 179 expense in excess of \$25,000.
- Taxpayers who made this adjustment for qualified purchases placed in service in a taxable year ending on or before December 31, 2012, may continue to take a subtraction of one-fifth (20%) of the adjustment required in the year in which the adjustment was made and each of the following four taxable years.
(Laws 2013, Ch. 256)

Subtractions (con't)

12

□ Qualified IRC § 179 Expenses (con't)

▣ Example:

- In 2011 and 2012, Mr. Green claimed the maximum IRC § 179 expense on his federal returns and added back \$475,000 on his Arizona return for both years. Mr. Green also claimed a subtraction in 2011 for \$95,000 ($\$475,000/5$) and a subtraction in 2012 for \$190,000 (\$95,000 from 2011 and \$95,000 from 2012).
- In 2013 Mr. Green again claimed the maximum \$500,000 expense on his federal return.
- For 2013, Mr. Green will not be required to add back any amount related to his current IRC § 179 expense. In addition Mr. Green will claim a subtraction on his Arizona return in 2013 for \$190,000 (\$95,000 from 2011 and \$95,000 from 2012). Mr. Green will have 2 more years to claim subtractions for 2011 and 3 more years for 2012.

Credits

13

- **Form 349 – Refundable Credit for Qualified Facilities**
 - ▣ You may qualify for the refundable qualified facilities credit if you expanded or located a qualified facility in Arizona. This credit is refundable in five equal installments. Pre-approval and post-approval are required through the Arizona Commerce Authority.
 - ▣ Co-owners of a business, including partners in a partnership and shareholders of an S corporation, may each claim only the pro rata share of the credit allowed based on the ownership interest.

Credits (con't)

14

□ **Form 349 – Refundable Credit for Qualified Facilities (con't)**

What is a qualified Facility?

- A “qualified facility” is a facility in Arizona that devotes at least 80% of its property and payroll at the facility to one or more of the following:
 - **Qualified Manufacturing – Manufacturing tangible products in Arizona if at least 65% of the product will be sold out-of-state.**

Credits (con't)

15

- **Form 349 – Refundable Credit for Qualified Facilities (con't)**
 - ▣ **What is a qualified Facility? (con't)**
 - Qualified headquarters – Global, national or regional headquarters for a taxpayer involved in manufacturing and that derives at least 65% of its revenues from out-of-state sales.
 - Qualified Research – Same meaning as prescribed by IRC § 41(d) [this is the statute for the federal research credit] except that the research must be conducted by a taxpayer involved in manufacturing that derives at least 65% of its revenue from out-of state sales.

Credits (con't)

16

- **Form 349 – Refundable Credit for Qualified Facilities (con't)**
- **Some of the requirements:**
 - The applicant must make new capital investment in Arizona after 6/30/2012 in a qualified facility completed in a taxable year beginning after 12/31/2012.
 - At least 51% of the net new full-time employment positions at the qualified facility pay a wage that equals or exceeds 125% of the median annual wage in Arizona, as determined by the most recent annual Arizona Commerce Authority occupational wage and employment estimates.
 - All net new employment positions must include health insurance coverage for which the applicant pays at least 80% of the premium or membership cost.

Credits (con't)

17

□ **Form 349 – Refundable Credit for Qualified Facilities (con't)**

□ More of the requirements:

- The taxpayer must receive a pre and post approval from the Commerce Authority – A copy of the Commerce final approval must be included with the return.
- The maximum that may be authorized by the Commerce Authority each year for all taxpayers each year is \$70 million between this credit and the renewable energy industry credit.
- No taxpayer can receive more than \$30 million in one tax year.
- The credit must be claimed on a timely filed original tax return.

Credits (con't)

18

- **Form 349 – Refundable Credit for Qualified Facilities (con't)**
 - The credit is the **lesser** of:
 - 10% of the taxpayer's total capital investment in the qualified facility
 - \$20,000 for each net new fulltime employment position at the qualified facility
 - The post-approval amount from the Commerce Authority
 - **Note:** the credit is claimed in 5 equal installments over 5 consecutive tax years.
 - For more information on this credit see A.R.S. §§ 41-1512, 43-1083.03, and 43-1164.04.

Credits (con't)

19

- **Form 350 – Refundable Credit for Airline Bankruptcy Payments**
 - Arizona did not conform to a portion of the FAA Modernization and Reform Act (Public Law 112-95, Section 1106) that allows individuals that were qualified airline employees, that received certain payments made by a commercial passenger airline carrier under the approval of a federal bankruptcy court in a case filed after 9/11/2001 and before 1/1/2007, to make contributions to a traditional Individual Retirement Account (IRA) and treat the contributions as if they were made in the year in which the airline payments were received.

Credits (con't)

20

- **Form 350 – Refundable Credit for Airline Bankruptcy Payments**
 - Taxpayers who wanted to take advantage of this provision federally were required to transfer the money into a traditional IRA by August 13, 2012, and to file amended federal income tax return to claim the deduction for the IRA contribution by April 15, 2013 (or the regular statute of limitation). Individuals were required to amend their federal tax returns to receive any overpayment as a result of the qualified rollover(s).

Credits (con't)

21

□ **Form 350 – Refundable Credit for Airline Bankruptcy Payments (con't)**

- A Taxpayer that amends their federal tax returns due to this provision for any tax year prior to 2012 should not amend their Arizona return for those years. Instead the Arizona taxpayers will be allowed a credit on their 2013 Arizona individual income tax return based on the reduction in tax that would have occurred if they would have been allowed to amend their Arizona 2001 through 2011 returns for the provision in Public law 112-95, Section 1106.

Credits (con't)

22

- **Form 350 – Refundable Credit for Airline Bankruptcy Payments**
 - ▣ The credit must be claimed on a timely filed 2013 Arizona income tax return (including extensions).
 - ▣ The credit is claimed on Arizona Form 350.

Reminder...

24

- **2013 IS FINAL YEAR TO ESTABLISH THIRD YEAR ENTERPRISE ZONE CREDIT**
 - Former A.R.S. §§ 43-1074 and 43-1161 were repealed effective June 30, 2011. Taxpayers located in a former enterprise zone that hired employees before July 1, 2011, may qualify to claim third year tax credits for tax year 2013. Previously established credits may be carried forward for up to five consecutive taxable years. See Form 304 for details.

Reminder...

25

□ **ENTERPRISE ZONE CREDIT (con't)**

- Previously taxpayers had to file a report with the Commerce Authority regarding any 1st, 2nd or 3rd year credits or carryovers by the 6th month after the end of the tax year or the date the tax return is filed whichever was earlier. SB 1179 which passed during the last legislative session contained a provision that removed this reporting requirement for other than 1st year credits retroactive to 7/1/2011.
- Therefore, in 2013 a taxpayer claiming 3rd year credits or carryovers will not be required to report to the Commerce Authority regarding the credits. In addition, the taxpayer will not be required to submit a copy of their Commerce Authority acknowledgement to their Arizona return.

Credit for Contributions to Qualifying Charitable Organizations: New for 2013

26

- Taxpayers are now able to make cash contributions to a Qualifying Foster Care Charitable Organization (QFCO).
 - Contributions to a QFCO allows taxpayers to claim double the previous credit amount. \$400 (S, HoH, MFS) or \$800 (MFJ).
- Standard deduction taxpayers are now eligible to claim a credit for contributions, not limited to itemized deduction taxpayers. Contributions made in 2013 qualify.

Overview

27

- A non-refundable tax credit for cash contributions made to a Qualifying Charitable Organization (QCO) or Qualifying Foster Care Charitable Organization (QFCO) that provides help to the Arizona working poor (AZ Form 321).
- Depending on the contribution type, the credit shall not exceed:
 - MFJ = Up to \$400/\$800
 - MFS/HoH/Single = Up to \$200/\$400
- If the tax credit exceeds tax due the taxpayer may carry forward the unused amount for up to five consecutive tax years.
- Standard and itemized deduction taxpayers can claim.

What is a QCO?

28

- A 501(c)(3) or a community action agency that receives community services block grant program monies that spends at least 50% of its budget on services to Arizona residents who either:
 - ▣ Receive temporary assistance for needy families (TANF) benefits
 - ▣ Are low income residents whose household income is less than 150% of the federal poverty level
 - ▣ Are chronically ill or physically disabled children
- An organization that plans to continue spending at least 50% of its budget on services to those described above

Process to become a QCO

29

- Provide proof that organization meets the requirements of a QCO.
- Submit financial data indicating the organization's budget for the prior operating year and amounts spent on target populations.
- State that the organization will continue to spend at least 50% of its budget on target populations.
- Organization must affirm that they do not “provide, pay for, or provide coverage of abortions” and does not financially support any other entity that “provides, pays for, or provides coverage of abortions.”

Process to become a QCO

30

- Provide all items to the Arizona Department of Revenue (DOR).
- In general, the organization will receive notice within two weeks.
 - During November & December, notification could take a month or more.
- If qualified, the organization will receive an approval letter and certificate from DOR.
- QCOs are listed on the DOR website at www.azdor.gov
- Any questions:
 - Contact Nick Buta (nbuta@azdor.gov) at 602-716-6891.

New for 2013: Qualified Foster Care Charitable Organization (QFCO)

31

- To become a QFCO, the organization must first meet all requirements to be a QCO.
- In addition a QCO must:
 - ▣ Provide services to at least 200 foster children in Arizona.
 - ▣ Spend at least 50% of its budget on services to foster children in Arizona.
- Services include: cash assistance, medical care, child care, food, clothing, shelter, job placement and job training services or any other assistance that is reasonably necessary to meet immediate basic needs.

Who is a foster child?

32

- A child currently in the Arizona foster care system.
The child is either:
 - ▣ In a foster home approved by the Department of Economic Security (DES).
 - ▣ With a child welfare agency licensed by the DES Office of Licensing, Certification, and Regulation.
- Children being fostered by agencies/organizations outside of DES are not considered foster children for purposes of the QFCO credit.

QFCO: Additional certification requirements

33

- Submit financial data indicating the organization's budget for the prior operating year and amounts spent on services to Arizona foster care children.
 - This amount must exceed 50% of the QCO's total operating budget.
- Provide documentation that the QCO provides services to at least 200 Arizona foster children.
- If qualified, the organization will receive an approval letter and certificate from DOR.
- The organization will be listed on the DOR website as a QFCO.

What Do Taxpayers Need to Know?

34

- Maximum amount
 - MFJ = \$400 or \$800
 - MFS/HoH/Single = \$200 or \$400
- Baseline year requirement eliminated in 2009
- Only available to individuals
 - Corporations are not allowed to claim and a partnership or S-corp may not pass the credit to its partners/shareholders
- **Cash** contributions must be made to a QCO and/or QFCO, the taxpayer may find a list at www.azdor.gov

What Do Taxpayers Need to Know?

- The taxpayer can not claim an Arizona tax credit and an Arizona deduction (where the amount was claimed on the federal Schedule A).
 - ▣ An adjustment is made on the Arizona Schedule A.

Adjustment to Charitable Contributions

13 Amount of charitable contributions for which you are taking a credit under Arizona law 13 200 00

Other Adjustments

14 Amount allowed as a federal itemized deduction that relates to income not subject to Arizona tax 14 00

Adjusted Itemized Deductions

15	Add the amounts on lines 5 and 7	15	0	00
16	Add the amounts on lines 6, 12, 13 and 14	16	200	00
17	Total federal itemized deductions allowed to be taken on federal return.....	17	10,000	00
18	Enter the amount from line 15 above	18	0	00
19	Add lines 17 and 18.....	19	10,000	00
20	Enter the amount from line 16 above	20	200	00
21	Arizona itemized deductions: Subtract line 20 from line 19. Enter the result here and on Form 140, page 1, line 16.....	21	9,800	00

What Do Taxpayers Need to Know?

36

- Attach AZ Form 321 to their AZ tax return indicating QCO/QFCO name, location, and amount contributed.
- A taxpayer can make contributions to:
 - Only a QCO
 - Only a QFCO
 - Both a QCO and QFCO

For the calendar year 2013 or fiscal year beginning [MM,MM,DD,YY,YY,YY] and ending [MM,MM,DD,YY,YY,YY].

Attach to your return.

Your Name as shown on Form 140, 140NR, 140PY or 140X	Your Social Security Number
Spouse's Name as shown on Form 140, 140NR, 140PY or 140X (if joint return)	Spouse's Social Security Number

Part I: Current Year's Credit

SECTION A – Contributions to Qualifying Charitable Organizations

Complete Section A if you made cash contributions to a qualifying charitable organization other than a qualifying foster care charitable organization. Do not include donations to a qualifying foster care charitable organization in Section A.

NOTE: If you made cash contributions to more than three qualifying charities, attach a separate schedule.

	(a) Name of Qualifying Charity to which you made cash contributions	(b) Location of Qualifying Charity (City, State)	(c) Cash Amount
1a			00
1b			00
1c			00
1d	Total Cash Contributions: Add the amounts in column (c) of lines 1a, 1b, and 1c. Also, add any amount included on a separate schedule		00
2	Single Taxpayers or heads of household, enter \$200. Married taxpayers, enter \$400		00
3	Enter the smaller of line 1d or line 2		00

- If you did not make any cash contributions to a qualifying foster care organization, and your filing status is:
 - Single, head of household, or married filing joint, do the following:
 - Enter the total amount from line 3 on line 15 in Part III.
 - Skip Section B, and go to Part II.
 - Married filing separate (see instructions)
 - In most cases, enter one-half (1/2) of the amount from line 3 on line 15 in Part III.
 - Skip Section B, and go to Part II
- If you made any cash contributions to a qualifying foster care charitable organization, do the following:
 - Enter amount from line 3 on line 5 in Section B.
 - Complete Section B.

SECTION B – Contributions to Qualifying Foster Care Charitable Organizations

Complete Section B to claim a credit for cash contributions made to a qualifying foster care charitable organization that provides foster care services to foster children in Arizona.

NOTE: If you made cash contributions to more than three qualifying foster care charities, attach a separate schedule.

	(a) Name of Qualifying Foster Care Charity to which you made cash contributions	(b) Location of Qualifying Charity (City, State)	(c) Cash Amount
4a			00
4b			00
4c			00
4d	Total Cash Contributions: Add the amounts in column (c) of lines 4a, 4b, and 4c. Also, add any amount included on a separate schedule		00
5	Enter the amount from Section A, line 3		00
6	Add line 4d and line 5, enter the total		00
7	Single Taxpayers or heads of household, enter \$400. Married taxpayers, enter \$800		00
8	Enter the smaller of line 6 or line 7. In most cases, if you are married filing a separate return, enter one-half (1/2) of the smaller of line 6 or line 7. See instructions		00

Form 321 Back

Your Name (as shown on page 1)	Your Social Security or Employer Identification Number
--------------------------------	--

Part II: Available Credit Carryover

	(a) Taxable Year from which you are carrying the credit	(b) Original Credit Amount	(c) Amount Previously Used	(d) Available Carryover: Subtract column (c) from column (b).
9	2008	.00	.00	.00
10	2009	.00	.00	.00
11	2010	.00	.00	.00
12	2011	.00	.00	.00
13	2012	.00	.00	.00
14	TOTAL AVAILABLE CARRYOVER00

Part III: Total Available Credit

15 Current year's credit: Enter the amount from Part I, Section A, line 3 or Section B, line 8.....	15	00
16 Enter the amount of available carryover from Part II, line 14, column (d).....	16	00
17 Total Available Credit: Add line 15 and line 16. Enter the total here and see the instructions.....	17	00

Example 1:

39

- Shannon (single) donates \$350 to a QCO and \$0 to a QFCO.
 - ▣ Step 1 (QCO credit): Of the \$350 contribution, **\$200 is eligible** for the credit. The excess \$150 is not eligible for the credit.
 - ▣ Step 2 (QFCO credit): None.
 - ▣ Step 3: Total of QCO and QFCO credits: **\$200 tax credit** for TY2013.

Example 2:

40

- Shannon (single) donates \$0 to a QCO and \$350 to a QFCO.
 - Step 1: None.
 - Step 2: Of the \$350 contribution, **\$350 is eligible** for the credit.
 - Step 3: Total of QCO and QFCO credits: **\$350 tax credit** for TY2013.

Example 3:

41

- Shannon (single) donates \$450 to a QCO and \$300 to a QFCO.
 - ▣ Step 1: Of the \$450 contribution, **\$200 is eligible** for the credit. The excess \$250 is not eligible for the credit.
 - ▣ Step 2: Of the \$300 contribution, **\$200 is eligible** for the credit. The excess \$100 is not eligible for the credit.
 - ▣ Step 3: Total of QCO and QFCO credits: **\$400 tax credit** for TY2013.

Example 4:

42

- Shannon (MFJ) donates \$600 to a QCO and \$150 to a QFCO.
 - ▣ Step 1: Of the \$600 contribution, **\$400 is eligible** for the credit. The excess \$200 is not eligible for the credit.
 - ▣ Step 2: Of the \$150 contribution, **\$150 is eligible** for the credit.
 - ▣ Step 3: Total of QCO and QFCO credits: **\$550 tax credit** for TY2013.

Example 5:

43

- Shannon (single) donates \$150 to a QCO and \$400 to a QFCO.
 - ▣ Step 1: Of the \$150 contribution, **\$150 is eligible** for the credit.
 - ▣ Step 2: Of the \$400 contribution, **\$250 is eligible** for the credit. The excess \$150 is not eligible for the credit.
 - ▣ Step 3: Total of QCO and QFCO credits: **\$400 tax credit** for TY2013.

140 Update

44

□ **Standard Deduction**

- Single taxpayer or married filing separate the amount is \$4,945.
- Head of household or married filing joint, the amount is \$9,883.

□ **Credit for Contributions to Private School Tuition Organizations**

- The maximum credit for single taxpayers or heads of household is \$517. For married taxpayers that file a joint return, the maximum credit is \$1,034.

□ **Credit for Contributions Made to Certified School Tuition Organizations**

- The maximum credit for single taxpayers or heads of household is \$514. For married taxpayers that file a joint return, the maximum credit is \$1,028.

□ **Voluntary Donation check box change:**

- **Aid to Education Fund** name change to **Solutions Teams Assigned to Schools Fund**.

Subtractions

45

□ Long-Term Care Insurance Premiums

- Beginning in 2013, you may subtract the amount of qualifying premium costs for long-term care insurance. You may take this subtraction only if you are *not* claiming itemized deductions for the taxable year. (Laws 2012, Ch. 351)

Subtractions (con't)

46

- **Arizona Long-Term Health Care Savings Accounts (AZLTHSA)**
 - Beginning in 2013, you may subtract amounts you paid into a long-term health care savings account established under Arizona laws. An individual may set up the Arizona long-term health care savings account with an account Administrator who will manage the account. The total amount you may subtract is equal to the amount of your contributions that are included in your federal adjusted gross income. For more information regarding the subtraction for contributions made to a long-term health care savings account, see A.R.S. § 43-1032.

Subtractions (con't)

47

- **Long-Term Health Care Savings Accounts (con't)**
 - ▣ If you made a withdrawal from your Arizona long-term health care savings account during 2013 for purposes other than to pay for qualified long-term health care expenses, you must pay a withdrawal penalty. The penalty is equal to 10% (.10) of the amount of the withdrawal. You must remit this penalty with your income tax return filed for the year in which you made the withdrawal. (Laws 2012, Ch. 351)
 - ▣ Line 51 – Added HSA Penalty

Subtractions (con't)

48

- **Subtraction for IRC § 529 College Savings Plans**
 - The amount of the allowable subtraction from Arizona gross income for amounts contributed into a college savings plan established pursuant to IRC § 529 increased. For single taxpayers or heads of household, the amount is \$2,000; previously \$750. For married taxpayers filing a joint return, the amount is \$4,000; previously \$1,500.

Starting in 2014

49

□ TAX RATE CHANGES STARTING IN 2014

- Several legislative changes are scheduled to be phased in starting for tax year 2014. These changes may be affected by future legislation. Laws 2011, 2nd Special Session, Chapter 1, Section 105, lowers the corporate tax rate from 6.968% to:
 - 6.5% in 2014
 - 6.0% in 2015
 - 5.5% in 2016
 - 4.9% for 2017 and forward.

Starting in 2014

50

- **VARIOUS APPORTIONMENT CHANGES STARTING IN 2014**
- Changes to the calculation of the sales factor of the apportionment ratio are scheduled to be available for tax years starting in 2014.

Starting in 2014

51

□ **VARIOUS APPORTIONMENT CHANGES STARTING IN 2014 (con't)**

- (1) The weighting of the sales factor in the enhanced apportionment ratio election will increase by 5% each year. [Laws 2011, 2nd Special Session, Chapter 1, Section 106]
 - For 2014 – the sales factor is weighted at 85% and the property and payroll factors are each weighted at 7.5%.
 - For 2015 – the sales factor is weighted at 90% and the property and payroll factors are each weighted at 5.0%.
 - For 2016 – the sales factor is weighted at 95% and the property and payroll factors are each weighted at 2.5%.
 - For 2017 – the sales factor is weighted at 100%.

Starting in 2014

52

□ **VARIOUS APPORTIONMENT CHANGES STARTING IN 2014 (con't)**

- (2) A multistate service provider may make a binding election to determine how sales of services are included in the numerator of the sales factor by using the sum of:
 - For 2014 – 85% of market sales factor and 15% of income producing activity sales factor.
 - For 2015 – 90% of market sales factor and 10% of income producing activity sales factor.
 - For 2016 – 95% of market sales factor and 5% of income producing activity sales factor.
 - For 2017 – 100% of market sales factor.

Starting in 2014

53

□ **VARIOUS APPORTIONMENT CHANGES STARTING IN 2014 (con't)**

- To be considered a multi-state service provider, 85% of its services must be provided to purchasers who receive the benefit outside Arizona.
- Binding for five years.

Starting in 2014

54

□ **VARIOUS APPORTIONMENT CHANGES STARTING IN 2014 (con't)**

- (3) Laws 2013, Chapter 236, Section 10, expands the definition of a multistate service provider to include a qualifying regionally accredited institution of higher education with at least 2,000 students living on campus in Arizona.

Number of Returns Processed/Gross Revenues for FY 2013

55

FY2013	TPT	Individual Income	Corporate Income	Withholding	Total
Paper	1,290,424	859,798	186,651	312,972	2,649,845
E-File	359,563	2,167,069	N/A	297,661	2,824,293
Total Returns	1,649,987	3,026,867	186,651	610,633	5,474,138
	*****		*****		*****
Revenues	\$7.71 Billion	\$1.17 Billion	\$755 Million	\$3.46 Billion	\$13.10 Billion
Payments Processed	4,175,656				

Fraudulent Refunds Stopped Cold

56

Dollar Amount of Fraudulent Income Tax Refunds Stopped from being Processed and Sent (in Millions)

