

For information or help, call one of the numbers listed:

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

Tax forms, instructions, and other tax information

If you need tax forms, instructions, and other tax information, go to the department's website at www.azdor.gov.

Income Tax Procedures and Rulings

These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our website and select *Reports & Legal Research*. On the next page, click on *Legal Research*. Select a Document Type and a Category from the drop down menus. If you know the document ID number you may enter it in the Search field and then press enter.

Publications

To view or print the department's publications, go to our website, scroll down, click on *Reports & Legal Research*, and click on *Publications* in the right hand column.

General Instructions

This credit provides a nonrefundable corporate income tax credit equal to 30% 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 Arizona transaction privilege tax (TPT) was passed through to the taxpayer by the seller as an added charge or that the seller collected the Arizona use tax from the taxpayer or that the taxpayer paid the Arizona use tax to the department.

The tax credit is in lieu of a deduction for the taxes paid for which the credit is claimed. An addition to Arizona gross income is required for the amount of Arizona TPT and Arizona use taxes included in the computation of federal taxable income for which the Arizona tax credit is claimed.

For example, a taxpayer that paid \$50,000 in TPT for coal consumed in the generation of electrical power in Arizona would receive a credit of \$15,000 ($\$50,000 \times 30\% = \$15,000$). The addition to Arizona gross income would be \$50,000.

The tax credit is available only to corporate taxpayers. A partnership may pass this credit through only to its corporate partners. An S Corporation may claim this credit, or the S Corporation may elect to pass this credit through only to its exempt organization shareholders. (If the S Corporation elects to pass this credit through to its exempt organization shareholders, complete Form 318-P for each exempt organization shareholder.)

Individual taxpayers are not eligible to claim this credit.

Co-owners of a business, including corporate partners of a partnership may each claim only the *pro rata* share of the credit allowed based on the ownership interest. The *pro rata* share that would be distributed to non-eligible partners or shareholders is lost. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

If the allowable tax credit exceeds the taxes otherwise due, or if there are no taxes due, the amount of the credit not used to offset taxes may be carried forward for not more than five consecutive taxable years as a credit against subsequent years' income tax liability.

NOTE – To claim this credit:

- **C corporations, S Corporations claiming this credit at the corporate level, and exempt organizations with UBTI** - Complete this credit form and Arizona Form 300, Nonrefundable Corporate Tax Credits and Recapture. Include both completed forms with your tax return.
- **Partnerships** - Complete this credit form. Also, complete Form 318-P for each corporate partner of the partnership. Provide each corporate partner a copy of its completed Form 318-P. Include Form 318 and one copy of each completed Form 318-P with your tax return.
- **Individual taxpayers are not eligible to claim this credit.**

Specific Instructions

Complete the name and employer identification number (EIN) section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, an exempt organization with UBTI, an S Corporation or a partnership is the taxpayer's EIN. Taxpayers that fail to include their TIN may be subject to a penalty.

Part 1 - Current Taxable Year's Credit Calculation

Form 318-1

Complete Form 318-1 before completing Part 1, line 1.

FORM 318-1

Use Form 318-1 to list qualifying coal purchases for the taxable year in two situations:

1. Purchases from vendors that passed the Arizona TPT through to the taxpayer as an added charge or purchases from vendors that collected the Arizona use tax from the taxpayer; and
2. Purchases from vendors for which the taxpayer paid the Arizona use tax to the department.

Situation 1: List the qualifying coal purchases *by vendor* for situation 1 above. If the taxpayer has purchased coal from more than two vendors, additional Form(s) 318-1 must be completed to list the qualifying coal purchases for the taxable year. Complete section A to list the vendor name and the vendor's Arizona TPT or use tax number. Do not complete section B.

NOTE: *The Arizona TPT must be shown as an added charge on the vendor's invoice. If the vendor collects the Arizona use tax from the taxpayer, the tax must be shown as a separate charge on the vendor's invoice. If the amount is not shown as a separate charge, the taxpayer cannot claim that amount.*

Situation 2: List the qualifying coal purchases *from all vendors* for situation 2 above. Complete section B to list the taxpayer's Arizona TPT or use tax number. If the taxpayer paid use tax to the department for purchases from more than two vendors, complete additional Form(s) 318-1. Do not complete section A.

NOTE: *If the taxpayer pays the Arizona use tax directly to the department, the taxpayer must document the amount of tax paid for each invoice.*

Column (a): On lines 1 through 12, enter the applicable month of the taxable year.

Column (b): On lines 1 through 12, check the box to indicate the type of tax, "TPT" or "Use" paid.

Column (c): On lines 1 through 12, enter the total amount of qualifying coal purchases for that month. Do not include the amount of tax paid in the total.

Column (d): On lines 1 through 12, enter the total amount of tax paid for that month.

Column (e): On lines 1 through 12, enter the total of columns (c) and (d).

Proceed to Form 318, Part 1, line 1.

FORM 318

Part 1 – Current Taxable Year's Credit Calculation

Line 1

Enter the total from all completed Form(s) 318-1, line 13, column (d).

Line 2

Multiply line 1 by 30%. Enter the result. This is the current taxable year's credit from taxpayer operations.

Line 3

Enter the credit passed through from partnerships on Form 318-P, line 3c.

Line 4

Add lines 2 and 3. Enter the total. This is the current taxable year's Credit for Taxes Paid for Coal Consumed in Generating Electrical Power.

Part 2 - Corporate Partner's Share of Credit

A partnership claiming this credit *must* pass it through to its corporate partners. Complete a Form 318-P for each corporate partner.

- Provide a copy of the completed Form 318-P to each corporate partner.
- Include a copy of each completed Form 318-P with your tax return.
- Keep a copy of each completed Form 318-P for your records.
- Do not complete the remainder of this form.

Each corporate partner is entitled to only a *pro rata* share of the credit based on the corporate partner's ownership interest in the partnership. The total of the credit allowed to all corporate partners may not exceed the amount that would have been allowed for a sole owner.

Part 3 - Available Credit Carryover

Complete Part 3 only if the allowable credit for prior taxable years exceeded the Arizona income tax liability for those taxable years. Calculate the total available carryover of the credit on Part 3, lines 5 through 9.

Lines 5 through 9

Enter the applicable taxable year(s) in column (a) on lines 5 through 9. Enter the amount of the original tax credit for each taxable year in column (b). Enter the amount of the credit for each taxable year that has been taken in previous taxable years in column (c). Subtract column (c) from column (b) and enter the difference in column (d).

Line 10

Add the amounts entered on lines 5 through 9, column (d). Enter the total. This is the total available credit carryover available for the current taxable year.

Part 4 - Total Available Credit

Line 11

C corporations, S Corporations electing to claim the credit at the corporate level, and exempt organizations with UBTI - enter the current taxable year's credit from Part 1, line 4.

Partnerships – enter "0".

Also, enter this amount on Form 300, Part 1, line 3, column (a).

Line 12

C corporations, S Corporations electing to claim the credit at the corporate level, and exempt organizations with UBTI - enter the amount from Part 3, line 10, column (d). This is the total available credit carryover.

Also, enter this amount on Form 300, Part 1, line 3, column (b).

Line 13

C corporations, S Corporations electing to claim the credit at the corporate level, and exempt organizations with UBTI - add line 11 and line 12. Enter the total. This is the total available credit that may be applied to the current taxable year's tax liability.

Also, enter this amount on Form 300, Part 1, line 3 column (c).

**Form 318-P,
Distribution to Corporate Partners of a
Partnership**

Enter the taxable year for which this credit is being passed through to your corporate partners.

Complete Form 318-P for each corporate partner of the partnership.

The partnership must furnish each corporate partner with their completed copy of Form 318-P, including additional schedules as needed.

Distribution of the Credit

To distribute the credit to the corporate partners of the partnership (complete lines 1 through 3):

Line 1

- a) Enter the partnership name.
- b) Enter the partnership's EIN.

Line 2

- a) Enter the corporate partner's name.
- b) Enter the corporate partner's EIN.

Line 3

- a) Enter the amount of this credit from Form 318, Part 1, line 4 that this partnership claimed.
- b) Enter the corporate partner's ownership percentage.
- c) Multiply line 3(a) by line 3(b) and enter the result.

This is the corporate partner's portion of this credit.