

**2015 Arizona S Corporation Income Tax Return**

Obtain additional information or assistance by calling one of the numbers listed below:

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

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's website at [www.azdor.gov](http://www.azdor.gov).

**General Instructions**

**Who Must Use Form 120S**

Corporations taxed as S corporations under Subchapter S of the Internal Revenue Code (IRC) must file Form 120S. Qualified subchapter S subsidiaries are not treated as entities separate from the parent corporation and would be included on a single Form 120S filed by the parent S 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 an S corporation must file Form 120S. 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.

**Taxable Year Covered by Return**

The S corporation must have the same taxable year for Arizona purposes as it has for federal purposes. Indicate whether the taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the taxable year on the top of page 1 of the return.

**Records**

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

**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.

**Extension of Time to File a Return**

The S corporation can apply for an Arizona extension by filing a completed Form 120EXT by the original due date of the return. The S corporation can use a valid federal extension rather than applying for an Arizona extension. Form 120EXT must be used to transmit extension payments via check or money order,

whether the S corporation 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. The S corporation must pay at least 90% of the tax liability (including the \$50 minimum tax) by the original due date of the return.

The department grants an Arizona extension for a period of six months. Arizona law provides that six months is the maximum extension of time to file that the department may grant. However, Arizona law provides that the department may accept the federal extension for the same period of time as covered by the federal extension.

Either the Arizona or federal extension provide an extension of time to file, but do not provide an extension of time to pay.

**Filing Original Returns**

Returns are due by the 15th day of the third 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 (82F) on page 1 of the return. Mail the return to:

Arizona Department of Revenue  
PO Box 29079  
Phoenix, AZ 85038-9079

One or more of the S corporation's officers (president, treasurer, or any other principal officer) must sign the return.

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 include all appropriate supplementary schedules.

**The department requests that taxpayers include a copy of the completed federal Form 1120-S with the Arizona return.** Arizona Revised Statutes (A.R.S.) § 42-1112 prescribes the schedules required to be included.

**Timely Filing of Return(s)**

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 (IRS) list of designated private delivery services. Contact the private delivery service for information regarding how to obtain written proof of mailing.

**Filing Amended Returns**

Any taxpayer who files an amended return with the IRS must file an Arizona amended return within 90 days of its final determination by the IRS.

The taxpayer must report changes or corrections of the taxpayer's income by the IRS or as the result of renegotiation of a contract or subcontract with the United States to the department. The

taxpayer must, within 90 days after the final determination of the change or correction, either:

- File a copy of the final determination with the department, concede the accuracy of the determination or state any errors, and request the department to recompute the tax owed to Arizona; or
- File an amended return as required by the department.

The taxpayer must include additional schedules that provide sufficient information for the department to recompute the taxpayer's net income subject to Arizona corporate income tax based on the Revenue Agent Report changes. The department may require the taxpayer to file an amended return if the department does not have the necessary information to recompute the tax owed to Arizona.

**NOTE:** *File amended returns for prior taxable years on the respective Form 120S for those taxable years. Use the 2015 Form 120S to amend only the taxable year 2015.*

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

Arizona Department of Revenue  
PO Box 29079  
Phoenix, AZ 85038-9079

## 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.

## Penalties and Interest

**A. Late Filing Penalty.** A return filed after the original due date is subject to the late filing penalty unless the S corporation 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 4.5% (.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 S corporation filed the return. The maximum penalty is 25% of the tax found to be remaining due.

**B. Extension Underpayment Penalty.** The department imposes the extension underpayment penalty on any late or underpaid extension payments. The extension underpayment penalty is 0.5% (.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 S corporation paid the tax. The maximum penalty is 25% of the unpaid tax. Taxpayers subject to the extension underpayment penalty are not subject to the late payment penalty prescribed under A.R.S. § 42-1125(D).

**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 0.5% (.005) of the unpaid tax for each month or fraction of a month that the tax remains unpaid, not to exceed 10% of the unpaid tax.

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

Refer to Arizona Corporate Income Tax Ruling CTR 09-1 regarding the application of penalties to returns filed under extension.

**D. Information Return Penalty.** This form is an information return when no tax liability is due. The penalty for failing to file, filing late (including extensions) or filing an incomplete information return is \$100 for each month, or fraction of a month, that the failure continues, up to a maximum penalty of \$500.

**E. Interest.** The department assesses interest on any portion of the tax, whether determined by the department or the taxpayer, not paid by the date prescribed for its payment. The department applies interest, compounded annually, in the same manner and at the same time as prescribed by 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, the department adds any interest outstanding as of that date to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

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

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.

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% of the current taxable year's tax liability or 100% of the prior year's tax liability. "Tax liability" here means the liability reduced by any refundable tax credits and 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.

## Payment of Tax

The entire amount of any tax for which the S corporation itself is liable 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](http://www.AZTaxes.gov) to register and make payments via the internet.

**NOTE:** A nonprofit medical marijuana dispensary (NMMD) under Arizona Revised Statutes Title 36, Chapter 28.1, is exempt from Arizona income tax in accordance with A.R.S. § 43-1201(B). If the NMMD makes an election pursuant to subtitle A, chapter 1, subchapter S of the Internal Revenue Code, it must file Arizona Form 120S to meet the filing requirements of A.R.S. § 43-1126. However, no Arizona income tax is due from the S corporation, even if the S corporation is subject to tax at the federal level. Shareholders are subject to Arizona income tax on the flow through from the S corporation.

### Estimated Tax Payments

S corporations that expect an Arizona corporate 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*.

The Arizona estimated tax payment calculation should include any tax from the recapture of tax credits. This requirement applies whether or not the S corporation itself is subject to tax at the corporate level.

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

The Arizona required annual payment of corporate estimated tax for an S corporation is the **smaller** of:

- (a) Ninety percent of the taxpayer's Arizona tax liability for the current taxable year; OR
- (b) An amount equal to the sum of:
  - (i) Ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in gains income or certain capital gains income; **plus**
  - (ii) One hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

**NOTE:** In order for the taxpayer to base its estimated tax payments on the tax liability described in (b) above, the taxpayer's return filed for the prior taxable year must have been for a period of twelve months.

Taxpayers required to make Arizona corporate estimated tax payments should use the 2016 Form 120W, *Estimated Tax Worksheet for Corporations*, to compute the required installments for next year.

### 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. Taxpayers whose Arizona corporate income tax liability for the preceding taxable year was less than \$20,000 may elect voluntary participation in the electronic funds transfer program. If a taxpayer makes its estimated tax

payments by electronic funds transfer (EFT), the taxpayer should not submit Form 120ES to the department. Taxpayers who make estimated tax payments via electronic funds transfer must complete the department's electronic funds transfer authorization agreement at least 30 days prior to initiation of the first applicable transaction.

Refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.

**NOTE:** Taxpayers required to make corporate estimated payments via EFT that fail to do so are subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).

### ESTIMATED TAX PAYMENTS VIA THE INTERNET

Taxpayers must be licensed by the department before they can register to pay taxes online. Visit [www.AZTax.gov](http://www.AZTax.gov) to register and make estimated tax payments over the internet. If a taxpayer makes its estimated tax payments over 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. Visit [www.AZTax.gov](http://www.AZTax.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. Visit [www.AZTax.gov](http://www.AZTax.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.

### Disaster Relief for Out-of-State Businesses

If an out-of-state business is in Arizona on a temporary basis solely for the purpose of performing disaster recovery from a declared disaster during a disaster period, it may not be required to file, remit, withhold or pay state or local (income) tax. See *Publication 720, Disaster Recovery Tax Relief* to determine if the taxpayer qualifies for this relief.)

## Arizona Apportionment Methods

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

Air carriers are required to use revenue miles. All other taxpayers may select either the standard or the enhanced apportionment method.

### 1. Air Carrier Apportionment

An air carrier is required to use revenue miles to calculate its apportionment ratio. Check the box on line A on page 1, fill out Schedule ACA, and include it with your return. Do not complete Schedule A.

### 2. Standard Apportionment Formula

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 on line A on page 1 and complete Schedule A using the number on the left-hand side of line A3e, column A, to double-weight the sales factor. Divide the total ratio by four.

### 3. Enhanced Apportionment Formula

All non-air carrier taxpayers may use Arizona's enhanced apportionment formula, which is determined by adding 5.0 times the property factor plus 5.0 times the payroll factor plus 90 times the sales factor and dividing the total by 100. Check the box on line A on page 1 and complete Schedule A using the numbers on the right-hand side of line A1d, A2b and A3e, column A, to weight each of the three apportionment factors respectively.

#### MULTISTATE SERVICE PROVIDER

For taxable years beginning from and after December 31, 2013, taxpayers that qualify, may elect to treat sales from service as being sourced to Arizona based on a combination of income-producing activity sales and market sales. (See: Part A of Arizona Schedule MSP to determine if the taxpayer qualifies.) Multistate taxpayers that qualify to be a Multistate Service Provider (MSP) may use the MSP to source their Arizona sales under either the "Standard" or the "Enhanced" apportionment formulas. Taxpayers that qualify and who want to make the election, should check the applicable boxes on line B on page 1 of the return and include Schedule MSP with the return. See the specific instructions for the apportionment formula on page 9 of these instructions. Also refer to A.R.S. § 43-1147 and Schedule MSP instructions for more information.

## Specific Instructions

Type or print the required information in the name, address, and information boxes on the top of page 1.

Indicate whether the taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the taxable year on the top of the return. Indicate whether this return is an original or an amended return.

Enter the S corporation's employer identification number (EIN). Subsidiaries would enter the parent S corporation's TIN.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). Taxpayers and 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 or the employer identification number of their business.

If the taxpayer has a foreign address, enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code. **Do not abbreviate the country's name.**

**Line A:** (Multistate S corporations only) check one box to indicate the apportionment formula used by the taxpayer. Air carriers must check the air carrier box and complete Schedule ACA. All non-air carrier taxpayers may choose between the standard apportionment formula or the enhanced apportionment formula, and complete Schedule A. See pages 9 through 12 of these instructions for more information.

**Line B:** For taxable years beginning from and after December 31, 2013, a multistate service provider may elect to treat sales from services as being in Arizona based on a combination of income producing activity sales and market sales prescribed under A.R.S. § 43-1147(B). Taxpayers who want to make the election should check the applicable boxes on line B and include the completed Schedule MSP with the tax return. See the specific instructions for the apportionment formula on page 9 of these instructions. Also refer to A.R.S. § 43-1147 and Schedule MSP instructions for more information.

**Line C:** If this is the S corporation's final Arizona tax return filed under this Employer Identification Number (EIN), check the box labeled, "Yes". If not, check the box labeled, "No".

**Line D:** If the S corporation conducts within and without Arizona, check the box labeled "Yes". If not, check the box labeled, "No".

**Line E:** If a composite return will be filed on Form 140NR, check the box labeled, "Yes". If not, check the box labeled, "No".

**Line F:** Enter the total number of nonresident individual shareholders of the S corporation on this line. If none, enter "0".

**Line G:** Enter the total number of resident and part-year resident individual shareholders on this line. If none, enter "0".

**Line H:** Enter the total number of entity shareholders (exempt organizations, trusts, estates). Do not include individual shareholders.

**NOTE:** The total of the amounts entered for information questions F, G, and H should equal the total number of individual shareholders.

Use Schedule K-1 for resident or part-year resident individual shareholders, resident estate shareholders, and resident trust shareholders. Use Schedule K-1(NR) for all other shareholders.

## Nonprofit Medical Marijuana Dispensary

Only a nonprofit medical marijuana dispensary (NMMD) under Arizona Revised Statutes Title 36, Chapter 28.1, should fill out line I. All other taxpayers should go to line 1.

**Line I:** Check the box to indicate that the S corporation is a nonprofit medical marijuana dispensary and enter the registry identification number issued by the Arizona Department of Health Services. **Be sure to include a copy of the dispensary's federal return.**

### Line 1 - Total Distributive Income (Loss)

Enter the net total of the pro rata share items of nonseparately computed income (loss) and separately stated income (loss) and deductions (from federal Form 1120-S, Schedule K).

**NOTE for NMMDs:** A nonprofit medical marijuana dispensary should skip lines 2 through 25. Only fill out line 26 (Information Return Penalty), if applicable. Complete Schedule A (if a multistate NMMD) and Schedule B. Also include Schedule C, as directed on page 3 of Form 120S.

## Income Subject to Federal and Arizona Corporate Income Taxes

### Lines 2 through 4 - Excess Net Passive Income and Capital Gains/Built-in Gains

Was the S corporation subject to the FEDERAL excess net passive income tax, capital gains tax, or built-in gains tax on its federal Form 1120-S? If so, the S corporation is subject to Arizona corporate income tax on this income.

Enter the amount of income which was subject to the federal excess net passive or capital/built-in gains income tax from the federal worksheet included in the instructions for Form 1120-S. (Refer to the instructions for the computation of these taxes in the federal Form 1120-S.)

### Lines 5 through 10 - Apportionment Computation (Multistate S Corporations Only)

An S corporation that has income from business activity taxable in more than one state is a multistate S corporation. An S corporation that has income from business activity that is taxable entirely within Arizona is a wholly Arizona S corporation. Wholly Arizona S corporations should skip lines 5 through 10 and go directly to line 11.

Any S corporation that has income from business activity that is taxable both within and without Arizona must allocate and apportion its net income according to the Uniform Division of Income for Tax Purposes Act (UDITPA), A.R.S. §§ 43-1131 through 43-1150. The instructions for Schedules ACA and A have more detailed information regarding apportionment of income. Carry out the decimal on line 7 to six places.

### Line 5 - Nonapportionable or Allocable Income (Multistate S Corporations Only)

Nonbusiness income is nonapportionable and specifically allocable to a particular state. "Business income" 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. (A.R.S. § 43-1131(1)).

"Nonbusiness income" means all income other than business income. (A.R.S. § 43-1131(4)). Refer to A.R.S. §§ 43-1134 through 43-1138 for the methods of allocating certain types of nonbusiness income.

Enter the total amount of all income (loss) which is nonapportionable or specifically allocable to Arizona. Include a schedule that details the amount of nonapportionable income subtracted on page 1, line 5.

### Line 7 - Arizona Apportionment Ratio (Multistate S Corporations Only)

Compute the apportionment factors according to the instructions for Schedule ACA or A. Enter on page 1, line 7, the average apportionment ratio from Schedule ACA, line 3, or from Schedule A, line A5, column C.

### Line 9 - Other Income Allocated to Arizona (Multistate S Corporations Only)

Enter the total amount of all income (loss) that is specifically allocable to Arizona. DO NOT include the amount of any nonbusiness income which is allocable to another state on this line. Include a schedule that details the amount of income that is allocable to Arizona.

## Arizona Tax Liability Computation

Is the S corporation subject to federal and Arizona corporate income tax? If so, the S corporation must complete lines 2 through 25. Is the S corporation subject to Arizona corporate income tax from the recapture of the Arizona credits for environmental technology facilities, healthy forest enterprises, renewable energy industry or qualified facilities? If so, the S corporation must complete lines 13 through 25, even if not required to complete lines 2 through 12.

### Line 12 - Arizona Tax

The S corporation is subject to the tax computed on line 12 only if it has income subject to tax at the corporate level on the federal Form 1120-S, even if line 11 is zero or a negative amount. Pursuant to A.R.S. § 43-1111, the amount of the tax is the greater of \$50 or 6.0% of the net income subject to Arizona corporate income tax (line 11).

### Line 13 - Tax From Recapture of Tax Credits

Enter the amount of tax due from the recapture of tax credits from Arizona Form 300, Part 2, line 31.

### Line 14 - Subtotal

Add lines 12 and 13. This is the amount of tax to which the total amount of tax credits claimed by the taxpayer may be used.

### Line 15 - Nonrefundable Tax Credits

Enter the allowable nonrefundable tax credit amount from Arizona Form 300, Part 2, line 56. This amount cannot be larger than the amount on line 14. Include the completed credit forms and Form 300 with the tax return.

- **Enterprise Zone Credit.** The enterprise zone credit has been repealed. The repeal did not affect carryforwards of properly established credits. Complete Form 304 to claim carryforwards established in prior years.
- **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 A.R.S. § 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. A portion of the excess credit claimed for taxable years beginning from and after December 31, 2009, may be refundable with approval from the Arizona Commerce Authority. Be sure to include only the nonrefundable portion on line 15. 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. 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.
- **Credits for Healthy Forest Enterprises.** These tax credits are for net increases in qualified employment positions in a healthy forest enterprise and net training and certifying costs. Use Form 332 to claim these tax credits.
- **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.** Motion picture production companies that produced motion pictures, commercials, music videos, or television series completely or partially in Arizona may claim a transferable income tax credit for production costs. To qualify, productions must have been preapproved by the Arizona Commerce Authority by December 31, 2010. Use Form 334 to claim this tax credit.
- **Credit for Corporate Contributions to School Tuition Organizations.** This credit is for corporations who make contributions to school tuition organizations which provide scholarships and tuition grants to children attending qualified nongovernmental schools. Use Form 335 to claim this tax credit.
- **Credit for Solar Energy Devices - Commercial and Industrial Applications.** This 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 tax credit.
- **Credit for Water Conservation System Stub Outs.** The credit for water conservation system plumbing stub outs has expired. This credit may not be claimed for taxable years ending after December 31, 2011. However, any credit carryover established in calendar year 2011 and prior will be allowed for not more than five consecutive taxable years. Use Form 337 to figure any allowable credit carryover.
- **Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students with Disabilities.** This tax credit is for corporations who make contributions to school tuition organizations that provide scholarships and tuition grants to qualifying children attending qualified nongovernmental schools. Use Form 341 to claim this tax credit.
- **Renewable Energy Production Tax Credit.** This tax credit is for taxpayers that produce electricity using qualified energy resources. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Use Form 343 to claim this tax credit.

- **Solar Liquid Fuel Credit.** This tax credit is for taxpayers that increase research activities related to solar liquid fuel. Additional credits will become available in 2016 for production and delivery system costs. Use Form 344 to claim this tax credit.
- **Credit for New Employment.** This tax credit is for taxpayers that have net increases in employment. The credit limit is administered by the Arizona Commerce Authority. Use Form 345 to claim this tax credit.
- **Additional Credit for Increased Research Activities for Basic Research Payments.** This tax credit is for taxpayers that make qualified basic research payments for research conducted in Arizona. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Use Form 346 to claim this tax credit.
- **Credit for Qualified Health Insurance Plans.** The credit for qualified health insurance plans has been repealed. All credits for qualified health insurance plans that were properly established can be carried forward for the respective three year carry forward period. Use Form 347 to claim this carry-forward tax credit.
- **Credit for Renewable Energy Investment and Production for Self-Consumption by Manufacturers and International Operations Centers.** This tax credit is for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy resources if the power will be used primarily for manufacturing of for International Operations Centers. Use Form 351 to claim this tax credit.

Complete the appropriate credit form for each tax credit. Include the completed credit form and Form 300 with the tax return.

*Amended Returns:* Include the completed credit form(s) and Arizona Form 300 with the amended Form 120S, whether or not the amount claimed on line 15 has changed.

### Line 16 - Credit Type

Indicate which nonrefundable tax credits were used on line 15 by entering the applicable form number(s) in the space provided.

Nonrefundable Income Tax Credit	Form
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
Credits for Healthy Forest Enterprises	332
Credit for Employing National Guard Members	333
Motion Picture Credits	334
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Nonrefundable Income Tax Credit	Form
Credit for Solar Energy Devices - Commercial and Industrial Applications	336
Credit for Water Conservation System Plumbing Stub Outs	337
Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students With Disabilities	341
Renewable Energy Production Tax Credit	343
Solar Liquid Fuel Credit	344
Credit for New Employment	345
Additional Credit for Increased Research Activities for Basic Research Payments	346
Credit for Qualified Health Insurance Plans	347
Credit for Renewable Energy Investment and Production for Self-Consumption by Manufacturers and International Operations Centers	351

### Line 17 - Arizona Tax Liability

Subtract line 15 from line 14. If line 15 is more than line 14, enter zero (0). Line 17 cannot be a negative amount.

### Tax Payments and Refundable Credits

#### Line 18 - Refundable Tax Credits

Check the box(es) marked 308, 342 and/or 349 to indicate which of these tax credits the taxpayer is claiming. Enter the total amount of the credits claimed on line 18.

**Credit for Increased Research Activities.** A portion of this tax credit is refundable for qualified taxpayers. The refund is limited to 75% of the excess credit, which is the current year's credit less the current year's tax liability, not to exceed the amount approved by the Arizona Commerce Authority. Include a copy of your "Certificate of Qualification" from the Arizona Commerce Authority, Form 300 and Form 308 with your return. Enter the amount from Form 308, Part 6, line 46.

**Credit for Renewable Energy Industry.** This tax credit is for expanding or locating qualified renewable energy operations in Arizona and is refundable in five equal installments. Pre-approval and post-approval are required through the Arizona Commerce Authority. Include a copy of your "Certification of Qualification" from the Arizona Commerce Authority and Form 342 with your tax return to claim this credit. Enter the amount from Form 342, Part 6, line 18.

**Credit for Qualified Facilities.** This tax credit is for expanding or locating a qualified facility in Arizona and is refundable in five equal installments. Pre-approval and post-approval are required through the Arizona Commerce Authority. Include a copy of your "Certification of Qualification" from the Arizona Commerce Authority and Form 349 with your tax return to claim this credit. Enter the amount from Form 349, Part 6, line 18.

If you are claiming more than one of the refundable tax credits, check the appropriate boxes and add the amounts from the credit forms together and enter the total on line 18, or use the worksheet below to figure the amount to enter on line 18.

Refundable Credit Worksheet	
1. Enter the refundable credit from Form 308, Part 6, line 46.	
2. Enter the apportioned credit from Form 342, Part 6, line 18.	
3. Enter the apportioned credit from Form 349, Part 6, line 18.	
4. Add the amounts on lines 1, 2, and 3. Enter the total here and on Form 120S, line 18.	

**Amended Returns:** Include the completed credit form(s) with the amended Form 120S, with Form 300, if applicable, whether or not the amount claimed on line 18 has changed.

### Line 19 - Extension Payments

**Original Returns:** Enter any payment made with the request for extension of time to file the income tax return or made online by the original due date.

**Amended Returns:** Enter any payment made with the request for an extension of time to file the original return or made online by the original due date. DO NOT include or enter the amount of any penalties or interest paid.

### Line 20 - Estimated Payments

**Original Returns:** Enter the total amount paid by the S corporation for the taxable year. Include a schedule listing dates and payments made.

**Amended Returns:** Enter the total amount of estimated tax payments made by the S corporation for the taxable year. Do not include the amount of any penalties paid, or any reduction for the amount of an overpayment that was designated as an estimated tax payment for 2015 on a prior return.

### Line 21 - Total Payments

**Original Returns:** Add lines 18, 19 and 20. Enter the total.

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

- Add the amounts entered on lines 18, 19 and 20.
- Add the amount of a payment sent with the original return (if any);
- Add the amount of any payments made after the original return was filed; and
- Subtract the amount of any overpayment of tax (from the original return, line 23) and the total amount of any overpayments from an Arizona Department of Revenue correction notice, a prior amended return, or an audit.
- Do not include or enter the amount of any penalties or interest paid.

## Computation of Total Due or Overpayment

### Line 22 - Balance of Tax Due

If the amount on line 17 is **larger** than the amount on line 21, there is a balance of tax due. Subtract line 21 from line 17, and enter the difference. Skip line 23.

### Line 23 - Overpayment of Tax

If the amount on line 21 is **larger** than the amount on line 17, there is an overpayment of tax. Subtract line 17 from line 21, and enter the difference.

### Line 24 - Penalty and Interest

Calculate any penalty and interest due as a result of late filing or late payment of tax. Calculate interest on the amount shown on line 22 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 beginning on page 2 of these instructions. Do not include or enter the amount from Form 220. Do not include or enter the amount of the information return penalty for late or incomplete filing on this line.

### Line 25 - Estimated Tax Underpayment Penalty

**Original returns:** The S corporation DOES NOT HAVE TO COMPLETE Form 220, *Underpayment of Estimated Tax by Corporations*, if the S corporation made estimated tax payments equal to 90% of the current taxable year's tax liability, and paid in four equal installments. The department will compute the underpayment of estimated tax penalty based on this method and notify the S corporation of any amount due. If the S corporation elects to have the department compute the penalty, do not check box **25A** or enter an amount on line 25.

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

- The annualized income installment method;
- The adjusted seasonal installment method; or
- An amount, paid in four equal installments, that is equal to the sum of:

Ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in gains income or certain capital gains income; **plus**

One hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

Enter the total penalty from Form 220, Part C, line 37. Include the completed Form 220 with the return **and** check box **25A**.

**Amended returns:** Do not recompute the estimated tax underpayment penalty. Enter the amount from line 25 of the original return or the amount from an Arizona Department of Revenue correction notice.

### Line 26 - Information Return Penalty

**Original Returns:** If no tax liability is due, and this return is filed late (including extension) or incomplete, enter the amount of the information return penalty on this line. The information return penalty is \$100 for each month, or fraction of a month, that the failure continues, up to a maximum penalty of \$500.

**Amended Returns:** Do not recompute the information return penalty. Enter the amount from line 26 of the original return or the amount from an Arizona Department of Revenue correction notice.



## Line 27 - Total Due

If the taxpayer had a balance of tax due on line 22, add line 22, line 24 and line 25. Enter the total on line 27. S corporations that do not have a tax liability, enter the amount from line 26. 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. Include the taxpayer's EIN on the front of the check or money order. Include the check or money order with the return.

### Internet Payments

Corporate taxpayers must be licensed by the department before they can register to pay taxes online. Visit [www.AZTax.gov](http://www.AZTax.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. Visit [www.AZTax.gov](http://www.AZTax.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. Visit [www.AZTax.gov](http://www.AZTax.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 28 - Overpayment

If the taxpayer had an overpayment of tax on line 23, subtract the total of line 24 and line 25 from line 23. Enter a positive difference on line 28. This is the total overpayment. If the difference is negative, enter the difference as a positive number on line 27.

## Line 29 - Overpayment Applied to Estimated Tax

*Original Returns:* The taxpayer may apply part or all of an overpayment reported on line 28 as a 2016 estimated tax payment. Enter the applicable amount on line 29.

*Amended Returns:* The taxpayer may apply part or all of an overpayment reported on line 28 as a 2016 estimated tax payment, if this amended return is filed during the taxpayer's taxable year 2015. Enter the applicable amount on line 29.

## Line 30 - Refund

Subtract line 29 from line 28. Enter the difference. This is the net refund amount.

## Apportionment of Income

A.R.S. §§ 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.

### NON-APPORTIONABLE INCOME

Apportionment factors generating non-apportionable or non-taxable (i.e. U.S. Interest) income are not to be included in the calculation of the apportionment ratio.

### ADMINISTRATIVE RELIEF REQUESTS

A.R.S. § 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 A.R.S. § 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. A.R.S. § 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.

### COMPUTING THE APPORTIONMENT RATIO

When computing the factors of the apportionment ratio, carry the result out to six (6) places after the decimal. If the seventh (7<sup>th</sup>) place after the decimal is five (5) or more, round the sixth (6<sup>th</sup>) decimal place up to the next higher digit. If the seventh (7<sup>th</sup>) place after the decimal is less than five (5), leave the sixth (6<sup>th</sup>) place decimal as it is.

#### Example #1:

Arizona Factor	<u>123,456</u>
Everywhere Factor	789,654
Average	.1563418

The seventh (7<sup>th</sup>) digit after the decimal is “8”. Since “8” is greater than “5”, the sixth (6<sup>th</sup>) digit after the decimal is increased to the next higher digit, “2”.

The average rounded to six (6) decimal places is .156342.

**Example #2:**

Total Ratio	<u>.179865</u>
Divided by	4
Average	.0449662

The seventh (7<sup>th</sup>) digit after the decimal is “2”. Since “2” is less than “5”, the sixth (6<sup>th</sup>) digit after the decimal remains “6”. No increase to the sixth (6<sup>th</sup>) digit after the decimal is made.

The average rounded to six (6) decimal places is .044966.

**Schedule ACA - Air Carrier Apportionment Formula  
(Multistate S Corporation Air Carriers Only)**

A.R.S. § 43-1139(B) requires a taxpayer that is a qualifying air carrier to use revenue miles to apportion its business income to Arizona. 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.

The taxpayer must complete Schedule ACA. Schedule ACA is available on the department’s website. Check the box on line A on page 1. Do not complete Schedule A.

**NON-AIR CARRIER APPORTIONMENT FORMULA  
(NON-AIR CARRIER MULTISTATE S CORPORATIONS ONLY)**

Non-air carrier multistate S corporations have the opportunity to choose one of two apportionment formulas for calculating the apportionment ratio:

- The enhanced apportionment formula, or
- The standard apportionment formula.

Check the box on line A of page 1 of the return to indicate which apportionment formula, “Standard”, or “Enhanced”, will be used to calculate the apportionment ratio on the S corporation’s return. Whichever apportionment method is indicated, the taxpayer must complete the apportionment ratio using that formula. (The taxpayer cannot use “Standard” to calculate one portion of the ratio, and “Enhanced” to calculate another portion of the ratio.)

For the standard apportionment ratio, the numerator of the fraction of the standard apportionment formula is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four. Use the numbers located on the left-hand side of Schedule A, column A, to weight the property, payroll, and sales factors respectively.

For the enhanced apportionment ratios, the numerator of the fraction is five times the property factor plus five times the payroll factor plus ninety times the sales factor. The denominator of the fraction is 100. Use the numbers located on the right-hand side of Schedule A, column A to weight the property, payroll, and sales factors respectively.

Taxpayers using any of these apportionment methods must complete lines 5 through 10 on page 1.

**Line A1 - Property Factor**

The Property Factor is a fraction that represents the average value of the taxpayer’s property owned or rented and used in Arizona to the total average value of the taxpayer’s property owned or rented and used during the tax period.

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. Property used to generate non-apportionable or non-taxable income is not included in the property factor.

The value of tangible personal property and real property rented by the taxpayer is eight (8) 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.

For a discussion of the treatment of computer software in the property factor, refer to Corporate Tax Ruling (CTR) 01-2.

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

***Taxpayers Electing “STANDARD APPORTIONMENT”***

- Check the box on Line A of the return labeled “STANDARD”.
- Divide the numerator of the property factor by the denominator. The result is the “Standard” property factor. Express the ratio as a decimal carried out to six (6) places. The property factor will not exceed 100%.

***Taxpayers Electing “ENHANCED APPORTIONMENT”***

- Check the box on Line A of the return labeled, “ENHANCED”.
- Multiply the numerator of the property factor by five (5). Divide that result by the denominator. The result is the “Enhanced” property factor. Express the ratio as a decimal carried out to six (6) places. The property factor may exceed 100%

For additional information on the property factor, refer to:  
A.R.S. §§ 43-1140 through 1142  
A.A.C. R15-2D-601 through R15-2D-607 and R15-2D-902  
Corporate Tax Ruling (CTR) 01-2

**Line A2 - Payroll Factor**

The Payroll Factor is a fraction that represents the compensation paid in Arizona by the taxpayer to the total compensation paid by the taxpayer during the tax period.

Report the salaries, wages, or other compensation of officers, employees, etc., as within Arizona if the performance of their services occurs entirely in Arizona. 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. Payroll used to generate non-apportionable or non-taxable income is not included in the payroll factor.

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.

***Taxpayers Electing "STANDARD APPORTIONMENT"***

- Ensure the box on Line A of the return labeled "STANDARD" is checked
- Divide the numerator of the payroll factor by the denominator. The result is the "Standard" payroll factor. Express the ratio as a decimal carried out to six (6) places. The payroll factor will not exceed 100%.

***Taxpayers Electing "ENHANCED APPORTIONMENT"***

- Check the box on Line A of the return labeled, "ENHANCED".
- Multiply the numerator of the payroll factor by five (5). Divide that result by the denominator. The result is the "Enhanced" payroll factor. Express the ratio as a decimal carried out to six (6) places. The payroll factor may exceed 100%

For additional information on the payroll factor, refer to:  
A.R.S. §§ 43-1143, 1144  
A.A.C. R15-2D-701 through R15-2D-705

**Line A3 - Sales Factor**

The Sales Factor is a fraction that represents the total sales of the taxpayer in Arizona to the total sales of the taxpayer during the tax period.

"Sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income. Gross receipts from non-apportionable or non-taxable income are not included in the sales factor.

Sales of tangible personal property is determined on a destination sales basis. Sales of real property is determined based on the location of the property. Generally, sales of other than tangible personal property is determined based on the location where the income producing activity occurs. Service income is determined based on the location of the income producing activity, *unless* the taxpayer elected to be treated as a Multistate Service Provider (MSP). (See the box below for a description of an MSP.)

***TAXPAYERS THAT QUALIFY AS MULTISTATE SERVICE PROVIDERS ELECTING TO SOURCE SALES OF SERVICES TO ARIZONA USING A COMBINATION OF INCOME PRODUCING ACTIVITY SALES AND MARKET SALES***

For taxable years beginning from and after December 31, 2013, taxpayers that qualify as a Multistate Service Provider (MSP) may elect to treat sales from service as being sourced to Arizona based on a combination of income-producing activity sales and market sales. Multistate taxpayers complete Schedule MSP to determine if they qualify as an MSP. If the taxpayer qualifies, and wishes to make the election, the completed Schedule MSP must be included with the taxpayer's original, timely-filed tax return. *(The election to be treated as an MSP cannot be made on an amended return.)* Once made, the election is binding for five (5) years. For each year of the election period, Schedule MSP must be completed by the taxpayer to source sales from services to Arizona. Once Schedule MSP is completed, the taxpayer can compute the sales factor.

Taxpayers that qualify, and who want to make the election, should:

- Ensure the completed Schedule MSP is included with the return
- Ensure the box on Line A of the return is checked
- Ensure the box indicating the year of the election cycle is checked
- Enter on line A3b, column A, the Arizona sales from services from the completed Schedule MSP, line B5.
- Complete the calculation of the sales factor following the instructions for the taxpayer's choice of the "STANDARD" or "ENHANCED" apportionment formula.

***Taxpayers qualifying as an MSP, and electing to be treated as an MSP:***

- Enter the Arizona sales from services on line A3b from the completed Schedule MSP, line B5.

***Taxpayers not making the election to be treated as an MSP:***

- Include Arizona sales from services on line A3c.

***Taxpayers Electing "STANDARD APPORTIONMENT"***

- Check the box on Line A of the return labeled "STANDARD".
- Multiply the numerator of the sales factor by two (2). Divide that result by the denominator. The result is the "Standard" sales factor. Express the ratio as a decimal carried out to six (6) places. The sales factor will not exceed 100%.

***Taxpayers Electing "ENHANCED APPORTIONMENT"***

- Check the box on Line A of the return labeled "ENHANCED".
- Multiply the numerator of the sales factor by ninety (90). Divide that result by the denominator. The result is the "Enhanced" sales factor. Express the ratio as a decimal carried out to six (6) places. The sales factor may exceed 100%.

For more information on the sales factor, refer to:  
A.R.S. §§ 43-1145 – 1147  
A.A.C. R15-2D-801 through R15-2D-807, and R15-2D-903  
Corporate Tax Ruling (CTR) 02-2  
CTR 07-1

### Line A4 – Total Ratio

Add the ratios for the property factor, the payroll factor, and the sales factor in Column C. Enter the result.

### Line A5 - Average Apportionment Ratio

**NOTE:** Taxpayers must exclude a factor if both the numerator and the denominator of a factor are zero (0). Do not exclude a factor if the numerator of the factor is zero (0) and the denominator of a factor is greater than zero (0).

#### ***Taxpayers Electing “STANDARD APPORTIONMENT”***

If either the property or the payroll factor is excluded, determine the average ratio by dividing the total ratio by three (3). If the sales factor is excluded, determine the average ratio by dividing the total ratio by two (2). If two of the factors are excluded, the remaining factor, without respect to any weighting, is the apportionment ratio.

#### ***Taxpayers Electing “ENHANCED APPORTIONMENT”***

If the either property or the payroll factor is excluded, determine the average ratio by dividing the total ratio by ninety-five (95.0). If the sales factor is excluded, determine the average ratio by dividing the total ratio by ten (10). If two of the factors are excluded, the remaining factor, without respect to any weighting, is the apportionment ratio.

#### ***Taxpayers Electing “STANDARD APPORTIONMENT”***

Divide the total ratio, line A4, column C, by four (4). Enter the average ratio here and on page 1, line 7. Express the ratio as a decimal carried out to six (6) places.

#### ***Taxpayers Electing “ENHANCED APPORTIONMENT”***

Divide the total ratio, line A4, column C by 100. Express the ratio as a decimal carried out to six places. Enter the average ratio here and on page 1, line 7. Express the ratio as a decimal carried out to six (6) places.

### Schedule B - Other Information

Answer all questions (B1 through B6) as accurately and completely as possible.

**Question B3:** List the name, title and telephone number of the individual who Arizona 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. 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 paid preparer’s name and address, if self-employed). Enter the paid preparer’s TIN, which is the firm’s EIN or the individual paid preparer’s social security number.

### Schedule K-1 - S Corporation Instructions

Use this schedule for resident or part-year resident individual shareholders, resident estate shareholders, and resident trust shareholders.

Arizona Form 120S, Schedule K-1, is only required if the S corporation has capital gain (loss). If the S corporation does not have any capital gain (loss) for the taxable year, the filing of Arizona Form 120S, Schedule K-1, is not necessary.

Type or print the required information in the name, address, and information boxes on the top of the Arizona Form 120S, Schedule K-1. Indicate whether the S corporation’s taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the period covered by the taxable year on the schedule. Indicate whether this is an original or an amended schedule.

### Part I: Net Capital Gain from Investment in a Qualified Small Business – Information Schedule

For taxable years beginning from and after December 31, 2013, Arizona allows a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business and included in the individual taxpayer’s federal adjusted gross income or the federal taxable income of the estate and trust. A qualified small business is determined by the Arizona Commerce Authority pursuant to A.R.S. §41-1518. Although the subtraction is only available to individuals, estates and trusts, an S corporation shareholder that is a pass-through entity (estate or trust) will need this information to calculate its subtraction or complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

If the shareholder’s federal Schedule K-1 (Form 1120-S) includes any net capital gain (loss) from investment in a qualified small business, the S corporation should complete Part I, line 1 and Part II, line 3. If Part I, line 1, is zero, put zero on line 3.

If the shareholder’s federal Schedule K-1 (Form 1120-S) does not include any net capital gain (loss) from investment in a qualified small business, the S corporation is not required to complete Part I and Part II, line 3.

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

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

For the resident and part-year resident individual shareholder, Form 120S, Schedule K-1, provides information so the shareholder can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

For the resident estate shareholder or resident trust shareholder, Form 120S, Schedule K-1, provides information to the shareholder so the shareholder can (1) calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011; and/or (2) provide information to each beneficiary so each beneficiary can calculate its subtraction for net long-term

Complete Part II, line 2 and line 3 (if applicable) of Form 120S, Schedule K-1, as instructed on the form. If the shareholder's federal Schedule K-1 (Form 1120-S) does not include any capital gain (loss), the S corporation is not required to complete Part II.

A worksheet is provided at the end of these instructions that may assist the S corporation in determining the amounts to include in Part II, line 2 for each shareholder's Form 120S, Schedule K-1.

### Schedule K-1(NR) - S Corporation Instructions

Use this schedule for nonresident individual shareholders, nonresident estate shareholders, nonresident trust shareholders and exempt organization shareholders.

Type or print the required information in the name, address, and information boxes on the top of the Arizona Form 120S, Schedule K-1(NR). Indicate whether the S corporation's taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the period covered by the taxable year on the schedule. Indicate whether this is an original or an amended schedule.

## Part I: Share of Income and Deductions

### Column (a) - Distributive Share Amount

**Wholly Arizona S corporations** - in column (a), enter the distributive share amount for each line item from the federal Form 1120-S, Schedule K-1.

**Multistate S corporations** - in column (a), enter the nonresident shareholder's distributive share of the multistate S corporation's income (loss) that is subject to apportionment from the federal Form 1120-S, Schedule K-1.

### Column (b) - Arizona Apportionment Ratio

**Wholly Arizona S corporations** - enter 100%.

**Multistate S corporations** - enter the average ratio amount from Form 120S, Schedule A, line A5, column C, or Schedule ACA, line 3. (Refer to Schedule A or Schedule ACA instructions.)

### Column (c) - Arizona Source Income

**Wholly Arizona S corporations** - multiply column (a) by column (b). Enter the result in column (c).

**Multistate S corporations** - include a schedule that details (for each line item) the following computation:

- Step 1 The shareholder's distributive share of the S corporation's income subject to apportionment multiplied by the average ratio in column (b).
- Step 2 The shareholder's distributive share of the S corporation's income (loss) which is specifically allocable to Arizona.
- Step 3 The total of the amounts computed in steps 1 and 2 that is to be entered in column (c).

**NOTE:** Do not include the amount of any nonbusiness income allocable to another state in the total entered in column (c).

**All S corporations** - Column (c) is the shareholder's Arizona source income from the S corporation. Shareholders should refer to the instructions for Form 120S, Schedule K-1(NR), for information on completing their Arizona tax returns.

## Part II: Net Capital Gain from Investment in a Qualified Small Business – Information Schedule

For taxable years beginning from and after December 31, 2013, Arizona allows a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business and included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate and trust. A qualified small business is determined by the Arizona Commerce Authority pursuant to A.R.S. §41-1518. Although the subtraction is only available to individuals, estates and trusts, an S corporation shareholder that is a pass-through entity (estate or trust) will need this information to calculate its subtraction or complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

If the shareholder's federal Schedule K-1 (Form 1120-S) includes any net capital gain (loss) from investment in a qualified small business, the S corporation should complete Part II, line 16, and Part III, line 18. If Part II, line 16, is zero, put zero on line 18.

If the shareholder's federal Schedule K-1 (Form 1120-S) does not include any net capital gain (loss) from investment in a qualified small business, the S corporation is not required to complete Part II or Part III, line 18.

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

For the nonresident individual shareholder, Part III provides information so the shareholder can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

For the nonresident estate shareholder or nonresident trust shareholder, Part III provides information so the shareholder can (1) calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011; and/or (2) provide information to each beneficiary so each beneficiary can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

The subtraction is only available to individuals, estates, and trusts.

A worksheet is provided at the end of these instructions that may assist the S corporation in determining the amounts to include on Part III, line 17, of each nonresident shareholder's Arizona Form 120S, Schedule K-1(NR).

#### Shareholder Reporting Requirements for 2015

##### Exempt Organization Shareholders

Exempt organization shareholders must file Form 99T, *Arizona Exempt Organization Business Income Tax Return*, to report the income (loss) from the S corporation. This income (loss) is included in the organization's unrelated business taxable income from the federal Form 990-T.

##### Resident or Part-Year Resident Individual Shareholders

Resident or part-year individual shareholders are taxable on their entire distributive share of income from the S corporation. The distributive share of income reported on the federal return will

flow through to Form 140, *Resident Personal Income Tax Return* or Form 140PY, *Part-Year Resident Personal Income Tax*.

##### Nonresident Individual Shareholders

Nonresident individual shareholders of S corporations operating in Arizona are subject to Arizona income tax on their distributive share of the income (loss) earned by the S corporation in Arizona. Refer to Arizona Form 120S, Schedule K-1(NR). Nonresident shareholders must file Arizona Form 140NR, *Nonresident Personal Income Tax Return*, to report this income (loss).

**Composite return:** The Arizona Department of Revenue will accept a composite return filed by the S corporation on Arizona Form 140NR for nonresident individual shareholders so long as the return includes ten or more participating members.

Refer to Arizona Individual Income Tax Ruling ITR 13-2 for more information regarding filing a composite return on Arizona Form 140NR.

##### Estate and Trust Shareholders

Shareholders that are estates or trusts are taxable on their entire distributive share of income from the S corporation. Resident trust or estate distributive share income will flow through to Arizona Form 141AZ, *Arizona Fiduciary Income Tax Return*. Nonresident estate or trust distributive share income should be reported on Schedule A of Arizona Form 141AZ, *Arizona Fiduciary Income Tax Return*.

The *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*, is on the next page.

# Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011

☐ Original return    ☐ Amended return

Net long-term capital gain (loss) as reported on federal Schedule D (or other form/schedule) <u>and</u> included in the distributive share amount.			(a)	(b)	(c)
Enter the total net long-term capital gain (loss) from the following forms in each applicable column. See instructions on the following page.			Net long-term capital gain (loss)	Net long-term capital gain (loss) included in column (a) from assets acquired <b>before</b> January 1, 2012	Net long-term capital gain (loss) included in column (a) from assets acquired <b>after</b> December 31, 2011
1	Long-term capital gain (loss) reported on federal Schedule D from Form(s) 8949. Combine the amounts and enter the total.	1			
2	Form(s) 6252 <i>Installment Sale Income</i>	2			
3	Form(s) 8824 <i>Like-Kind Exchanges</i>	3			
4	Pass-through from Estate, Partnership, and/or Trust – from Arizona Form 141AZ or Arizona Form 165, Schedule K-1 or Schedule K-1(NR).	4			
5	Any other long-term capital gain (loss)	5			
6	<b>Net long-term capital gain (loss).</b> Add lines 1 through 5 in each column and enter the total(s).  For each shareholder, enter the distributive share of the amounts from line 6 on Arizona Form 120S, Schedule K-1 or Schedule K-1(NR).	6			

## Worksheet Instructions

### Purpose of the Worksheet

Beginning in 2013, a subtraction is available for a percentage of any net long-term capital gain that is from an investment in an asset acquired after December 31, 2011, and included in an individual taxpayer's federal adjusted gross income or the federal taxable income of an estate or trust.

To take the allowable subtraction, the taxpayer must know whether the capital gain (loss) is considered short-term or long-term. Only the net long-term capital gain from assets acquired after December 31, 2011, is used to compute the allowable subtraction. For more information about determining whether a gain (loss) is short-term or long-term, see federal *Publication 544* at [www.irs.gov](http://www.irs.gov).

**NOTE:** If you cannot verify that the capital gain is from the sale of an asset acquired after December 31, 2011, then the capital gain should be treated as a capital gain asset acquired before January 1, 2012.

*An asset acquired by gift or inheritance is considered acquired on the date it was acquired by the gift-giver or the deceased individual.*

### Who Should Complete the Worksheet?

The S corporation can use this worksheet to calculate each shareholder's distributive share of the net long-term capital gain (loss) included in Schedule K of federal Form 1120-S for assets purchased after December 31, 2011.

Do not complete this worksheet if either of the following apply:

- The S corporation does not have any capital gain (loss) to report for the current tax year; or
- The S corporation does not have any net capital gain (loss) from asset(s) acquired after December 31, 2011, to report for the current tax year.

Keep the completed worksheet for the S corporation's records.

**Columns (a) through (c)**

- Column (a) is the total amount of net long-term capital gain (loss) reported on Schedule D or other federal forms/schedules.
- Column (b) is the amount of the net long-term capital gain (loss) included in column (a) for assets acquired **before** January 1, 2012.
- Column (c) is the amount of the net long-term capital gain (loss) included in column (a) for assets acquired **after** December 31, 2011.

**Lines 1 through 5 - Capital Gain (Loss) Reported on Federal Schedule D**

Enter the long-term capital gain (loss) from each federal form listed that was reported on the S corporation's federal Schedule D and included on Schedule K of federal Form 1120-S.

**Line 6 - Net Long-Term Capital Gain (Loss)**

For each column, add the amounts on lines 1 through 5 and enter the total.

For each shareholder, enter the distributive share of the amounts from line 6 on Arizona Form 120S, Schedule K-1 or on Part II of Arizona Form 120S, Schedule K-1(NR).



# 2015 Nonresident Shareholder's Share of Income and Deductions

## Arizona Form 120S Schedule K-1(NR)

### Instructions for Shareholders

#### Part I: Share of Income and Deductions

Column (c) is your Arizona source income. Nonresident individuals should report the amounts in column (c) on Arizona Form 140NR line numbers indicated on Arizona Form 120S, Schedule K-1(NR). Nonresident trusts or nonresident estates should add lines 4 through 12, column (c), and enter the total on Arizona Form 141AZ, page 2, Schedule A.

However, if Arizona Form 120S, Schedule K-1(NR), shows a loss, you may only claim such losses on your Arizona nonresident return to the extent that such losses are included in your federal adjusted gross income (individuals) or federal taxable income (trusts and estates). Therefore, if the loss is considered to be a passive activity loss for federal purposes, the loss will likewise be considered to be a passive activity loss for Arizona purposes.

If you have a passive activity loss from an S corporation that was derived from Arizona sources, you would not necessarily begin the Arizona return with the amounts shown in column (c) of your Arizona Form 120S, Schedule K-1(NR). For Arizona purposes, you must first determine if any portion of the loss shown on Arizona Form 120S, Schedule K-1(NR), has been limited on your federal return because of the federal passive activity loss rules.

The amount of passive activity loss which is derived from Arizona sources is the amount of the passive activity loss which will be allowed on the Arizona return. Therefore, any portion of the passive activity loss which is not allowed on the federal return due to the passive activity loss limitations will likewise be limited on the Arizona return. That portion of the passive activity loss derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

**NOTE:** The amount of Internal Revenue Code § 179 expense deductible is limited to the Arizona portion of the amount deducted on federal Form 1040, Schedule E.

#### Part II: Net Capital Gain from Investment in a Qualified Small Business – Information Schedule

Arizona allows a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business and included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate and trust. A qualified small business is determined by the Arizona Commerce Authority pursuant to A.R.S. §41-1518. Although the subtraction is only available to individuals, estates, or trusts, an S corporation shareholder that is a pass-through entity (estate or trust) will need this information to calculate its subtraction for the estate or trust or to complete the Arizona Form 141AZ, Schedule K-1, or Schedule K-1(NR), for each beneficiary.

##### Line 16 -

Line 16, column (c), is your distributive share of net capital gain (loss) from investment in a qualified small business that is apportioned to Arizona.

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

Arizona allows a subtraction from Arizona gross income for a percentage of any net long-term capital gain from assets acquired after December 31, 2011, and included in the individual taxpayer's

federal adjusted gross income or the federal taxable income of the estate or trust. Although the subtraction is only available to individuals, estates, or trusts, an S corporation shareholder that is a pass-through entity (estate or trust) will need this information to calculate its subtraction or to complete the Arizona Form 141AZ, Schedule K-1, or Schedule K-1(NR), for each beneficiary.

Only include net long-term capital gains if it can be verified that the asset was acquired after December 31, 2011. An asset acquired by gift or inheritance is considered acquired on the date it was acquired by the gift-giver or the deceased individual.

If you cannot verify that the capital gain is from the sale of an asset acquired after December 31, 2011, then the capital gain should be treated as a capital gain asset acquired before January 1, 2012.

##### Line 17 -

Line 17, column (d), is your distributive share of net long-term capital gain (loss) from assets acquired after December 31, 2011 that is apportioned to Arizona.

##### Line 18 -

Line 17, column (d), may include amount(s) for any net long-term capital gain (loss) from investment in qualified small business. If you take the allowable subtraction on your Arizona income tax return for any net long-term capital gain from assets acquired after December 31, 2011, you cannot include the amount on line 18, column (d), for net long-term capital gain from investment in qualified small business in that allowable subtraction. For more information, see the instructions for Form 140PY or 141AZ.

##### Individual shareholder:

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

**Nonresidents** use only the amount of Arizona-sourced, net long-term capital gain (loss) entered on line 17 and line 18, column (d) to figure the allowable subtraction on the worksheet that is included with Arizona Form 140NR.

##### Fiduciary shareholder:

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

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

# 2015 Resident and Part-Year Resident Shareholder's Information Schedule

## Arizona Form 120S Schedule K-1

### Instructions for Shareholders

#### Part I: Net Capital Gain from Investment in a Qualified Small Business – Information Schedule

Arizona allows a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business and included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate and trust. A qualified small business is determined by the Arizona Commerce Authority pursuant to A.R.S. §41-1518. Although the subtraction is only available to individuals, estates, or trusts, an S corporation shareholder that is a pass-through entity (estate or trust) will need this information to calculate its subtraction or to complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

##### Line 1 -

Line 1, is your distributive share of net capital gain (loss) from investment in a qualified small business. To determine if you qualify to take this subtraction on your Arizona tax return, see the instructions for Form 140, 140PY, or 141AZ.

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

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

Only include net long-term capital gains if it can be verified that the asset was acquired after December 31, 2011. An asset acquired by gift or inheritance is considered acquired on the date it was acquired by the gift-giver or the deceased individual.

If you cannot verify that the capital gain is from the sale of an asset acquired after December 31, 2011, then the capital gain should be treated as a capital gain asset acquired before January 1, 2012,

##### Line 2 -

Line 2, column (c), is your distributive share of net long-term capital gain (loss) from assets acquired after December 31, 2011.

##### Line 3 -

Line 2, column (c), may include amount(s) for any net long-term capital gain from investment in a qualified small business. If you take the allowable subtraction on your Arizona income tax return for any net long-term capital gain from assets acquired after December 31, 2011, you cannot include the amount on line 3, column (c), for net long-term capital gain from investment in qualified small business in that allowable subtraction. For more information see the instructions for Form 140, 140PY, or 141AZ.

##### Individual shareholder:

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

**Full-year residents** use the amounts on line 2 and line 3 in column (c) to figure the allowable subtraction on the worksheet included with Arizona Form 140.

**Part-year residents** use the amounts on line 2 and line 3 in column (c) that is included in your Arizona gross income to figure the allowable subtraction on the worksheet included with Arizona Form 140PY.

##### Fiduciary shareholder:

If the net long-term capital gain (loss) in Part II is taxed at the estate or trust level, use the amounts on line 2 and line 3 in column (c) to complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*. The worksheet is included in the instructions of Form 141AZ for the estate or trust.

If the net long-term capital gain (loss) in Part II is distributed to the beneficiaries, use the amounts in line 2 and line 3 in column (c) to complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*. The worksheet is included in the instructions of Form 141AZ. The worksheet will assist the estate or trust in completing the Net Long-Term Capital Gain Subtraction – Information Schedule on Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.