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
Hearing impaired TDD user	
Phoenix	(602) 542-4021
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

Which Corporations Must File a Return?

Every corporation subject to the Arizona Income Tax Act of 1978 must file an Arizona corporate income tax return. This includes an IRC § 528 homeowners' association that files either federal Form 1120-H or Form 1120. However, certain homeowners' associations that are federally exempt are also exempt for Arizona income tax purposes, and may file the Arizona Form 99. Examples are social welfare organizations (IRC § 501(c)(4)) and clubs organized for pleasure or recreation (IRC § 501(c)(7)).

Which Form to Use

Use Form 120 if the corporation: (1) has income from business activity that is taxable in more than one state (a "multistate corporation"); (2) is a partner in a multistate partnership and/or a partnership that conducts no business in Arizona; (3) is a member of a unitary group of corporations that files an Arizona return on a combined basis; or (4) is a member of an affiliated group of corporations that elects to file an Arizona consolidated return.

The only type of corporation that may use Form 120A is one that files its return on a separate company (separate entity) basis and has income from business activity that is taxable entirely within Arizona (a "wholly Arizona corporation").

Entity Classification under the Federal "Check-the-Box Rules"

The federal tax classification of an entity under the federal "check-the-box rules" determines the entity's classification for Arizona tax purposes.

Limited Liability Companies

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

Electing Small Business Corporations

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

Taxable Year Covered by Return

Indicate the period covered by the taxable year on page 1 of the return, and whether the taxable year is a calendar year or a fiscal year.

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

Filing Original Returns

Returns are due by the 15th day of the fourth month following the close of the taxable year. If the taxpayer has a valid federal or Arizona extension, file the return by the extended due date. If the taxpayer files under extension, the taxpayer must check the extension box on page 1 of the return. Send the return to the Arizona Department of Revenue, PO Box 29079, Phoenix AZ 85038-9079. One or more officers (president, treasurer, or any other principal officer) must sign the return. The department requests that taxpayers attach a copy of the completed federal corporate income tax return to the Arizona return. ARS § 42-1112 prescribes the schedules required to be included.

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 written proof of mailing.

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.

Arizona Filing Methods

There are three filing methods for corporate income tax returns filed to Arizona: (1) separate company (separate entity); (2) combined; and (3) consolidated.

1. Separate Company

A corporation files on a separate company basis if: (1) it is not part of a group of corporations comprising a unitary business; or (2) it is not a member of an affiliated group that elected to file a consolidated return.

2. Combined Return

A corporation files on a combined basis when it is part of a unitary group of corporations, unless the affiliated group elects to file a consolidated return pursuant to ARS § 43-947.

A unitary business comprises those parts and components whose functions are integrated and interdependent at the basic

operational level. The entities comprising the unitary business must be owned or controlled directly or indirectly by the same interests that collectively own more than 50 percent of the voting stock. Refer to Arizona Administrative Code rule AAC R15-2D-401 for additional requirements. Refer to Arizona Corporate Tax Ruling CTR 00-2 for additional information regarding whether a bond of direct or indirect ownership or control exists.

IRC § 351 reorganizations Activities conducted as part of a unitary business do not become a separate and unrelated business simply because those activities are subsequently conducted by a different affiliated corporate entity. An affiliated corporation resulting from an IRC § 351 reorganization is required to file a combined return as part of the unitary group if its activities are conducted as a part of the unitary business. See Arizona Corporate Tax Ruling CTR 01-1.

A unitary group of corporations required to file a combined return must complete Section I of Form 51 for the first taxable year the group files a combined return. Form 51 is the combined or consolidated return affiliation schedule. Attach the completed Form(s) 51 to the tax return. In succeeding taxable years, complete Sections II (Additions) and III (Deletions) of Form 51 to report changes in the unitary group. Indicate whether changes have been made to the unitary group by checking the appropriate box for question C in the information section on page 1 of Form 120.

Foreign corporation; water's edge limitation Do not allocate or apportion the income and expenses of a foreign corporation to Arizona if the foreign corporation is not itself subject to the Arizona corporate income tax. This provision does not apply if a foreign corporation is a member of an affiliated group that elects to file an Arizona consolidated tax return.

"Domestic corporation" means a corporation created or organized in the United States or under the laws of the United States, any of its states, or the District of Columbia.

"Foreign corporation" means:

- A corporation which is not a domestic corporation.
- A domestic corporation with less than 20 percent of its property, payroll, and sales in the United States. The percentage applies for the three year period immediately preceding the close of the taxable year, or for such part of that period as the corporation has been in existence. The sales factor is not double-weighted when making this determination.
- A domestic corporation that derived 80 percent or more of its federal gross income from sources in Puerto Rico or any other possession of the United States except the Virgin Islands. The corporation must also have derived 65 percent or more of its federal gross income from the active conduct of a trade or business in Puerto Rico or any other U.S. possession except the Virgin Islands. This determination is made for the three year period immediately preceding the close of the taxable year, or for such part of that period as the corporation has been in existence.

Arizona Corporate Tax Procedure CTP 02-1 illustrates sample calculations to determine whether a domestic corporation is considered a foreign (80/20) corporation for Arizona tax purposes.

3. Consolidated Returns

The common parent of an affiliated group of corporations that files a federal consolidated return may elect to file an Arizona consolidated return. The consolidated return includes all members of the affiliated group filing a federal consolidated return, regardless of whether each member is subject to Arizona income tax. The election made by the common parent is effective only if accompanied by written consents to the election signed by each of the members of the affiliated group. Form 122 is the written consent form. A current officer of each subsidiary in the affiliated group must sign the consent form. Attach the completed Form(s) 122 to the tax return for the first taxable year the affiliated group files a consolidated return. The common parent must make the election on or before the due date, including extensions, for filing the original return. The election is binding on the group for succeeding taxable years unless the department consents to a change of filing method. The election made by the Arizona affiliated group to file an Arizona consolidated return is binding on new members that become part of the federal affiliated group in subsequent tax periods. All members of an Arizona affiliated group are jointly and severally liable for the taxes, interest, and penalties of the Arizona affiliated group under Title 42 and Title 43 of the Arizona Revised Statutes. Arizona Corporate Tax Rulings CTR 94-10 through CTR 94-13 address consolidated tax returns.

An affiliated group that elects to file a consolidated return must complete Section I of Form 51 for the first taxable year the Arizona affiliated group files a consolidated return. Form 51 is the combined or consolidated return affiliation schedule. In succeeding taxable years, complete Sections II (Additions) and III (Deletions) of Form 51 to report changes in the Arizona affiliated group. Attach the completed Form(s) 51 immediately following page 4 of Form 120. Indicate whether changes have been made to the Arizona affiliated group by checking the appropriate box for question C in the information section on page 1 of Form 120.

The Arizona gross income of an Arizona affiliated group is the consolidated federal taxable income of the affiliated group. A multistate Arizona affiliated group is a single taxpayer, and must allocate and apportion its income to Arizona using a single apportionment formula. A multistate Arizona affiliated group apportions its income by means of a single apportionment formula.

Arizona Apportionment Methods

There are three apportionment methods for multistate corporate income tax returns filed to Arizona: (1) air carrier apportionment; (2) standard sales factor; and (3) enhanced sales factor.

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

1. Air Carrier Apportionment

An air carrier is required to use revenue miles to calculate its apportionment ratio. Check the box for information question D on page 1, fill out Schedule ACA, and attach it to your return. Do not complete Schedule C.

2. Standard Sales Factor

All non-air carrier taxpayers are allowed to continue to use Arizona's standard apportionment formula, which double-weights the sales factor. Check the box for information question D on page 1 and complete Schedule C using the numbers on the left-hand side of Column A to weight the property factor at one, the payroll factor at one, and the sales factor at two. Divide the total ratio by four.

Detailed instructions for the standard sales factor formula begin on page 13 of these instructions.

3. Enhanced Sales Factor

All non-air carrier taxpayers may use Arizona's enhanced apportionment formula, which weights the sales factor at seventy percent for tax year 2008. By selecting to use the enhanced sales factor, the taxpayer agrees to the release of its name to the Joint Legislative Budget Committee and to participate in an Economic Impact Analysis. Check the box for information question D on page 1 and complete Schedule C using the numbers on the right-hand side of Column A to weight the property factor at 1.5, the payroll factor at 1.5, and the sales factor at 7. Divide the total ratio by 10.

Detailed instructions for the enhanced sales factor formula begin on page 14 of these instructions.

Treatment of Installment Obligations When Corporation Activities Cease

If a corporation elects to report income from the sale or other disposition of property on the installment method and some of that income remains unreported on the year the corporation ceases to be subject to Arizona corporation income tax, the corporation must report the unreported income in the last year in which the corporation is subject to the tax. This provision does not apply if a reorganization transfers the installment obligation to another taxpayer subject to Arizona tax as the transferee. The transferee may not use its capital losses to offset income from the installment obligation transferred from a corporation no longer subject to the tax.

Payment of Tax

The entire amount of tax is due by the original due date of the return. Payments can be made via check, electronic check, money order, or credit card. Visit www.aztaxes.gov to register and make payments via the internet.

Estimated Tax Payments

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

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

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

Use 2009 Form 120W, *Estimated Tax Worksheet for Corporations*, to compute the required installments.

ESTIMATED TAX PAYMENTS BY ELECTRONIC FUNDS TRANSFER.

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

Refer to ARS § 42-1129 and the related Arizona Administrative Code rules (AAC R15-10-301 through R15-10-307) for detailed information. Obtain additional information 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.

ESTIMATED TAX PAYMENTS VIA THE INTERNET.

Taxpayers must be licensed by the Department of Revenue before they can register to pay taxes online. Go to www.aztaxes.gov to register and make estimated tax payments over the internet. If a taxpayer makes its estimated tax payments via the internet, the taxpayer should not submit Form 120ES to the department.

Electronic payment from checking or savings account

Estimated tax payments can be made electronically from a checking or savings account. Go to www.aztaxes.gov and choose the e-check option. There is no fee to use this method. This payment method will debit the amount from the specified checking or savings account on the date specified. If an electronic payment is made from a checking or savings account, a confirmation number will be generated. Please keep this confirmation number as proof of payment.

Credit card payment

Estimated tax payments can be made via American Express, Discover, MasterCard or VISA credit cards. Go to www.aztaxes.gov and choose the credit card option. This will take

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

Extension of Time to File a Return

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

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

Either the Arizona or federal extension provide an extension of time to file, but do not provide an extension of time to pay. Payment of one hundred percent of the tax liability is due by the original due date to avoid penalty.

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 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 extension box on page 1 of the return (if the taxpayer uses an extension) may be subject to the extension underpayment penalty. The taxpayer must pay 90 percent of the tax liability disclosed by the taxpayer's return on or before the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid. The penalty period is each 30 day period or fraction thereof between the original due date of the return and the date the taxpayer paid the tax. The maximum penalty is 25 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. "Amount of tax shown on the return" is the amount of tax imposed shown on the return less the amount of any part of the tax paid on or before the beginning of the month and the amount of any credit against the tax which may be claimed on the return. The late payment penalty is 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. The late payment penalty will be imposed on any amount not paid by the original due date of the return, without regard to a proper extension to file.

NOTE: *If more than one of the penalties described in A, B, or C apply, the maximum combined penalty is 25 percent. For more information on the application of the various penalties, including examples, please refer to Arizona Corporate Income Tax Ruling CTR 07-2.*

D. Interest. The department assesses interest on any portion of the tax, whether determined by the department or the taxpayer, not paid by the date prescribed for its payment. The department compounds interest annually and applies it in the same manner and at the same time as prescribed by IRC § 6621, except that the Arizona rate of interest for both underpayments and overpayments *for all taxpayers* is the federal underpayment rate under IRC § 6621(a)(2). On January 1 of each year, any interest outstanding as of that date is added to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

E. Underpayment of Estimated Tax Penalty. The department imposes the ARS § 43-582 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.

Furnishing Data

The department requests that taxpayers attach a copy of the completed federal return and all its schedules and attachments to the Arizona return. ARS § 42-1112 prescribes the schedules required to be included.

Do not send in a blank Arizona return with a copy of the federal return. Taxpayers must furnish complete data. Answer all questions on the return. Complete all applicable schedules and attach all appropriate supplementary schedules.

Filing Amended Returns

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

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

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

Records

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

Use of Federal Figures

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

IRC § 7519 Required Payments

Taxpayers cannot deduct the federal required payments on their Arizona tax returns as an ordinary and necessary business expense or otherwise.

Specific Instructions

Type or print the required information in the name, address, and information boxes on the top of page 1. Consolidated return filers, enter the common parent corporation's name, address, and employer identification number. The name for a consolidated return should include the phrase "and affiliates." If this is a combined return, enter the name, address, and employer identification number of the corporation under which the group is filing. The name for a combined return should include the phrase "and unitary affiliates."

Indicate the period covered by the taxable year on page 1 of the return and whether the taxable year is a calendar year or a fiscal year. Enter the Arizona transaction privilege tax number for the corporation listed on the top of page 1. If the corporation does not have an Arizona transaction privilege tax number, leave the box blank.

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

Arizona Taxable Income Computation

Line 1 - Taxable Income per Federal Return

Enter taxable income as reported on the federal income tax return filed with the Internal Revenue Service.

Line 2 - Additions to Taxable Income

Enter total adjustments from page 2, Schedule A, line A11. See instructions for Schedule A.

Line 4 - Subtractions from Taxable Income

Enter total adjustments from page 2, Schedule B, line B12. See instructions for Schedule B.

Line 5 - Adjusted Income

Subtract line 4 from line 3 and enter the difference. Wholly Arizona corporations, skip lines 6 through 12.

Lines 6 through 12 - Apportionment Computation

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

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

Line 14 - Arizona Basis Net Operating Loss Carryover

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

Information about the Arizona net operating loss carryforward calculation can be found in ARS § 43-1123, Arizona Administrative Code rule AAC R15-2D-302, and Arizona Corporate Tax Rulings CTR 91-2, CTR 94-11 and CTR 99-3.

Arizona Tax Liability Computation

Line 16 - Arizona Tax

Multiply the Arizona taxable income (page 1, line 15) by 6.968 percent. If the result is less than $50, enter the minimum tax of $50. Every corporation required to file a return shall pay a $50 minimum tax in accordance with A.R.S. § 43-1111.

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

Line 17 - Tax from Recapture of Tax Credits

Enter the amount of tax due from recapture of the environmental technology facility and healthy forest enterprises credits from Form 300, Part II, line 22.

Line 18 - Subtotal

Add lines 16 and 17. This is the amount of tax to which the Clean Elections Fund tax reduction and the total amount of tax credits claimed by the taxpayer may be applied.

Line 19 - Clean Elections Fund Tax Reduction

Check the box on line 19 to send five dollars to the Clean Elections Fund and reduce the tax amount on line 18 by five dollars. Enter the amount of the tax reduction (five dollars) on line 19.

Line 20 - Nonrefundable Tax Credits

Enter the allowable nonrefundable tax credit amount from Form 300, Part II, line 43. This amount cannot be larger than the amount on line 18 less the amount on line 19.

- **Defense Contracting Credits.** Taxpayers may claim carryovers of unused tax credits from taxable years 2006 and prior. The carryovers may be carried forward until tax year 2011. Complete Form 302 to claim the carryover of these tax credits.
- **Enterprise Zone Credit.** Taxpayers located in an enterprise zone may claim a credit for net increases in qualified employment positions. Complete Form 304 to claim this tax credit.
- **Environmental Technology Facility Credit.** This tax credit is for costs incurred in constructing a qualified environmental technology manufacturing, producing, or processing facility as described in ARS § 41-1514.02. Complete Form 305 to claim this tax credit.
- **Military Reuse Zone Credit.** This tax credit is for net increases in employment of full-time employees working in a military reuse zone established under Arizona law. Complete Form 306 to claim this tax credit.
- **Credit for Increased Research Activities.** This tax credit is for taxpayers who incur qualified research expenses for research conducted in Arizona. The credit applies to taxable years beginning from and after December 31, 2000. Complete Form 308 to claim this tax credit.
- **Pollution Control Credit.** This tax credit is for expenses incurred during the taxable year to purchase real or personal property used in the taxpayer's trade or business in Arizona to control or prevent pollution. Complete Form 315 to claim this tax credit.
- **Credit for Taxes Paid for Coal Consumed in Generating Electrical Power.** This tax credit is for a percentage of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona. "Amount paid by the seller or purchaser as transaction privilege tax or use tax" means that the taxpayer paid the Arizona use tax to the department, the seller passed the Arizona transaction privilege tax through to the taxpayer as an added charge, or the seller collected the Arizona use tax from the taxpayer. Complete Form 318 to claim this tax credit.
- **Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets.** This tax credit is for the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets in houses or dwelling units constructed by the taxpayer. The houses or dwelling units must be located in Arizona. Complete Form 319 to claim this tax credit.
- **Credit for Employment of TANF Recipients.** This tax credit is for net increases in qualified employment for recipients of temporary assistance for needy families (TANF) who are residents of Arizona. Complete Form 320 to claim this tax credit.
- **Agricultural Pollution Control Equipment Credit.** This tax credit is for expenses incurred during the taxable year to purchase tangible personal property that is primarily used in the taxpayer's business in Arizona to control or prevent agricultural pollution. Complete Form 325 to claim this tax credit.
- **Credit for Donation of School Site.** This tax credit is for the donation of real property and improvements to an Arizona school district or Arizona charter school for use as a school or as a site for the construction of a school. Complete Form 331 to claim this tax credit.
- **Credit for Healthy Forest Enterprises.** This tax credit is for net increases in qualified employment positions in a healthy forest enterprise. Use Form 332 to claim this tax credit.
- **Credit for Employing National Guard Members.** This tax credit is for an employer who has an employee that is a member of the Arizona National Guard and the employee was placed on active duty. Use Form 333 to claim this tax credit.
- **Motion Picture Credits.** Two transferable tax credits exist related to motion pictures. Motion picture production companies that produce motion pictures, commercials, music videos, or television series completely or partially in Arizona may claim a tax credit for production costs. A tax credit for investments in motion picture infrastructure projects in Arizona is also available. Use Form 334 to claim these credits.
- **Credit for Corporate Contributions to School Tuition Organizations.** This tax credit is for corporations who make contributions to school tuition organizations that provide scholarships and tuition grants to children attending qualified nongovernmental schools. Use Form 335 to claim this credit.
- **Credit for Solar Energy Devices - Commercial and Industrial Applications.** This tax credit is available to taxpayers that install solar energy devices for commercial, industrial, or any other nonresidential purpose in the taxpayer's trade or business located in Arizona. The taxpayer or an exempt organization may transfer the credit to a third party that either financed, installed, or manufactured the qualifying solar energy device. Use Form 336 to figure this credit.
- **Credit for Water Conservation System Plumbing Stub Outs.** This tax credit is for the installation of water conservation system plumbing stub outs in houses

or dwelling units constructed by the taxpayer. The houses or dwelling units must be located in Arizona. Complete Form 337 to claim this tax credit.

Complete the appropriate credit form for each tax credit. Attach the completed credit form to the tax return with Form 300.

Line 21 - Credit Type

Indicate which nonrefundable tax credits were claimed on line 20 by writing the applicable form number(s) in the space provided.

Nonrefundable Income Tax Credit	Form
Defense Contracting Credits	302
Enterprise Zone Credit	304
Environmental Technology Facility Credit	305
Military Reuse Zone Credit	306
Credit for Increased Research Activities	308
Pollution Control Credit	315
Credit for Taxes Paid for Coal Consumed in Generating Electrical Power	318
Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	319
Credit for Employment of TANF Recipients	320
Agricultural Pollution Control Equipment Credit	325
Credit for Donation of School Site	331
Credit for Healthy Forest Enterprises	332
Credit for Employing National Guard Members	333
Credit for Motion Picture Production Costs	334
Credit for Corporate Contributions to School Tuition Organizations	335
Credit for Solar Energy Devices - Commercial and Industrial Applications	336
Credit for Water Conservation System Plumbing Stub Outs	337

Line 22 - Arizona Tax Liability

Subtract the sum of lines 19 and 20 from line 18. Line 22 cannot be a negative amount.

Line 23 - Clean Elections Fund Tax Credit

A taxpayer may claim a tax credit on the 2008 tax return for:

- A donation made directly to the Clean Elections Fund during the taxable year 2008; and/or
- A donation made to the Clean Elections Fund on the taxpayer's 2007 tax return.

The 2008 tax credit is equal to the amount of the donation(s), but cannot exceed twenty percent of the tax liability on line 22 or six hundred ten dollars, whichever is higher. Any donation to the fund made with the original 2008 tax return must be claimed on the taxpayer's 2009 tax return. The unused portion of the tax credit may not be carried forward.

Calculation of 2008 Clean Elections Fund Tax Credit			
1.	Enter the amount donated directly to the fund during the taxable year 2008 PLUS the amount donated to the fund with the 2007 Form 120.	$	00
2.	Enter tax from 2008 Form 120, line 22.	$	00
3.	Multiply amount on line 2 by 20 percent (.20).	$	00
4.		$ 610	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 2008 Form 120, line 23.	$	00

Tax Payments

Lines 25 and 26 - Extension and Estimated Payments

Complete Schedule F, schedule of tax payments. Enter totals on page 1, lines 25 and 26. See instructions for Schedule F.

Line 27 - Total Payments

Add lines 25 and 26. Enter the total.

NOTE FOR CLAIM OF RIGHT RESTORATION: *If the tax for the taxable year 2008 was computed under the provisions for a claim of right restoration, line 27 also includes the credit for the tax reduction for prior taxable year(s). Refer to Arizona Corporate Tax Procedure CTP 95-3 for further information. Write "ARS § 43-1130.01" and the total amount of the tax reduction for prior taxable year(s) in the space to the left of the total payment amount entered on line 27. The amount entered on line 27 is the total of lines 25 and 26 and the tax reduction for prior taxable year(s). Attach a schedule computing the tax reduction for the prior taxable year(s).*

Computation of Total Due or Overpayment

Line 28 - Balance of Tax Due

If the amount on line 24 is **larger** than the amount on line 27, there is a balance of tax due. Subtract line 27 from line 24 and enter the difference.

Line 29 - Overpayment of Tax

If the amount on line 27 is **larger** than the amount on line 24, there is an overpayment of tax. Subtract line 27 from line 24 and enter the difference (as a positive number).

Line 30 - Penalty and Interest

Calculate any penalty and interest due as a result of late filing, late payment of tax, or extension underpayment of tax. Calculate interest on the amount shown on line 28 at the prevailing rate. The interest period is from the original due date of the return to the payment date. See the "Penalties and Interest" section on page 4 of these instructions. Do not include or enter the amount from Form 220.

Line 31 - Estimated Tax Underpayment Penalty

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

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 31.

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

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

department compute the penalty, do not check the box on line 31 or enter an amount on line 31.

Line 32 - Donation to Citizens Clean Elections Fund

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

Line 33 - Total Due

If the taxpayer had a balance of tax due on line 28, add lines 28, 30, 31, and 32, and enter the total on line 33. This is the total amount due. Payments can be made via check, electronic check, money order, or credit card.

Check or money order

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

Internet Payments

Corporate taxpayers must be licensed by the Department of Revenue before they can register to pay taxes online. Go to www.aztaxes.gov to register and make payments over the internet.

Electronic payment from checking or savings account

Payments can be made electronically from a checking or savings account. Go to www.aztaxes.gov and choose the e-check option. There is no fee to use this method. This payment method will debit the amount from the specified checking or savings account on the date specified. If an electronic payment is made from a checking or savings account, a confirmation number will be generated. Please keep this confirmation number as proof of payment.

Credit card payment

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

Line 34 - Overpayment

If the taxpayer had an overpayment of tax on line 29, subtract the total of lines 30, 31, and 32 from line 29. Enter a positive difference on line 34. This is the total overpayment. If the difference is negative, enter the difference as a positive number on line 33.

Line 35 - Overpayment Applied to Estimated Tax

The taxpayer may apply part or all of an overpayment reported on line 34 as a 2009 estimated tax payment. Enter the applicable amount on line 35.

Line 36 - Refund

Subtract line 35 from line 34 and enter the result. This is the net refund amount.

Schedule A - Additions to Taxable Income

On lines A1 through A10 of Schedule A, enter all income taxable under Arizona law that is exempt for federal tax purposes. Also, enter all deductions allowed under federal law that are not allowed under Arizona law.

Line A1 - Total Federal Depreciation

Enter the total amount of depreciation deducted on the federal return. Do not include depreciation included on line A8.

Line A2 - IRC § 179 Expense in Excess of Allowable Amount

Enter the amount of IRC § 179 expense deducted on the federal return that exceeds $25,000.

Line A3 - Taxes Based on Income

Enter the amount of taxes based on income paid to states (including Arizona), to foreign governments, or to their political subdivisions included in federal taxable income.

Line A4 - Interest on Obligations

Enter the amount of federally tax exempt interest income on obligations of any state or foreign government, or their political subdivisions (except Arizona). All taxpayers except ARS § 6-101 financial institutions must reduce the amount of interest income by certain expenses. Reduce the amount of interest income by the amount of any interest on indebtedness and other related expenses incurred or continued to purchase or carry those obligations that was not otherwise deducted or subtracted in the computation of Arizona gross income.

Line A5 - Federal Special Deductions

Enter the special deductions claimed on the federal tax return for dividends received pursuant to IRC §§ 243, 244, and 245.

Line A6 - Federal Net Operating Loss

Enter the federal net operating loss deduction claimed on the federal tax return.

Line A7 - Domestic International Sales Corporations

Enter the total amount of commissions, rentals, and other amounts paid or accrued to a Domestic International Sales Corporation (DISC) controlled by the payor corporation. Make this adjustment if the DISC does not have to report its taxable income to Arizona because its income is not derived from or attributable to sources within Arizona. "Control" means direct or indirect ownership or control of 50 percent or more of the voting stock of the DISC by the payor corporation.

No addition is required if:

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

Line A8 - Capital Investment by Certified Defense Contractor

- **Federal Depreciation or Deduction for Cost of Capital Investment**

  If the taxpayer was a certified defense contractor that previously elected to amortize capital investments in

accordance with ARS § 43-1024, enter the amount of IRC § 167 depreciation or IRC § 179 expense deducted in calculating federal taxable income that was not already included on line A1. This adjustment must continue until the property is completely depreciated, otherwise disposed of, or the taxpayer opts out of the election. This adjustment should not be made for property placed in service after the certification expired.

- **Gain on Sale of Capital Investment**

  Enter the amount of gain from the sale or other disposition of a capital investment which a certified defense contractor elected to amortize pursuant to ARS § 43-1024.

Line A9 - Additions Related to Arizona Tax Credits

Enter the following additions to federal taxable income that are related to Arizona tax credits. Attach a schedule detailing these additions.

A. Environmental Technology Facility Credit

- **Excess Federal Depreciation or Amortization**

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

- **Excess in Federal Adjusted Basis**

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

B. Pollution Control Credit

- **Excess Federal Depreciation or Amortization**

  Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the taxpayer claimed a tax credit under ARS § 43-1170.

- **Excess in Federal Adjusted Basis**

  Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the taxpayer claimed a tax credit under ARS § 43-1170 was sold or otherwise disposed of during the taxable year.

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

Enter the amount of expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed the credit for taxes paid for coal consumed in generating electrical power, in Arizona, under ARS § 43-1178. The addition is required for the amount of Arizona transaction privilege taxes and Arizona use taxes included in the computation of federal taxable income for which the Arizona credit is claimed.

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

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

E. Credit for Employment of TANF Recipients

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

F. Agricultural Pollution Control Equipment Credit

- **Excess Federal Depreciation or Amortization**

  Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the taxpayer claimed a tax credit under ARS § 43-1170.01.

- **Excess in Federal Adjusted Basis**

  Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the taxpayer claimed a tax credit under ARS § 43-1170.01 was sold or otherwise disposed of during the taxable year.

G. Credit for Donation of School Site

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

H. Motion Picture Credits

These credits are in lieu of any allowance for deduction of expenses related to the production, the infrastructure project or related to a transferred credit. Enter the amount of any such expenses that were deducted in computing federal taxable income for which a tax credit was claimed or transferred under ARS §§ 43-1163 or 43-1163.01.

I. Credit for Corporate Contributions to School Tuition Organizations

Enter the amount deducted in computing federal taxable income as contributions for which a tax credit is claimed under ARS § 43-1183.

J. Credit for Water Conservation System Plumbing Stub Outs

Enter the amount of expenses deducted in computing federal taxable income for the installation of water conservation system plumbing stub outs for which the taxpayer claimed a tax credit under ARS § 43-1182.

Line A10 - Other Additions to Federal Taxable Income

Enter on line A10 the following "other additions" to federal taxable income. Attach a schedule detailing these additions.

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

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

Wholly Arizona corporation - If the amount on Form 165, Schedule K-1(NR), Part II, line 15, column (c), is positive, enter that amount here.

Multistate corporation - If the amount on Form 165, Schedule K-1(NR), Part II, line 15, column (c), from a *wholly Arizona partnership* is positive, enter that amount here. For a *multistate partnership*, add the amount on Form 165, Schedule K-1(NR), Part II, line 15, column (a), to the amount of any nonapportionable income (or loss) included in the schedule (for Part II, line 15, column (a)). If the total is positive, enter that amount here.

B. Federal Exploration Expenses

Enter the amount of IRC § 617 exploration expenses in excess of $75,000 and the amount of such expenses deferred not in excess of $75,000.

C. Contributions

Enter the amount of IRC § 170 contributions to an educational institution which denies admission, enrollment, or board and room accommodations on the basis of race, color, or ethnic background. Do not include contributions to institutions primarily established for the education of American Indians.

D. Federal Amortization or Depreciation for Facilities and Equipment Amortized Under Arizona Law

Enter the amount of amortization or depreciation deducted pursuant to the Internal Revenue Code for the following:

- **Pollution Control Devices** - If the taxpayer made an election to amortize pursuant to ARS § 43-1129.
- **Child Care Facilities** - If the taxpayer made an election to amortize pursuant to ARS § 43-1130.

E. Expenses and Interest Relating to Income Not Taxed by Arizona

Enter expenses and interest relating to income not taxed by Arizona. Refer to ARS § 43-961(5) or ARS § 43-1121(4).

F. Arizona Income Tax Refunds

If Arizona income tax refunds are not included in Arizona gross income and a tax benefit was derived by the deduction of the taxes in a prior taxable year, enter the amount of refunds received.

G. Tax Exempt Insurance Company Loss

Enter the loss of an insurance company exempt under ARS § 43-1201 to the extent included in computing Arizona gross income on a consolidated return pursuant to ARS § 43-947.

H. Amounts Repaid in Current Taxable Year

Enter the amount of the deduction claimed under IRC § 1341(a)(4), for restoration of a substantial amount held under a claim of right, which was included in the computation of Arizona gross income.

I. Excess Federal Capital Loss Carryover under a Claim of Right Restoration

Enter the amount by which a capital loss carryover allowable pursuant to IRC § 1341(b)(5) exceeds the capital loss carryover allowable pursuant to ARS § 43-1130.01(F).

J. Federal Income Tax Refunds

Enter the amount of any federal income tax refund for a prior taxable year that resulted in an Arizona income tax benefit. This item is applicable to wholly Arizona corporations who received federal income tax refunds for taxable years beginning before January 1, 1990.

Multistate corporations see Schedule E, line E5.

Schedule B - Subtractions from Taxable Income

On lines B1 through B11 of Schedule B, enter all income that is exempt from Arizona tax that is taxable under federal law. Also, enter any deduction allowed under Arizona law that is not deductible for federal tax purposes.

Line B1 - Recalculated Arizona Depreciation

Enter the total amount of depreciation allowable pursuant to IRC § 167(a) for the taxable year calculated as if the taxpayer had elected not to claim bonus depreciation for eligible properties for federal purposes. Do not include amortization included on Line B10.

Line B2 - Basis Adjustment for Property Sold or Otherwise Disposed of During the Taxable Year

For taxable years beginning from and after December 31, 1999, taxpayers were required to add back all federal depreciation. Taxpayers who sold or otherwise disposed of property during this year may subtract any resulting difference between federal and Arizona basis. Enter the amount of depreciation that has been allowed pursuant to IRC § 167(a) to the extent that the amount has not already reduced Arizona taxable income in the current or prior years.

Line B3 - Adjustment for IRC § 179 Expense Not Allowed

Enter the total of 20% of the amount entered on line A2 and 20% of each addition made for IRC § 179 expense in 2004, 2005, 2006 and 2007.

Line B4 - Dividends from Controlled Domestic Corporations

Enter dividend income received from a domestic corporation owned or controlled, directly or indirectly, by the recipient corporation. "Control" means direct or indirect ownership or control of 50 percent or more of the voting stock of the payor corporation by the recipient corporation. Dividends shall have the meaning provided in IRC § 316. Do not include IRC § 78 dividends.

Line B5 - Foreign Dividend Gross-up

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

Line B6 - Dividends from Foreign Corporations

Enter the dividend income received from foreign corporations as defined in ARS § 43-1101. Refer to Arizona

Corporate Tax Ruling CTR 02-3 for information regarding the treatment of income from a qualified electing fund.

Line B7 - DISC Dividends

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

Line B8 - Interest on U.S. Obligations

Enter the interest on U.S. obligations not taxed by Arizona, but subject to federal tax.

Line B9 - Agricultural Crops Contributed to Charitable Organizations

Enter the amount of the allowable subtraction for qualified crop contributions made during the taxable year to one or more Arizona tax exempt charitable organizations for use in Arizona. Refer to Arizona Individual Income Tax Procedure ITP 93-2 for information on how to determine if the contribution qualifies for the subtraction.

Line B10 - Capital Investment by Certified Defense Contractor

- **Arizona Amortization of Cost of Capital Investment**

  If the taxpayer was a certified defense contractor that previously elected to amortize capital investments in accordance with ARS § 43-1024, enter the amount allowed by ARS § 43-1024 that was not already included on line B1, for assets placed in service while certified. This adjustment must continue until the property is completely depreciated, otherwise disposed of, or the taxpayer opts out of the election. This adjustment should not be made for property placed in service after the certification expired.

- **Gain on Sale of Capital Investment**

  Enter the amount of gain included in federal taxable income on the sale or other disposition of a capital investment. Make this adjustment if a certified defense contractor elected to amortize the capital investment pursuant to ARS § 43-1024.

Line B11 - Other Subtractions from Federal Taxable Income

Enter on line B11 the following "other subtractions" from federal taxable income. Attach a schedule detailing these subtractions.

A. Arizona Capital Losses

Enter net capital losses up to $1,000 which are deductible for Arizona tax purposes but are not deductible for federal tax purposes.

B. Refunds of Taxes Based on Income

Enter any refunds from states (INCLUDING ARIZONA) and from foreign governments or their political subdivisions included in federal taxable income.

C. Excess of Partner's Share of Partnership Income or Loss

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

Wholly Arizona corporation - If the amount on Form 165, Schedule K-1(NR), Part II, line 15, column (c), is negative, enter that amount here.

Multistate corporation - If the amount on Form 165, Schedule K-1(NR), Part II, line 15, column (c), from a *wholly Arizona partnership* is negative, enter that amount here. For a *multistate partnership,* add the amount on Form 165, Schedule K-1(NR), Part II, line 15, column (a), to the amount of any nonapportionable income (or loss) included in the schedule (for Part II, line 15, column (a)) attached to the Schedule K-1(NR). If the total is negative, enter that amount here.

D. Expense Recapture, Mine Explorations

Enter any expense recapture for mine exploration expenses included in income under federal law (refer to IRC § 617).

E. Deferred Exploration Expenses

Arizona law allows a subtraction for exploration expenses added to Arizona gross income on line A10, item B (refer to ARS § 43-1121(8)). The taxpayer claims the subtraction on a ratable basis as the units of produced ores or the minerals discovered or explored by reason of such expenditures are sold. Refer to Arizona Administrative Code rule AAC R15-2D-305 for detailed information regarding additional requirements.

Treat property sold in the same manner and on the same basis as other property held for the production of income. (Refer to ARS § 43-1021(7) or to ARS § 43-1022(11).)

F. Exploration Expenses; Oil, Gas or Geothermal Resources

Enter exploration expenses related to exploration of oil, gas, or geothermal resources. Compute the expenses in the same manner and on the same basis as a deduction for mine exploration under IRC § 617. The computation is subject to certain adjustments shown above for line A10, item B, and line B11, items D and E. Refer to Arizona Administrative Code rule AAC R15-2D-305 for detailed information regarding additional requirements.

G. Arizona Amortization of Facilities and Equipment

- **Pollution Control Devices**

  Any taxpayer may choose to amortize the adjusted basis of any device, machinery, or equipment used for collection and control of the source of atmospheric and water pollutants and contaminants. The taxpayer may take the subtraction over a period of 60 months. If a taxpayer chooses not to amortize pollution control devices over a period of 60 months, the taxpayer may take a deduction for depreciation computed under IRC § 167.

  Refer to Arizona Administrative Code rule AAC R15-2D-306 for detailed information regarding additional requirements.

- **Cost of Child Care Facilities**

  Any taxpayer operating a childcare facility for profit may elect to subtract any expenditure made to purchase, construct, renovate, or remodel the facilities or

equipment. The taxpayer may take the subtraction ratably over 60 months beginning with the month in which the taxpayer places the property in service.

Any taxpayer operating a childcare facility within Arizona, primarily for its employees' children, may elect to subtract expenditures made to acquire, construct, renovate, or remodel the facilities or equipment. The taxpayer may take the subtraction over a period of 24 months, beginning with the month in which the taxpayer places the property in service.

The amortization is in lieu of federal depreciation or amortization on the facilities.

Refer to Arizona Administrative Code rule AAC R15-2D-307 for detailed information regarding additional requirements.

H. Interest on Federally Taxable Arizona Obligations

Enter the amount of interest income received on obligations of the State of Arizona, or any of its political subdivisions, included in federal taxable income.

Corporations should not make this adjustment on the corporation's Arizona tax return for such income included in the corporate partner's share of partnership income (or loss). The partnership makes this adjustment on Form 165. The adjustment to Arizona basis from Form 165, Schedule K-1(NR), Part II, line 15, already includes this adjustment.

I. Expenses and Interest Relating to Tax Exempt Income

Effective for taxable years beginning from and after December 31, 1996, this subtraction applies only to financial institutions as defined in ARS § 6-101. Enter expenses and interest relating to tax exempt income disallowed pursuant to IRC § 265 in the computation of Arizona gross income.

J. Tax Exempt Insurance Company Income

Enter the income of an insurance company exempt under ARS § 43-1201 to the extent included in computing Arizona gross income on a consolidated return pursuant to ARS § 43-947.

K. Employer Contributions to Medical Savings Accounts

Enter the amount of contributions made by the taxpayer during the taxable year to medical savings accounts established on behalf of the taxpayer's employees as provided by ARS § 43-1028. The subtraction is allowed for such contributions to the extent that the contributions are not deductible by the taxpayer under the Internal Revenue Code.

L. Expenses Related to Certain Federal Tax Credits

This subtraction applies to taxable years beginning from and after December 31, 1996. Enter the amount of wages or salaries paid or incurred by the taxpayer for the taxable year not deducted in the computation of Arizona gross income if the taxpayer received the federal work opportunity credit, the empowerment zone employment credit, the credit for employer-paid social security taxes on employee cash tips, and/or the Indian employment credit.

M. Claim of Right Adjustment

Enter the amount by which an Arizona capital loss carryover allowable pursuant to ARS § 43-1130.01(F), exceeds the federal capital loss carryover allowable pursuant to IRC § 1341(b)(5).

Schedule ACA - Air Carrier Apportionment Formula

(Multistate Air Carriers Only)

Effective for taxable years beginning from and after December 31, 2000, ARS § 43-1139 requires a taxpayer that is a qualifying air carrier to use revenue miles to apportion its business income to Arizona. The taxpayer must complete Schedule ACA. Check the box for information question D on page 1 of the return. Do not complete Schedule C.

The taxpayer must be engaged in air commerce. “Air commerce” means transporting persons or property for hire by aircraft in interstate, intrastate or international transportation. If the taxpayer files a combined or consolidated return, the combined group or the Arizona affiliated group must use this method of apportionment if 50 percent or more of the taxpayer’s gross income is derived from air commerce. The taxpayer will apportion its business income by means of a single apportionment ratio computed under this method for all group members.

Schedule C - Apportionment Formula

(Non-Air Carrier Multistate Corporations Only)

ARS §§ 43-1131 through 43-1150 govern the apportionment of income. A corporation that engages in activities both within and without Arizona must apportion its business income based on property, payroll, and sales in Arizona as compared with everywhere. "Everywhere" means the property, payroll, and sales factors related to the whole combined or consolidated business.

For tax years beginning from and after December 31, 2006, non-air carrier multistate corporations have the opportunity to choose one of two apportionment formulae for calculating the apportionment ratio. Non-air carrier multistate corporations may select the enhanced sales factor formula in exchange for participating in an economic impact analysis conducted by the Joint Legislative Budget Committee. The department is required to provide the identity of corporations that use the enhanced sales factor formula to the Joint Legislative Budget Committee. The standard sales factor formula must be used by non-air carrier multistate corporations not selecting to use the enhanced sales factor formula.

The numerator of the fraction of the standard sales factor formula is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four. For tax years beginning from and after December 31, 2007 through December 31, 2008, the numerator of the fraction of the enhanced sales factor formula is 1.5 times the property factor plus 1.5 times the payroll factor plus 7 times the sales factor. The denominator of the fraction is 10.

A combined return excludes the factors of a unitary foreign corporation unless the foreign corporation is itself subject to the Arizona corporate income tax. A consolidated return includes the factors of a foreign corporation that is a member of the affiliated group. Both combined and consolidated returns exclude the factors of an insurance company exempt under ARS § 43-1201.

Taxpayers apportioning income shall complete lines 6 through 12 on page 1.

Instructions for the standard sales factor formula begin below. Instructions for the enhanced sales factor formula begin on the next page.

Standard Sales Factor Formula

Check the box for information question D on page 1 of the return to indicate that the standard double weighting of the sales factor will be used to calculate the apportionment ratio on the corporation's return. Use the numbers located on the left-hand side of Schedule C, column A, to weight the property, payroll, and sales factors.

Line C1 - Property Factor

Refer to AAC R15-2D-601 through R15-2D-607 and R15-2D-902. The value of tangible personal property and real property owned by the taxpayer is its original cost. The taxpayer normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period. Refer to Arizona Corporate Tax Ruling CTR 01-2 regarding the treatment of computer software in the property factor (whether to include it and attribution to particular state(s) in the numerator).

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

Report real property situated and tangible personal property permanently located in Arizona as property within Arizona. Allocate the value of mobile property to Arizona based on the total time that the property was within Arizona.

Compute the property factor by carrying the total owned and rented property numbers on line C1(c), columns A and B, to line C1(e), columns A and B. Next, on line C1(e), divide column A by column B and put the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The property factor on line C1(e), column C, will never exceed 100 percent.

Line C2 - Payroll Factor

Refer to AAC R15-2D-701 through R15-2D-705. Report salaries, wages, or other compensation of officers, employees, etc., as within Arizona 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 business carried on outside the state or in interstate or foreign commerce.

Allocate the compensation of officers and employees who perform services partly within and partly without Arizona to this state when:

- The services performed outside of Arizona are incidental to the employee's service within Arizona; or
- The employee's base of operation is in Arizona; or
- The employee has no base of operation in any state but the direction or control of the employee is from Arizona; or
- The employee has no base of operation in any state, and there is no direction or control from a state in which the employee performs some part of his services, but the employee's residence is in Arizona.

Compute the payroll factor by carrying total wages, line C2(a), columns A and B, to line C2(c), columns A and B. Next, on line C2(c), divide column A by column B and put the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The payroll factor on line C2(c), column C, will never exceed 100 percent.

Line C3 - Sales Factor

Refer to AAC R15-2D-801 through R15-2D-807 and R15-2D-903. "Sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income. Determine sales within Arizona on a destination sales basis.

Refer to Arizona Corporate Tax Ruling CTR 07-1 regarding the treatment of income from the investment and reinvestment of short-term securities in the sales factor. Refer to Arizona Corporate Tax Ruling CTR 02-2 regarding the apportionment ratio treatment of a gain on an installment sale apportioned to Arizona.

Compute the sales factor numerator by multiplying the total amount of Arizona sales (line C3(c), column A) by two. Do not multiply the sales factor denominator by two. Next, on line C3(e), divide column A by column B and put the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The sales factor on line C3(e), column C, may exceed 100 percent. However, the average apportionment ratio (line C5, column C) will never exceed 100 percent.

Line C5 - Average Ratio

Divide the total ratio, line C4, column C, by four. Express the ratio as a decimal carried out to six places. Enter the average ratio here and on page 1, line 9.

NOTE: *The taxpayer must exclude a factor if both the numerator and the denominator of a factor are zero. Do not exclude a factor if the numerator of the factor is zero and the denominator of a factor is greater than zero. If the property or payroll factor is excluded, determine the average ratio (line C5, column C) by dividing the total ratio by three. If the sales factor is excluded, determine the average ratio by dividing the total ratio by two.*

Enhanced Sales Factor Formula

Check the box for information question D on page 1 of the return to indicate that the enhanced sales factor formula will be used to calculate the apportionment ratio on the corporation's return. Use the numbers located on the right-hand side of column A to weight the property, payroll, and sales factors at 1.5, 1.5, and 7 times, respectively.

Line C1 - Property Factor

Refer to AAC R15-2D-601 through R15-2D-607 and R15-2D-902. The value of tangible personal property and real property owned by the taxpayer is its original cost. The taxpayer normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period. Refer to Arizona Corporate Tax Ruling CTR 01-2 regarding the treatment of computer software in the property factor (whether to include it and attribution to particular state(s) in the numerator).

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

Report real property situated and tangible personal property permanently located in Arizona as property within Arizona. Allocate the value of mobile property to Arizona based on the total time that the property was within Arizona.

Compute the property factor numerator by multiplying the total amount of Arizona property (line C1(c), column A) by 1.5. Do not multiply the property factor denominator by 1.5. Next, for line C1(e), divide column A by column B and put the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The property factor on line C1(e), column C, may exceed 100 percent.

Line C2 - Payroll Factor

Refer to AAC R15-2D-701 through R15-2D-705. Report salaries, wages, or other compensation of officers, employees, etc., as within Arizona 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 business carried on outside the state or in interstate or foreign commerce.

Allocate the compensation of officers and employees who perform services partly within and partly without Arizona to this state when:

The services performed outside of Arizona are incidental to the employee's service within Arizona; or

- The employee's base of operation is in Arizona; or
- The employee has no base of operation in any state but the direction or control of the employee is from Arizona; or
- The employee has no base of operation in any state, and there is no direction or control from a state in which the employee performs some part of his services, but the employee's residence is in Arizona.

Compute the payroll factor numerator by multiplying the total amount of Arizona payroll (line C2(a), column A) by 1.5. Do not multiply the payroll factor denominator by 1.5. Next, for line C2(c), divide column A by column B and put the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The payroll factor on line C2(c), column C, may exceed 100 percent.

Line C3 - Sales Factor

Refer to AAC R15-2D-801 through R15-2D-807 and R15-2D-903. "Sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income. Determine sales within Arizona on a destination sales basis.

Refer to Arizona Corporate Tax Ruling CTR 07-1 regarding the treatment of income from the investment and reinvestment of short-term securities in the sales factor. Refer to Arizona Corporate Tax Ruling CTR 02-2 regarding the apportionment ratio treatment of a gain on an installment sale apportioned to Arizona.

Compute the sales factor numerator by multiplying the total amount of Arizona sales (line C3(c), column A) by 7. Do not multiply the sales factor denominator by 7. Next, for line C3(e), divide column A by column B and put the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The sales factor on line C3(e), column C, may exceed 100 percent. However, the average apportionment ratio (line C5, column C) will never exceed 100 percent.

Line C5 - Average Ratio

Divide the total ratio, line C4, column C by 10. Express the ratio as a decimal carried out to six places. Enter the average ratio here and on page 1, line 9.

NOTE: *The taxpayer must exclude a factor if both the numerator and the denominator of a factor are zero. Do not exclude a factor if the numerator of the factor is zero and the denominator of a factor is greater than zero. If the property or payroll factor is excluded, determine the average ratio (line C5, column C) by dividing the total ratio by 8.5. If the sales factor is excluded, determine the average ratio by dividing the total ratio by 3.*

Schedule D - Nonapportionable Income and Expenses
(Multistate Corporations Only)

Nonbusiness income is nonapportionable and specifically allocable to a particular state. Use Schedule D to compute the amount of nonapportionable income (and expenses) to subtract on page 1, line 7.

"Business income" under the transactional and functional tests means income arising from transactions and activity in the regular course of the taxpayer's trade or business, and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. Refer to ARS § 43-1131(1). "Nonbusiness income" means all income other than business income. Refer to ARS § 43-1131(4).

On lines D1 through D5, enter all income (or loss) which is nonapportionable or specifically allocable to Arizona. Refer to ARS §§ 43-1134 through 43-1138 and AAC R15-2D-501 through R15-2D-508 for the methods of allocating certain

types of nonbusiness income. Refer to the specific line instructions listed below.

Line D1 - Nonbusiness Dividends and Interest Income

- Enter all nonbusiness dividend income not deducted in Schedule B.
- Enter nonbusiness interest income.

Line D2 - Nonbusiness Net Royalties

Enter any net royalties from nonbusiness properties. Attach a separate schedule to the return showing each royalty.

Line D3 - Nonbusiness Net Rental Income

Enter any net rental income from nonbusiness properties. Attach a separate schedule to the return showing each rental property.

Line D4 - Gain or (Loss) from Sale(s) of Nonbusiness Assets

Enter any gain or loss recognized on the disposal of nonbusiness property. Identify each item of nonbusiness property and the gain or loss recognized on such property on a separate schedule. Do not include any gain or loss recognized on the disposal of property used in connection with the unitary business or the business activities of the Arizona affiliated group. Such income is business income and is subject to apportionment.

Line D5 - Other Income

Enter any other nonapportionable or wholly allocable items.

Attach a schedule detailing the items. Enter the amount of any nonapportionable income (or loss) from the schedule attached to the Form 165, Schedule K-1(NR) for Part II, line 15, column (a), from a multistate partnership.

Treatment of a nonbusiness partnership on line D5

Wholly Arizona nonbusiness partnership - enter the total amount of income (or loss) from the partnership. This is the amount included in the corporation's Arizona gross income plus the amount included in Schedule A or B. This amount is nonapportionable income and it is specifically allocable to Arizona.

Multistate nonbusiness partnership - enter only the amount of income (or loss) from the partnership included in the corporation's Arizona gross income as nonapportionable income. Line D5 of Schedule D already includes the nonapportionable income or loss from the partnership on the Form 165, Schedule K-1(NR).

Line D7 - Foreign Income Expenses

Enter any expenses attributable to foreign income producing activities. Refer to ARS § 43-1132. Attach a schedule showing the expenses included on this line.

Line D8 - Total Nonapportionable Income and Expense

This is the total amount of nonapportionable income (loss) on lines D1 through D5 net of expenses on line D7. Enter this amount here and on page 1, line 7.

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

Schedule E - Other Income Allocated to Arizona
(Multistate Corporations Only)

On lines E1 through E6, enter all income (or loss) which is allocable to Arizona. ARS §§ 43-1134 through 43-1138 specify the methods for allocating certain types of income to Arizona. The specific line instructions below summarize the provisions of these statutes.

Line E1 - Gain or (Loss) from Sale(s) of Arizona Nonbusiness Assets

Capital gains and losses from sales of nonbusiness real property located in Arizona are allocable to Arizona. Gains or losses from sales of nonbusiness tangible personal property are allocable to Arizona if the property had a situs in Arizona at the time of sale. Such nonbusiness gains or losses are also allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not taxable in the state in which the property had a situs.

Line E2 - Net Rental Income of Arizona Nonbusiness Assets

Net rents from nonbusiness real property located in Arizona are allocable to Arizona. Net rents from nonbusiness tangible personal property are allocable to Arizona to the extent that the taxpayer uses the property in Arizona. Such nonbusiness net rents are entirely allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not organized under the laws of or taxable in the state in which the taxpayer uses the property. The extent of use for net rents is determined by Arizona law. Refer to ARS § 43-1135(C).

Line E3 - Net Royalties from Arizona Nonbusiness Assets

Net royalties from nonbusiness real property located in Arizona are allocable to Arizona.

Net royalties from nonbusiness tangible personal property are allocable to Arizona to the extent that the taxpayer uses the property in Arizona. Such nonbusiness net royalties are entirely allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not organized under the laws of or taxable in the state in which the taxpayer uses the property. The extent of use for net royalties is determined by Arizona law (refer to ARS § 43-1135(C)).

Nonbusiness patent and copyright royalties are allocable to Arizona to the extent that:

- The payor uses the patent or copyright in Arizona.
- The payor uses the patent or copyright in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in Arizona. The extent of use for patents and copyrights is determined by Arizona law (refer to ARS § 43-1138(B) and ARS § 43-1138(C)).

Line E4 - Net Income from Arizona Nonbusiness Intangibles

Capital gains and losses from sales of nonbusiness intangible personal property are allocable to Arizona if the taxpayer's commercial domicile is in Arizona, unless the gains (losses) constitute business income.

Line E5 - Federal Income Tax Refund

This applies to refunds of federal income tax from taxable years beginning before January 1, 1990, in which the federal income tax subtraction was claimed in the computation of Arizona taxable income. Enter any prior taxable year federal income tax refund that resulted in a tax benefit for Arizona income tax purposes.

Line E6 - Other Income or (Loss)

Enter any other income or (loss) directly allocable to Arizona. Attach a schedule detailing the items. Enter any income (or loss) which is specifically allocable to Arizona from the schedule (for Part II, line 15, column (c)) attached to the Form 165, Schedule K-1(NR) from a multistate partnership.

Treatment of a nonbusiness partnership on line E6

Wholly Arizona nonbusiness partnership - Enter the total amount of income (or loss) from the partnership (the amount from Schedule D, line D5) as income specifically allocable to Arizona.

Multistate nonbusiness partnership - Enter only the amount of income (or loss) from the partnership included in the corporation's Arizona gross income as income specifically allocable to Arizona. Schedule E, line E6, already includes the income or loss from the partnership on the Form 165, Schedule K-1(NR) which is specifically allocable to Arizona.

ADMINISTRATIVE RELIEF REQUESTS

ARS § 43-1148 provides administrative relief if the allocation and apportionment provisions of UDITPA do not fairly represent the extent of the taxpayer's business activity in this state. **The taxpayer may petition for or the department may require,** in respect to all or any part of the taxpayer's business activity, if reasonable:

- Separate accounting, except with respect to an Arizona affiliated group, as defined in ARS § 43-947.
- The exclusion of any one or more of the factors.
- The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state.
- The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income, other than disallowance of a properly elected consolidated return.

This section permits a departure from the allocation and apportionment provisions only in limited cases. ARS § 43-1148 may be invoked only if unusual fact situations produce incongruous results under the apportionment and allocation provisions. Taxpayers seeking such relief should submit a letter to the Corporate Income Tax Audit Section 60 days prior to the filing of the return setting forth the relief that is requested and the justification for the relief.

The department normally makes such determinations only upon audit of the taxpayer. Such a detailed examination of the specific facts and circumstances reveals whether such unusual fact situations and incongruous results exist.

Schedule F - Schedule of Tax Payments

Use this schedule to list any corporate estimated tax payments or extension payments made which the taxpayer is applying to this return. Attach additional sheets if necessary.

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

NOTE: ***The total estimated payments and extension payments reported on this schedule must equal the amounts reported on page 1, lines 25 and 26.***

Schedule G - Other Information

All taxpayers must complete lines G1 through G8. Multistate taxpayers must also complete lines G9 and G10. Consolidated return filers must also complete line G11. If the answers are lengthy, continue the answers on a separate sheet of paper.

Question G3: List the name, title and telephone number of the individual who Department of Revenue employees may contact to schedule an audit of this return. Confidential information may be disclosed to a principal officer, any person designated by a principal officer, any person designated in a resolution by the corporate board of directors or other similar governing body, or to an individual designated as an authorized representative in a valid power of attorney. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary. Refer to Arizona General Tax Ruling GTR 02-1 for additional information on the definition of a controlled subsidiary. IF THIS INDIVIDUAL IS NOT A PRINCIPAL OFFICER, OR IS NOT DESIGNATED AS AN AUTHORIZED REPRESENTATIVE IN A VALID POWER OF ATTORNEY, THE TAXPAYER UNDERSTANDS AND AGREES THAT CONFIDENTIAL INFORMATION MAY BE DISCLOSED TO THIS INDIVIDUAL.

Certification

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

Paid preparers: Sign and date the return. Complete the firm name and address lines (the 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.