

Special Notice for 2009 Returns

Arizona did not fully conform to federal tax law changes for 2009. This means that you may have to file an amended return for 2009. Look at items 1 through 5 below. See if any of those items apply to you. If any of those items apply to you, this will affect your 2009 return. If you have already filed your 2009 return, you must file an amended return to properly report those items. If you were a full year resident during 2009 and you filed Form 140, 140A or 140EZ, you may use Form 140X-NC to correct your 2009 return. If you file Form 140X-NC and pay the entire tax due by October 17, 2011, we will not charge you any penalty or interest on that tax.

The following is the list of items that affect your 2009 return.

1. You received unemployment income during 2009. You excluded up to \$2,400 of that income on your 2009 federal return.
2. You claimed an itemized deduction for both the sales tax on a new motor vehicle and state income taxes on your 2009 federal return.
3. You made a cash gift during 2010 to aid Haiti earthquake victims. You claimed an itemized deduction for that gift on your 2009 federal return.
4. You elected to exclude discharge of indebtedness (DOI) income from the reacquisition of a business debt instrument on your 2009 federal return.
5. You excluded original issue discount (OID) on a debt instrument described in number 4 above from income on your 2009 federal return.

If any of items 1 through 5 above apply to you, you must correct your 2009 Arizona return.

To get Form 140X-NC or for more news on this topic, visit our web site at www.azdor.gov.



Leave the Paper Behind - e-File!

- Quick Refunds
- Accurate
- Proof of Acceptance
- Free **

No more paper, math errors, or mailing delays when you **e-File!**

Refunds in as little as 7 to 10 days with direct deposit option.

e-File today, pay by April 18, 2011, to avoid penalties and interest.

e-File through an Authorized IRS/DOR **e-file** provider or by using your Personal Computer and the Internet. Visit our web site at www.azdor.gov for a listing of approved **e-file** providers and on-line filing sources.

** For free **e-file** requirements, check out our web site at www.azdor.gov.

Are You Subject to Tax in Arizona?

As a part-year resident, you are subject to tax on all of the following.

1. Any income you earned in 2010 while an Arizona resident. This includes any interest or dividends received from sources outside Arizona.
2. Any income you earned from an Arizona source in 2010 before moving to (or after leaving) the state.

NOTE: If you also have Arizona source income and deductions for the portion of the year you were an Arizona nonresident, file Arizona Form 140PY for the entire taxable year.

Do You Have to File?

| Arizona Filing Requirements These rules apply to all Arizona taxpayers. | | |
|--|---|-----------------------------------|
| You must file if you are: | and your Arizona adjusted gross income is at least: | or your gross income is at least: |
| • Single | \$ 5,500 | \$15,000 |
| • Married filing jointly | \$11,000 | \$15,000 |
| • Married filing separately | \$ 5,500 | \$15,000 |
| • Head of household | \$ 5,500 | \$15,000 |

If you are a part-year resident, you must report all income for the part of the year you were an Arizona resident, plus any income from Arizona sources for the part of the year you were an Arizona nonresident.

To see if you have to file, figure your gross income the same as you would figure your gross income for federal income tax purposes. Then you should exclude income Arizona law does not tax.

You can find your Arizona adjusted gross income on line 19 of Arizona Form 140PY.

NOTE: You must file a state return even if your employer withheld all or part of the tax. Even if you do not have to file, you must still file a return to get a refund of any Arizona income tax withheld.

Do You Have to File if You are an American Indian?

You must file if you meet the Arizona filing requirements unless **all** the following apply to you.

- You are an enrolled member of an Indian tribe.
- You live on the reservation established for that tribe.
- You earned **all** of your income on that reservation.

The department has issued a ruling on the Arizona tax treatment of American Indians. This ruling is ITR 96-4. To see this ruling, visit our web site at www.azdor.gov and click on legal research and then click on rulings.

Do You Have to File if You are the Spouse of an American Indian and You are Not an Enrolled Indian?

You must file if you meet the Arizona filing requirements. The department has issued a ruling on the tax treatment of spouses of American Indians. This ruling is ITR 96-4. To see this ruling, visit our web site at www.azdor.gov and click on legal research and then click on rulings.

Do You Have to File if You are in the Military?

You must file if you meet the Arizona filing requirements unless **all** the following apply to you.

- You are an active duty member of the United States armed forces.
- Your only income for the taxable year is pay received for active duty military service.
- There was no Arizona tax withheld from your active duty military pay.

If Arizona tax was withheld from your active duty military pay, you must file an Arizona income tax return to claim any refund you may be due from that withholding.

You must also file an Arizona income tax return if you have any other income besides pay received for active duty military pay.

If you were an Arizona resident when you entered the service, you remain an Arizona resident, no matter where stationed, until you establish a new domicile. As an Arizona part-year resident, you must report all of your income for the portion of the year you were a resident, no matter where stationed. You must include your military pay, but using Form 140PY, you may subtract all pay received for active duty military service, to the extent it is included in your Arizona gross income.

If you are not an Arizona resident, but stationed in Arizona, the following applies to you.

- You are not subject to Arizona income tax on your military pay.
- You must report any other income you earn in Arizona. Use Form 140NR, *Nonresident Personal Income Tax Return*, to report this income.

To find out more, see Arizona Department of Revenue brochure, Pub 704, *Taxpayers in the Military*.

If You Included Your Child's Unearned Income on Your Federal Return, Does Your Child Have to File an Arizona Return?

No. In this case, the child should not file an Arizona return. The parent must include that same income in his or her Arizona taxable income.

Residency Status

If you are not sure if you are an Arizona resident for state income tax purposes, we may be able to help. The department has issued a procedure on determining residency status. This procedure is ITP 92-1. To see this procedure, visit our web site at www.azdor.gov and click on legal research and then click on procedures.

Residents

You are a resident of Arizona if your domicile is in Arizona. Domicile is the place where you have your permanent home. It is where you intend to return if you are living or working temporarily in another state or country. If you leave Arizona for a temporary period, you are still an Arizona resident while gone. A resident is subject to tax on all income no matter where the resident earns the income.

If you are a full year resident, you must file Form 140, Form 140A, or Form 140EZ.

Part-Year Residents

If you are a part-year resident, you must file Form 140PY, *Part-Year Resident Personal Income Tax Return*.

You are a part-year resident if you did either of the following during 2010.

- You moved into Arizona with the intent of becoming a resident.
- You moved out of Arizona with the intent of giving up your Arizona residency.

Nonresidents

If you are a nonresident, you must file Form 140NR, *Nonresident Personal Income Tax Return*.

What if a Taxpayer Died?

If a taxpayer died before filing a return for 2010, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund.

The person who files the return should use the form the taxpayer would have used. **If the department mailed the taxpayer a booklet, do not use the label.** The person who files the return should print the word "deceased" after the decedent's name in the address section of the form. Also enter the date of death after the decedent's name.

If your spouse died in 2010 and you did not remarry in 2010, or if your spouse died in 2011 before filing a return for 2010, you may file a joint return. If your spouse died in 2010, the joint return should show your spouse's 2010 income before death, and your income for all of 2010. If your spouse died in 2011, before filing the 2010 return, the joint return should show all of your income and all of your spouse's income for 2010. Print "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign the return.

Are Any Other Returns Required?

You may also have to file a fiduciary income tax return. For details about filing a fiduciary income tax return, call the department at (602) 255-3381.

Claiming a Refund for a Deceased Taxpayer

If you are claiming a refund, you **must** complete Form 131, *Claim for Refund on Behalf of Deceased Taxpayer*. Attach this form to the **front** of the return.

What Are the Filing Dates and Penalties?

When Should You File?

You have extra time to file and pay for 2010 because April 15, 2011 is a legal holiday in Washington DC. This means that your 2010 calendar year tax return is due no later than midnight, April 18, 2011. File your return as soon as you can after January 1, but no later than April 18, 2011.

If you are a fiscal year filer, your return is due on the 15th day of the fourth month following the close of your fiscal year.

What If You Cannot File on Time?

You may request an extension if you know you will not be able to file on time.

NOTE: *An extension does not extend the time to pay your income tax. For details, see the instructions for Arizona Form 204.*

To get a filing extension, you can either:

1. Apply for a state extension (Form 204). To apply for a state extension, file Arizona Form 204 by April 18. See Form 204 for details. You do not have to attach a copy of the extension to your return when you file, but make sure that you check box **82F** on page 1 of the return. If you must make a payment, use Arizona Form 204, or visit www.aztaxes.gov to make an electronic payment.
2. You may use your federal extension (federal Form 4868). File your Arizona return by the same due date. You do not have to attach a copy of your federal extension to your return, but make sure that you check box **82F** on page 1 of the return.

When Should You File if You are a Nonresident Alien?

The due date for your Arizona return is not the same as the due date for your federal return. Your Arizona return is due by April 18 even though your federal return is due on June 15. If you want to file your Arizona return after April 18, you must ask for a filing extension. You must file this request by April 18. Arizona will allow up to a 6-month extension. This will allow you to file your return by October 17, 2011. See Form 204 for extension filing details.

If you have a federal 6-month extension, you can file your Arizona return under that extension. If you file using your federal extension, Arizona will also allow you an extra 6 months. Because we will allow only 6 months, the due date for your Arizona return is not the same as the due date for your federal return. In this case, your Arizona return will be due by October 17 even though your federal return will not be due until December 15. If you file your 2010 Arizona calendar return after October 17, 2011, your return will be late.

If you are a fiscal year filer, your return is due on the 15th day of the fourth month following the close of your fiscal year.

What if You File or Pay Late?

If you file or pay late, we will charge you interest and penalties on the amount you owe. If the U.S. Post Office postmarks your 2010 calendar year return by April 18, 2011, your return will not be late. You may also use certain private delivery services designated by the IRS to meet the "timely mailing as timely filed" rule.

Late Filing Penalty

If you file late, we will charge you a late filing penalty. This penalty is 4½% of the tax required to be shown on the return for each month or fraction of a month the return is late. This penalty cannot exceed 25% of the tax found to be remaining due.

Late Payment Penalty

If you pay your tax late, we will charge you a late payment penalty. This penalty is ½ of 1% (.005) of the amount shown as tax for each month or fraction of a month for which the failure continues. We charge this penalty from the original due date of the return until the date you pay the tax. This penalty cannot exceed a total of 10%.

Extension Underpayment Penalty

If you file your return under an extension, you must pay 90% of the tax shown on your return by the return's original due date. If you do not pay this amount, we will charge you a penalty. This penalty is ½ of 1% (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. We charge this penalty from the original due date of the return until the date you pay the tax. This penalty cannot exceed 25% of the unpaid tax. If we charge you the extension underpayment penalty, we will not charge you the late payment penalty under Arizona Revised Statutes section 42-1125.D.

NOTE: *If you are subject to two or more of the above penalties, the total cannot exceed 25%.*

Interest

We charge interest on any tax not paid by the due date. We will charge you interest even if you have an extension. If you have an extension, we will charge you

interest from the original due date until the date you pay the tax. The Arizona interest rate is the same as the federal rate.

When Should You Amend a Return?

If you need to make changes to your return once you have filed, you should file Form 140X, *Individual Amended Return*. You should file your amended return after your original return has processed. **Do not** file a new return for the year you are correcting. Generally, you have four years to amend a return to claim a refund.

If you amend your federal return for any year, you must also file an Arizona Form 140X for that year. You must file the Form 140X within 90 days of the final determination of the IRS.

If the IRS makes a change to your federal taxable income for any year, you must report that change to Arizona. You may use one of the following two options to report this change.

Option 1

You may file a Form 140X for that year. If you choose this option, you must amend your Arizona return within 90 days of the final determination of the IRS. Attach a complete copy of the federal notice to your Form 140X.

Option 2

You may file a copy of the final federal notice with the department within 90 days of the final determination of the IRS. If you choose this option, you must include a statement in which you must:

1. Request that the department recompute your tax; and
2. Indicate if you agree or disagree with the federal notice.

If you do not agree with the federal notice, you must also include any documents that show why you do not agree.

If you choose option 2, mail the federal notice and any other documents to:

Arizona Department of Revenue
1600 W. Monroe, Attention: Individual Income Audit
Phoenix, AZ 85007-2650

Do You Need to Make Estimated Payments in 2011?

You must make Arizona estimated income tax payments during 2011 if:

| Your filing status is: | AND Your Arizona gross income for 2010 was greater than: | AND Your Arizona gross income for 2011 exceeds: |
|---------------------------|--|---|
| Married Filing Joint | \$150,000 | \$150,000 |
| Single | \$75,000 | \$75,000 |
| Head of Household | \$75,000 | \$75,000 |
| Married Filing Separately | \$75,000 | \$75,000 |

If you met the income threshold for 2010, you must make estimated payments during 2011 unless you are sure you will not meet the threshold for 2011.

As a part-year resident, your Arizona gross income is that part of your federal adjusted gross income that you must report to Arizona. Your Arizona gross income is on line 15 of the 2010 Arizona Form 140PY.

See the worksheet for Form 140ES to figure how much your payments should be.

What if You Make Your Estimated Payments Late?

We will charge you a penalty if you fail to make any

required payments. We will charge you a penalty if you make any of your required payments late.

For details, see Arizona Form 221.

Can You Make Estimated Payments Even if You do not Have to?

If you do not have to make Arizona estimated income tax payments, you may still choose to make them.

For details, see Arizona Form 140ES.

Line-by-Line Instructions

Tips for Preparing Your Return:

- Make sure that you write your SSN on your return.
- Complete your return using black ink.
- You **must** round dollar amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down. Do not enter cents.
- When asked to provide your own schedule, attach a separate sheet with your name and SSN at the top. Attach your own schedules to your return. Attach these schedules behind page 2 of your return and behind your Schedules A if itemizing.
- You must complete your federal return before you can start your Arizona return.
- Make sure you include your home telephone number. If your daytime number is not the same as your home number, make sure you include a daytime number.
- If filing a fiscal year return, fill in the period covered in the space provided at the top of the form.

Entering Your Name, Address, and SSN

Lines 1, 2, and 3 -

NOTE: *Make sure that you write your SSN on the appropriate line.*

Print or type your name, address, and SSN in the space provided. If you are a nonresident of the United States or a resident alien who does not have an SSN use the identification number (ITIN) the IRS issued to you.

If you are filing a joint return, enter your SSNs in the same order as your first names. *If your name appears first on the return, make sure your SSN is the first number listed.* Put your last names in the same order as your first names and SSNs.

If you are married filing separately, enter your name and SSN on the first line 1. Then enter your spouse's name and SSN on second line 1.

For a deceased taxpayer, see page 2 of these instructions.

Use your current home address. The department will send your refund or correspond with you at that address.

NOTE: *Make sure your SSN is correct. If you are filing a joint return, also make sure you list your SSNs in the same order every year.*

Make sure that you enter your SSN on your return. Make sure that all SSNs are clear and correct. You may be subject to a penalty if you fail to include your SSN. It will take longer to process your return if SSNs are missing, incorrect, or unclear.

ID Numbers for Paid Preparers

If you pay someone else to prepare your return, that person must also include an ID number where requested.

A paid preparer may use any of the following.

- his or her SSN
- his or her PTIN
- the EIN for the business

A paid preparer who fails to include the proper ID numbers may also be subject to a penalty.

Determining Your Filing Status

The filing status that you use on your Arizona return may be different from that used on your federal return.

Use this section to determine your filing status. Check the correct box (4 through 7) on the front of Form 140PY.

Line 4 Box - Married Filing a Joint Return

If you are married and filing a joint return, check box 4.

You may file a joint return if you were married as of December 31, 2010. It does not matter whether or not you were living with your spouse. You may file a joint return, even if you and your spouse filed separate federal returns.

You may file a joint return if your spouse died during 2010 and you did not remarry in 2010. See page 2 of these instructions for details.

If you are a part-year resident married to an Arizona full year resident, you may file a joint return using the 140PY. The department has issued a ruling on filing a joint return with your full-year resident spouse. This ruling is ITR 95-2. To see this ruling, visit our web site at www.azdor.gov and click on legal research and then click on rulings.

Line 5 Box - Head of Household

If you are filing as a head of household, check box 5.

You may file as head of household on your Arizona return, only if one of the following applies.

- You qualify to file as head of household on your federal return.
- You qualify to file as a qualifying widow or widower on your federal return.

Line 6 Box - Married Filing Separately

If you are filing a separate return, check box 6 and enter your spouse's name and SSN on the second line 1.

If you were married as of December 31, 2010, you may choose to file a separate return. You may file a separate return, even if you and your spouse filed a joint federal return.

Arizona is a community property state. If you file a separate return, you must figure how much income to report using community property laws. If one spouse is a resident and the other spouse is not, special rules apply when filing a separate return. The department has issued a ruling on how to report income in this case. This ruling is ITR 93-20. To see this ruling, visit our web site at www.azdor.gov and click on legal research and then click on rulings.

NOTE: *In some cases you may treat community income as separate income. The department has issued a ruling on when you may treat community income as separate income. This ruling is ITR 93-22. To see this ruling, visit our web site at www.azdor.gov and click on legal research and then click on rulings.*

Line 7 Box - Single

If you are filing as single, check box 7.

Use this filing status if you were single on December 31, 2010. You are single if any of the following apply to you.

- You have never been married.
- You are legally separated under a decree of divorce or of separate maintenance.
- You were widowed before January 1, 2010, and you did not remarry in 2010, and you do not qualify to file as a qualifying widow or widower with dependent children on your federal return.

Exemptions

Write the number of exemptions you are claiming in boxes 8, 9, 10, and 11. Do not put a checkmark. You may lose the exemption if you put a checkmark in these boxes. You may lose the dependent exemption if you do not complete Part A, lines A1 through A3b on page 2. You may lose the exemption for qualifying parents or ancestors if you do not complete Part A, lines A4 and A5, on page 2.

Line 8 Box - Age 65 and Over

Write "1" in box 8 if you or your spouse were 65 or older in 2010. Write "2" in box 8 if both you and your spouse were 65 or older in 2010.

Line 9 Box - Blind

Write "1" in box 9 if you or your spouse are totally or partially blind. Write "2" in box 9 if both you and your spouse are totally or partially blind.

If you or your spouse were partially blind as of December 31, 2010, you must get a statement certified by your eye doctor or registered optometrist that:

1. You cannot see better than 20/200 in your better eye with glasses or contact lenses or
2. Your field of vision is 20 degrees or less.

If your eye condition is not likely to improve beyond the conditions listed above, you can get a statement certified by your eye doctor or registered optometrist to that effect instead.

You must keep the statement for your records.

Line 10 Box - Dependents

You must complete Part A, lines A1 through A3b, on page 2 of your return before you can total your dependent exemptions.

You may claim only the following as a dependent.

- A person that qualifies as your dependent on your federal return.

NOTE: *If you do not claim a dependent exemption for a student on your federal return in order to allow the student to claim a federal education credit on the student's federal return, you may still claim the exemption on your Arizona return. For more information, see Arizona Individual Income Tax Ruling ITR 05-02.*

- A person who is age 65 or over (related to you or not) that does not qualify as your dependent on your federal return, but one of the following applies.

1. In 2010, you paid more than one-fourth of the cost of keeping this person in an Arizona nursing care institution, an Arizona residential care institution, or an Arizona assisted living facility. Your cost must be more than \$800.
2. In 2010, you paid more than \$800 for either Arizona home health care or other medical costs for the person.
 - A stillborn child if the following apply:
 1. The stillbirth occurred in Arizona during 2010.
 2. You received a certificate of birth resulting in stillbirth from the Arizona Department of Health Services.
 3. The child would have otherwise been a member of your household.

Completing Line(s) A1

NOTE: *If a person who qualifies as your dependent is also a qualifying parent or ancestor of your parent, you may claim that person as a dependent on line A2, or you may claim that person as a qualifying parent or ancestor of your parent on line A5. You may not claim that same person on both line A2 and line A5. Do not list the same person on line A1 that you listed on line A4.*

Enter the following on line(s) A1.

1. The dependent's name. If you are claiming an exemption for a stillborn child and the child was not named, enter "stillborn child" in place of a name.
2. The dependent's SSN. If you are claiming an exemption for a stillborn child enter the certificate number from the certificate of birth resulting in stillbirth.
3. The dependent's relationship to you.
4. The number of months the dependent lived in your home during 2010. If you are claiming an exemption for a stillborn child, enter the date of birth resulting in the stillbirth.

You may lose the exemption if you do not furnish this information.

Line A2 - Total Dependents

Enter the total number of persons listed on line(s) A1. Enter the same number on the front of the return in box 10.

Lines A3a and A3b - Persons You Did Not Take as Dependents on Your Federal Return

On line A3a, enter the following.

1. The names of any dependents age 65 or over listed on line(s) A1 that you cannot take as a dependent on your federal return.
2. The name of any stillborn child listed on line(s) A1, if the stillborn child was named. If the stillborn child was not named, enter "stillborn child" on line A3a. Also enter the date of birth resulting in the stillbirth.

On line A3b, enter the name of any student listed on line(s) A1, that you did not claim as an exemption on your federal return in order to allow that student to claim a federal education credit on the student's federal return.

Line 11 Box - Qualifying Parents and Ancestors of Your Parents

A qualifying parent or ancestor of your parent may be any one of the following.

- Your parent or your parent's ancestor. Your parent's ancestor is your grandparent, great grandparent, great great grandparent, etc.
- If married filing a joint return, your spouse's parent or an ancestor of your spouse's parent.

You may claim this exemption if all of the following apply.

1. The parent or ancestor of your parent lived in your principal residence for the entire taxable year.
2. You paid more than one-half of the support and maintenance costs of the parent or ancestor of your parent during the taxable year.
3. The parent or ancestor of your parent was 65 years old or older during 2010.
4. The parent or ancestor of your parent required assistance with activities of daily living, like getting in and out of bed or chairs, walking around, going outdoors, using the toilet, bathing, shaving, brushing teeth, combing hair, dressing, medicating or feeding.

You must complete Part A, lines A4 and A5, on page 2 of your return before you can total your exemptions for qualifying parents and ancestors of your parents.

NOTE: *If a person who is a qualifying parent or ancestor of your parent also qualifies as your dependent, you may claim that person as a dependent on line A2, or you may claim that person as a qualifying parent or ancestor of your parent on line A5. You may **not** claim that same person on both line A2 and line A5. Do not list the same person on line A4 that you listed on line A1.*

Completing Line(s) A4

Enter the following on line(s) A4.

1. The name of the qualifying parent or ancestor of your parent.
2. The SSN of the qualifying parent or ancestor of your parent.
3. The qualifying parent's or ancestor's relationship to you, or your spouse if filing a joint return.
4. The number of months the qualifying parent or ancestor of your parent lived in your home during 2010.

You may lose the exemption if you do not furnish this information.

Line A5 - Total Qualifying Parents or Ancestors of Your Parents

Enter the total number of persons listed on line(s) A4. Enter the same number on the front of the return in box 11.

Reporting Your Residency Status

Check the appropriate box.

Line 12 Box - Part-Year Resident Other Than Active Duty Military

Check box 12 if you were an Arizona resident for part of 2010 and were not an active duty military member.

Line 13 Box - Part-Year Resident Active Military

Check box 13 if you were an active duty military member who either began or gave up Arizona residency during 2010.

Determining Arizona Income

Now complete Parts B, C, and D on page 2 of the return.

Use Part B to determine what portion of your total income is taxable by Arizona.

NOTE: *If you are unable to determine the proper line to use, please contact one of the numbers listed on the back cover.*

FEDERAL Column

Enter the actual amounts shown on your 2010 federal income tax return in the FEDERAL column. Complete lines B7 through B18. Line B18 should equal the federal adjusted gross income shown on your 2010 federal return Form 1040, Form 1040A, or Form 1040EZ.

ARIZONA Column

Enter that portion of your federal income received while you were an Arizona resident in the Arizona column. For example, if you became an Arizona resident on June 30, enter all income you received from that day to December 31, 2010.

NOTE: *If you also have Arizona source income for the portion of the taxable year you were an Arizona nonresident, also include that source income on the appropriate line in the Arizona column.*

The Tax Reform Act of 1986 limits the amount of losses that you may deduct from passive activities. A passive activity is one that involves the conduct of any trade or business in which the taxpayer does not materially participate.

As a part-year resident, your Arizona gross income may include some of these losses. For the part of the year you were an Arizona resident, you may consider any passive losses that arose while an Arizona resident. For the part of the year you were an Arizona nonresident, you may consider only those passive losses that arose from Arizona sources. Your 2010 Arizona gross income can include only losses you used on your 2010 federal return.

The following line-by-line instructions apply to the ARIZONA column.

Line B6 - Dates of Arizona Residency

If you became an Arizona resident during 2010, enter the date that you became an Arizona resident. If you gave up your Arizona residency during 2010, do both of the following.

1. Enter the date you became an Arizona resident.
2. Enter the date you gave up your Arizona residency.

Line B7 - Wages, Salaries, Tips, etc.

Enter all amounts received while an Arizona resident.

Also enter all amounts received from Arizona employment during the part of the year you were an Arizona nonresident.

NOTE: *Do not include active duty military pay for the part of the year you were a nonresident.*

Line B8 - Interest

Enter all amounts received while an Arizona resident.

You must also enter any interest income derived from Arizona sources during the part of the year you were an Arizona nonresident. Interest income from Arizona sources is interest income that has acquired an Arizona business situs.

If you received tax exempt interest from municipal bonds, attach a schedule listing the payors and the amount received from each payor. You may also want to attach supporting documents for amounts received from Arizona municipal bonds that are exempt from Arizona income tax. These may be items such as bank statements, brokerage statements, etc. Be sure you add the

amount you received while an Arizona resident from non-Arizona municipal bonds to your income on line C23.

Line B9 - Dividends

Enter all amounts received while an Arizona resident.

You must also enter any dividends derived from Arizona sources during the part of the year you were an Arizona nonresident. Dividend income from Arizona sources is dividend income that has acquired an Arizona business situs.

Line B10 - Arizona Income Tax Refunds

Enter the amount of Arizona income tax refunds received in 2010 that you included in your federal adjusted gross income.

Line B11 - Alimony Received

Enter amounts received while an Arizona resident.

Line B12 - Business Income or (Loss)

Enter any business or farm income or (loss) incurred while you were an Arizona resident.

Also enter income or (loss) derived from Arizona businesses during the part of the year you were an Arizona nonresident.

Line B13 - Gains or (Losses)

Enter any gain or (loss) on property sold while an Arizona resident if you included the amount as income on your 2010 federal return.

Also enter gains or (losses) on sales of Arizona property during the part of the year you were an Arizona nonresident.

Line B14 - Rents, etc.

Enter income received from rents, royalties, partnerships, estates, trusts, small business corporations, etc., while an Arizona resident.

Also enter rents or royalties earned on Arizona properties during the part of the year you were an Arizona nonresident. Enter any income or (loss) derived from Arizona sources from partnerships, small business corporations, etc., during the part of the year you were an Arizona nonresident.

Line B15 - Other Income Reported on Your Federal Return

Enter other income shown on your federal return that you received while an Arizona resident. Other income may include pensions, social security, unemployment, and lottery winnings. Attach a schedule listing these other items.

Also enter any other income derived from Arizona sources during the part of the year you were an Arizona nonresident.

Net Operating Losses

Arizona does not have specific provisions for calculating the net operating loss of an individual. Generally, the amount of net operating loss deduction included in your federal adjusted gross income is the amount allowable for Arizona purposes. However, there are instances when the amount allowable for Arizona purposes may be different.

As a part-year resident, Arizona recognizes that portion of the federal net operating loss which is attributable to income taxed by Arizona as the Arizona net operating loss.

As a part-year Arizona resident, include in Arizona gross income the amount of federal net operating loss carry forward or carryback attributable to Arizona unless any of the following apply.

1. The net operating loss attributable to Arizona included

in your federal adjusted gross income has already been deducted for Arizona purposes.

2. The net operating loss included in your federal adjusted gross income was incurred from non-Arizona sources while a nonresident.

Enter the amount of net operating loss deduction included in your federal adjusted gross income that was attributable to income taxed by Arizona. Do not include any amount of the loss that has already been deducted for Arizona purposes.

For information on deducting a net operating loss carryback in cases where you did not make an election under I.R.C. § 172(b)(1)(h), see Arizona Department of Revenue Income Tax Procedure ITP 99-1. To see this procedure, visit our web site at www.azdor.gov and click on legal research and then click on procedures.

If you made an election under I.R.C. § 172(b)(1)(h), see the instructions for "Other Subtractions from Income."

Line B16 - Total Income

Add lines B7 through B15 and enter the total.

Line B17 - Federal Adjustments

If any of the following are included in adjustments shown on your federal return, make an entry on this line as explained on the next page.

1. IRA: Enter the amount actually paid while an Arizona resident for your IRA and/or your spouse's IRA.
2. Student loan interest: Enter the amount you paid while an Arizona resident.
3. Self-employed SEP, SIMPLE and qualified plans: Enter the amount actually paid while an Arizona resident.
4. Self-employment tax: Enter that portion of the self-employment tax that relates to self-employment income reportable to Arizona.
5. Self-employed health insurance: Enter that amount of self-employed health insurance that was actually paid while an Arizona resident.
6. Penalty on early withdrawal of savings: Multiply the federal deduction by the ratio of your Arizona interest to your federal interest.
7. Alimony: Enter the amount actually paid while an Arizona resident.
8. Moving expenses: Enter the amount of moving expenses included in your federal adjusted gross income that you accrued and paid during the part of the year you were an Arizona resident.

NOTE: Do not enter any amounts for items 1 through 8 above unless you deducted these items in computing your federal adjusted gross income.

If your federal return shows other adjustments to income, attach your own schedule to show your calculation.

Line B19 - Arizona Income

Complete line B19 as instructed on the form.

Line B20 - Arizona Percentage

Divide line B19 by line B18, and enter the result on line B20. (**Do not enter more than 100 percent.**) This is the Arizona percentage of your total income.

| Example: | | |
|------------------------------------|---|-------------------------|
| Arizona Gross Income from line B19 | Federal Adjusted Gross Income from line B18 | Arizona percentage |
| \$ 7,500 | \$ 30,000 | $\$7,500/30,000 = 25\%$ |

Determining Additions to Income

Line C21 - I.R.C. § 179 Expense in Excess of Allowable Amount

Enter the amount of I.R.C. § 179 expense included in your Arizona gross income that exceeds \$25,000. If you make an entry here, also see the instructions for line D35, "Other Subtractions From Income".

Line C22 - Total Depreciation Included in Arizona Gross Income

Enter the amount of depreciation deducted on the federal return that is included in Arizona gross income. If you make an entry here, also see the instructions for line D35, "Other Subtractions from Income."

Line C23 - Other Additions to Income

Use line C23 if any of the special circumstances below apply. Attach your own schedule to the back of your return, explaining any amounts entered on line C23.

A. Non-Arizona Municipal Interest

Enter interest income earned from non-Arizona municipal bonds while an Arizona resident.

NOTE: *You may reduce this addition by any interest or other related expenses incurred to purchase or carry the obligation. As a part-year resident, you may reduce the addition by the amount of those expenses attributable to income subject to Arizona tax. You may reduce the addition by those expenses that you could not deduct on your federal return.*

B. Ordinary Income Portion of Lump Sum Distribution Excluded on Your Federal Return

Arizona law does not provide for averaging. Enter the amount of the distributions received while an Arizona resident and treated as ordinary income on your federal return. If you chose to treat the capital gain portion of the distributions as ordinary income, you must also include that amount on line C23.

For more information, see Arizona Department of Revenue Income Tax Ruling, ITR 93-5.

C. Fiduciary Adjustment

A fiduciary uses Form 141AZ, Schedule K-1, to report to you your share of the fiduciary adjustment from the trust or estate. Line 3 of Form 141AZ, Schedule K-1, shows your share of the fiduciary adjustment from the estate or trust.

Depending on your situation, you may either add (line C23) or subtract (line D35) this amount.

If the amount reported on line 3 of your Arizona Form 141AZ, Schedule K-1, is a positive number, enter that portion of line 3 that is allocable to estate or trust income taxable by Arizona as an addition. Enter the addition on line C23.

If the amount on line 3 of your Arizona Form 141AZ, Schedule K-1, is a negative number, enter that portion of line 3 that is allocable to estate or trust income taxable by Arizona as a subtraction from income. Enter the subtraction on line D35.

D. Medical Savings Account (MSA) Distributions

For information on Arizona's MSA provisions, see the department's MSA brochure, Pub 542.

You must add amounts received from an MSA here if any of the following apply.

1 - You Withdrew Funds from Your MSA for Other than Qualified Expenses

If you had an MSA during the part of the year you were an Arizona resident, you must make an entry here if all of the following apply.

1. You withdrew money from your MSA during 2010, while either a resident or a nonresident.
2. You did not use the amount withdrawn to pay qualified medical expenses.
3. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

If you had an MSA during the part of the year you were an Arizona nonresident, you must make an entry here if all of the following apply.

1. You had Arizona source income while an Arizona nonresident.
2. Your MSA qualified as an MSA under Arizona law.
3. If you were an employee, your high deductible health coverage was provided by your Arizona employer. If you were self employed, your high deductible health coverage was provided by your Arizona business.
4. You withdrew money from your MSA during 2010, while either a resident or a nonresident.
5. You did not use the amount withdrawn to pay qualified medical expenses.
6. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

2 - Deceased Account Holder Where the Named Beneficiary is Not the Decedent's Surviving Spouse

You must make an entry here if all of the following apply.

1. The account holder died during the part of the year you were an Arizona resident.
2. The decedent's MSA qualified as an MSA under Arizona law.
3. You are the named beneficiary of the decedent's MSA.
4. You are not the decedent's surviving spouse.
5. You did not have to include the value of the MSA as income on your federal income tax return.

In this case, the MSA ceases to be an MSA. Enter the fair market value of the MSA as of the date of death, less the amount of MSA funds used within one year of the date of death, to pay the decedent's qualified medical expenses. You can reduce the fair market value by only those expenses paid from the MSA. If you pay additional medical expenses for the decedent from the MSA after you file, you may file an amended return to further reduce the fair market value of the MSA.

3 - Decedent's Final Return and No Named MSA Beneficiary

Make an entry here if all of the following apply.

1. The account holder died during the part of the year in which he or she was an Arizona resident.
2. There is no named MSA beneficiary.

3. This is the decedent's final return.
4. The value of the MSA did not have to be included on the decedent's final federal income tax return.

In this case, the MSA ceases to be an MSA. Enter the fair market value of the MSA as of the date of death. This rule applies in all cases in which there is no named beneficiary, even if the surviving spouse ultimately obtains the right to the MSA assets.

NOTE: *The following are not withdrawals. Do not enter any of the following:*

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

For more information about the above items, see the department's MSA brochure, Pub 542.

E. Pension Adjustments

Depending on your situation, you may either add (line C23) or subtract (line D35) this amount.

Use this adjustment if both of the following apply.

1. Arizona taxed your pension for years before 1979.
2. You reported that pension on your federal return using the percentage exclusion method.

Do not use this adjustment if either of the following applies.

1. You reported your pension income as fully taxable on your federal return.
2. You reported your pension income on your federal return under the "three-year-rule".

Follow the worksheet below to figure the adjustment.

| Pension Adjustment Worksheet | |
|--|----|
| Follow these steps to figure the adjustment: (Keep this worksheet for your records.) | |
| 1. Your contribution to annuity. | 1. |
| 2. Pension amount received in prior years. | 2. |
| 3. Remainder of cost (line 1 minus line 2 but not less than zero). | 3. |
| 4. Pension amount received this year. | 4. |
| 5. Subtract line 3 from line 4 (but not less than zero). | 5. |
| 6. Enter the pension amount taxable on your federal return. | 6. |
| 7. Subtract line 6 from line 5. | 7. |
| If line 7 is more than zero, enter the amount on line 7 as an addition to income. Enter the addition on line C23. | |
| If line 6 is more than line 5, enter the difference as a subtraction from income. Enter the subtraction on line D35. | |

F. Partnership Income

Depending on your situation, you may either add (line C23) or subtract (line D35) this amount.

Use this adjustment if your Arizona Form 165, Schedule K-1, shows a difference between federal and state distributable income.

If the difference reported on your Arizona Form 165, Schedule K-1, is a positive number, enter that portion of the difference that is allocable to partnership income taxable by Arizona as an addition. Enter the addition on line C23.

If the difference reported on your Arizona Form 165, Schedule K-1, is a negative number, enter that portion of the difference that is allocable to partnership income taxable by Arizona as a subtraction. Enter the subtraction on line D35.

G. Agricultural Water Conservation System Credit

If you take this credit (Form 312), you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

H. Items Previously Deducted for Arizona Purposes

Arizona statutes prohibit a taxpayer from deducting items more than once. However, under the operation of former Arizona law (1989 and prior), you could deduct certain items in greater amounts for Arizona purposes than federal purposes. Investment interest and passive activity losses were such items. In some cases, you could have deducted such amounts in their entirety on the Arizona return. For federal purposes, the deduction for these items was limited, with the unused portions being carried forward and deducted in future years. Your Arizona return may include these previously deducted items because of the difference between the federal and former Arizona treatment. If your Arizona taxable income includes items previously deducted for Arizona purposes, you must add such amounts to your Arizona gross income.

I. Claim of Right Adjustment for Amounts Repaid in 2010

You must make an entry here if **all** of the following apply.

1. During 2010, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. The amount required to be repaid during 2010 was more than \$3,000.
4. You took a deduction for the amount repaid on your 2010 federal income tax return.
5. The deduction taken on your federal income tax return is reflected in your Arizona taxable income.

If the above apply, enter the amount deducted on your federal income tax return which is reflected in your Arizona taxable income.

For more information on the Arizona claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1.

J. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if **all** of the following apply.

1. During a year prior to 2010 you were required to repay income held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 2010 Arizona taxable income.
5. The amount of the loss carryover included in your Arizona gross income is more than the amount allowed to be taken into account for Arizona purposes.

Enter the amount by which the loss carryover included in your Arizona gross income is more than the amount allowed for the taxable year under Arizona law.

K. Addition to S Corporation Income Due to Credits Claimed

Shareholders of an S corporation who claim a credit passed through from an S corporation must make an addition to income for the amount of expenses disallowed by reason of claiming the credit.

An S corporation that passes the following credits through to its shareholders must notify each shareholder of his or her pro rata share of the adjustment. You must enter an amount on this line when claiming any of the following credits.

- Agricultural water conservation system credit
- Environmental technology facility credit
- Pollution control credit
- Credit for solar hot water heater plumbing stub outs and electric vehicle recharge outlets
- Credit for employment of TANF recipients
- Agricultural pollution control equipment credit
- Motion picture credits

L. Solar Hot Water Heating Plumbing Stub Out and Electric Vehicle Recharge Outlet Expenses

If you take a credit for installing solar hot water heating plumbing stub outs or electric vehicle recharge outlets in a dwelling you constructed, you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

M. Wage Expense for Employers of TANF Recipients

If you take a credit for employing TANF recipients, you cannot deduct any wage expense for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

N. Motion Picture Expenses

If you take a motion picture credit on Form 334, you cannot deduct any expenses related to the production, the infrastructure project or related to a transferred credit. Enter the amount of any such expenses that were deducted in computing Arizona gross income for which you claimed a credit.

O. Early Withdrawal of Arizona, County, City, or School Retirement System Contributions

If you meet all the following, you must enter an amount here.

1. You left your job with the State of Arizona or an Arizona county, city, or school district for reasons other than retirement.
2. When you left, you took out the contributions you had made to the retirement system while employed.
3. You deducted these contributions on your Arizona income tax returns that you filed for prior years.
4. You did not include these contributions in your federal adjusted gross income this year.

If you meet all these tests, you must report as income those contributions previously deducted on your prior years' Arizona tax returns.

For more information, see Arizona Department of Revenue Income Tax Ruling *ITR 93-7*.

NOTE: Any interest earned on your retirement contributions while they were in the system should be reported on line B8 in both the FEDERAL and ARIZONA income columns.

P. Adjusted Basis in Property for Which You Have Claimed a Credit for Investment in Qualified Small Businesses

If you claim a credit for an investment in a qualified small business on Arizona Form 338, you must adjust your basis in the investment by the amount of the credit claimed. You must report this difference in basis on the Arizona return that you file for the taxable year in which you sell or otherwise dispose of the investment. If you sold or otherwise disposed of the investment during the 2010 taxable year, enter the amount by which the adjusted basis computed under the internal revenue code with respect to that property exceeds the adjusted basis of the property computed under Arizona Revised Statutes section 43-1074.02.

Q. Depreciation or Amortization for a Water Conservation System

If you claimed a water conservation system credit on Arizona Form 339, you may not deduct any depreciation or amortization for that system on your Arizona return. Enter the amount of depreciation or amortization claimed on your federal return for the water conservation system for which you have claimed a credit.

R. Nonqualified Withdrawals from 529 College Savings Plans

You must make an addition to income if you received a nonqualified withdrawal from a 529 college savings plan. You must make an addition if the withdrawal was not included in your federal adjusted gross income. The amount that you must add is the amount withdrawn, but no more than the difference between the amount of contributions subtracted in prior years and the amount added in any prior years.

A nonqualified withdrawal is a withdrawal other than any of the following:

1. A qualified withdrawal. A qualified withdrawal is a withdrawal from an account to pay the qualified higher education expenses of the designated beneficiary of the account.
2. A withdrawal made as the result of the death or disability of the designated beneficiary of an account.
3. A withdrawal that is made on the account of a scholarship, or the allowance or payment described in section 135(d)(1)(B) or (C) of the internal revenue code, and that is received by the designated beneficiary, but only to the extent of the amount of this scholarship, allowance or payment.
4. A rollover or change of designated beneficiary.

S. 2010 Discharge of Indebtedness (DOI) Income

Generally, when a loan is settled for less than the amount owed, DOI income is realized by the debtor and usually must be included in the debtor's gross income. The amount of DOI income is generally equal to the amount of loan forgiveness. DOI income also occurs when a debtor repurchases his or her own debt at a discount (a price lower than the adjusted basis issue price of the debt instrument). In debt repurchase transactions, the amount of DOI income is generally equal to the difference between the adjusted issue price and the price paid for the debt instrument.

For federal purposes, a taxpayer may have made a special election for taxable years 2009 or 2010 to include DOI

income in connection with the reacquisition of a business debt instrument, ratably over a 5 year period. A taxpayer that made this election will generally include this income in federal adjusted gross income beginning with the 2014 taxable year. A taxpayer would have made the federal election under I.R.C. § 108(i) as added by the American Recovery and Reinvestment Act of 2009.

Arizona did not adopt the special federal DOI income deferral provisions for the 2009 or 2010 taxable year. For Arizona purposes, if you made the federal election to defer the inclusion of DOI income under I.R.C. § 108(i), you must add the amount deferred to Arizona gross income on the return filed for the year in which you reacquired the debt instrument if the debt reacquisition occurred while you were an Arizona resident, or if the DOI income was from an Arizona source. On line C23, enter the amount of DOI income that you deferred and excluded from the computation of your 2010 federal adjusted gross income under I.R.C. § 108(i), to the extent that the income was from a debt reacquisition that occurred while you were an Arizona resident or to the extent the DOI income is Arizona source income. Even though you must include that DOI income on your 2010 Arizona return, Arizona will not tax that income again in the future years when you include that DOI income in your federal adjusted gross income and likewise your Arizona gross income. If you make an entry here, also see the instructions for "Other Subtractions from Income" even though this subtraction will not apply until the year in which you include the income in your Arizona gross income.

T. Original Issue Discount (OID) on Reacquisition of Debt Instrument

For federal purposes, when a taxpayer made the special election to defer DOI income under I.R.C. § 108(i) (see letter "S" above), the taxpayer was not allowed to take a deduction with respect to the portion of any OID that accrued with respect to that DOI income, during the income deferral period. In this case, the taxpayer had to deduct the aggregate amount of the OID deductions disallowed ratably over a 5 year period, beginning with the period in which the income was includible in federal adjusted gross income.

Arizona did not adopt the federal provisions requiring a taxpayer to defer the OID deduction in cases where the taxpayer federally deferred the DOI income. For Arizona purposes you were required to add the amount of deferred DOI income to Arizona gross income on the return filed for the year in which you reacquired the debt instrument if the debt reacquisition occurred while you were an Arizona resident, or if the DOI income was from an Arizona source. In this case, you were allowed to subtract any OID related to that DOI income in the year the OID accrued. (See the instructions for "Other Subtractions from Income.")

If your Arizona gross income includes a deduction for any accrued OID that you have already subtracted for Arizona purposes, you must make an addition to Arizona income for the amount of deferred OID deducted on your federal return that you included in your Arizona gross income. Generally, this addition will not apply until taxable year 2014 through 2018. However, if you were required to accelerate reporting of the DOI income for federal purposes and were allowed to

deduct accrued OID attributable to that income on an Arizona return filed for a year prior to 2014, this addition may apply to an earlier year. On line C23, enter the amount of any previously deferred OID that you deducted in computing your 2010 Arizona gross income, to the extent that the amount was previously subtracted from Arizona gross income.

U. Other Adjustments

Other special adjustments may be necessary. You may need to make an addition for depreciation or amortization. You may also need to make an addition if you claimed certain tax credits. Call one of the numbers listed on the back cover if any of the following apply.

- You are a previously certified defense contractor that elected to amortize under Arizona Revised Statutes section 43-1024.
- You sold or disposed of property that was held for the production of income and your basis was computed under the Arizona Income Tax Act of 1954.
- You claimed the environmental technology facility credit.
- You claimed the pollution control credit.
- You claimed the recycling equipment credit.
- You claimed the agricultural pollution control equipment credit.
- You elected to amortize the basis of a pollution control device or the cost of a child care facility under Arizona law in effect before 1990. You are still deducting amortization or depreciation for that device or facility on your federal income tax return.

Line C24 - Total Additions

Add lines C21 through C23. Enter the total on line C24 and on the front of your return on line 16.

Determining Subtractions from Income

You may only subtract those items for which statutory authority exists. Without such authority you cannot take a subtraction. If you have any questions concerning subtractions from income, call one of the numbers listed on the back cover.

NOTE: You may not subtract any amount which is allocable to income excluded from your Arizona taxable income.

Line D25 - Exemption: Age 65 or Over

Multiply the number in box 8 on the front of your return by \$2,100 and enter the result.

Line D26 - Exemption: Blind

Multiply the number in box 9 on the front of your return by \$1,500 and enter the result.

Line D27 - Exemption: Dependents

Multiply the number in box 10 on the front of your return by \$2,300 and enter the result.

Line D28 - Exemption: Qualifying Parents and Ancestors

Multiply the number in box 11 on the front of your return by \$10,000 and enter the result.

Line D29 - Total

Add lines D25 through D28 and enter the total.

Line D30 - Prorated Exemptions

Multiply the amount on line D29 by the Arizona percentage from line B20 and enter the result.

Active Duty Military Personnel Only: *If you were an active duty military member who either began or gave up Arizona residency during 2010, do not prorate these exemptions. You are allowed 100 percent deductions for the age 65, the blind, and the dependent exemptions. Enter the amount on line D29 (Total) on this line.*

Line D31 - Interest on U.S. Obligations

Enter the amount of interest income from U.S. Government obligations included on line B8 in the ARIZONA column. U.S. Government obligations include obligations such as U.S. savings bonds and treasury bills. You cannot deduct any interest or other related expenses incurred to purchase or carry the obligations. If such expenses are included in your Arizona gross income, you must reduce the subtraction by such expenses. If you are itemizing deductions on your Arizona return, you must exclude such expenses from the amount deducted.

NOTE: *Do not subtract interest earned on FNMA or GNMA bonds since this interest is taxable by Arizona. For details, see the department's income tax ruling, ITR 06-1.*

Do not subtract any amount received from a qualified pension plan that invests in U.S. Government obligations. Do not subtract any amount received from an IRA that invests in U.S. Government obligations. These amounts are not interest income. For more information, see Arizona Department of Revenue Income Tax Rulings *ITR 96-2* and *ITR 96-3*.

Line D32 - Arizona Lottery Winnings

You may subtract up to \$5,000 of winnings received in 2010 for Arizona lottery prizes. Only subtract those Arizona lottery winnings that you included on line B15 in the ARIZONA column and reported on your federal income tax return.

If you subtract Arizona lottery winnings here, you may have to adjust the amount of gambling losses claimed as an itemized deduction.

Line D33 - U.S. Social Security Benefits or Railroad Retirement Benefits

Arizona does not tax social security benefits received under Title II of the Social Security Act. Arizona does not tax railroad retirement benefits received from the Railroad Retirement Board under the Railroad Retirement Act. If you included such social security or railroad retirement benefits on your federal return as income and also included this amount in the ARIZONA column on line B15, subtract this income on line D33.

Subtract only the amount you reported as income on your federal return and included on line B15 in the ARIZONA column.

See Arizona Department of Revenue Income Tax Ruling *ITR 96-1* for more information about railroad retirement benefits.

Line D34 - Construction of an Energy Efficient Residence

For taxable years beginning from and after December 31, 2001, through December 31, 2010, Arizona law allows a subtraction

for an energy efficient residence. The subtraction is allowed for selling one or more new energy efficient residences located in Arizona. The subtraction is equal to 5% of the sales price excluding commissions, taxes, interest, points, and other brokerage, finance and escrow charges. The subtraction cannot exceed \$5,000 for each new qualifying residence.

The taxpayer that builds the new residence may claim the subtraction when the taxpayer first sells the residence. However, the seller may elect to transfer the subtraction to the buyer.

For more information, see Arizona Department of Revenue Income Tax Procedure *ITP 02-1*.

Enter the number of residences for which you are claiming a subtraction on line D34a, then enter the amount of the subtraction on line D34. Also enter the number from line D34a on Form 140PY, page 1, line 181.

Line D35 - Other Subtractions

Use line D35 if any of the following special circumstances apply. Attach your own schedule to the back of your return, explaining any amounts entered here.

A. Exclusion for U.S. Government, Arizona State, or Local Government Pensions

If you receive pension income from any of the sources listed below, subtract the amount you received or \$2,500, whichever is less. Include only the amount you reported as income on your federal return and included on line B15 in the ARIZONA column. If both you and your spouse receive such pension income, each spouse may subtract the amount received or \$2,500, whichever is less.

Public pensions from the following sources qualify for this subtraction:

- The United States Government Service Retirement and Disability Fund
- The United States Foreign Service Retirement and Disability System
- Retired or retainer pay of the uniformed services of the United States
- Any other retirement system or plan established by federal law

NOTE: *This applies only to those retirement plans authorized and enacted into the U.S. Code. This does not apply to a retirement plan that is only regulated by federal law (i.e., plans which must meet certain federal criteria to be qualified plans).*

- The Arizona State Retirement System
- The Arizona State Retirement Plan
- The Corrections Officer Retirement Plan
- The Public Safety Personnel Retirement System
- The Elected Officials' Retirement Plan
- A retirement plan established for employees of a county, city, or town in Arizona
- An optional retirement program established by the Arizona Board of Regents under Arizona Revised Statutes
- An optional retirement plan established by an Arizona community college district.

NOTE: *Public retirement pensions from states other than Arizona do not qualify for this subtraction.*

B. Previously Reported Gain on Decedent's Installment Sale

Prior Arizona law required acceleration of any unrecognized installment sale gain upon the death of a taxpayer. However, this acceleration could have been avoided by the posting of a bond. If acceleration was required, your federal adjusted gross income may include installment sale amounts already recognized on a decedent's final Arizona return. Deduct that portion of the gain included on line B13, ARIZONA column.

C. Deposits Made Into Your MSA

If you have an MSA, you may be able to subtract deposits made into that MSA. Make an entry here if all of the following apply.

1. You have an MSA that qualifies as an MSA under Arizona law, but not federal law.
2. Either you or your employer made deposits into that MSA during the tax year.
3. You had to include the deposits in income on your federal income tax return.

Enter the amount of the MSA deposits that you had to include in your federal adjusted gross income.

D. Employer Contributions Made to Employee MSAs

If you are an employer, you may subtract the amount contributed to your employees' MSAs that are established under Arizona law. You can subtract these contributions only to the extent not deductible for federal income tax purposes. Enter these contributions here.

E. Agricultural Crops Given to Arizona Charitable Organizations

Arizona law allows a subtraction for qualified crop gifts made during 2010 to one or more charitable organizations. To take this subtraction, you must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. You must make your gift to a charitable organization located in Arizona which is exempt from Arizona income tax.

The subtraction is the greater of 80% of the wholesale market price or 80% of the most recent sale price for the given crop.

To determine if your crop contribution qualifies for this subtraction, see Arizona Department of Revenue Procedure ITP 93-2.

F. Certain Wages of American Indians

Enrolled members of American Indian tribes may subtract wages earned while living and working on their tribe's reservation. You can subtract only those amounts that you included on line B7, ARIZONA column. The federal government must recognize these tribes.

For more information, see Arizona Department of Revenue Income Tax Ruling, ITR 96-4.

G. Pay Received for Active Service as a Member of the Reserves, National Guard or the U.S. Armed Forces

Starting with 2006, members of the U.S. armed forces may subtract pay received for active duty military service, including pay for serving in a combat zone or an area given the treatment of a combat zone. If you are a member of the U.S. armed forces, you may subtract the amount of pay received for active duty military service that you had to include in your Arizona gross income. Enter only that

amount of pay reported on your 2010 federal return that you also included on line B7 in the ARIZONA column.

Starting with 2007, if you are a member of the reserves or the National Guard, you may subtract pay received for active service as a reservist or as a National Guard member, including pay received for weekend or two week training periods. You may subtract the amount of pay received for active service as a reservist or as a National Guard member that you had to include in your Arizona gross income. Enter only that amount of pay reported on your 2010 federal return that you also included on line B7 in the ARIZONA column.

H. Federally Taxable Arizona Municipal Interest

Enter the amount of any interest income received on obligations of the State of Arizona, or any political subdivisions of Arizona, that you included in your Arizona gross income. Enter only that amount of Arizona municipal interest income that you included on line B8 in the ARIZONA column. Do not enter any Arizona municipal interest that is exempt from federal taxation and not included in your federal adjusted gross income.

I. Adoption Expenses

You may take this subtraction only in the year the final adoption order is granted.

Enter the lesser of the total of the following adoption expenses or \$3,000.

When figuring your subtraction, you may include expenses incurred in prior years.

The following expenses are qualified adoption expenses.

1. Nonreimbursed medical and hospital costs.
2. Adoption counseling.
3. Legal and agency fees.
4. Other nonrecurring costs of adoption.

If filing separately, you may take the entire subtraction, or you may divide the subtraction with your spouse. However, the total subtraction taken by both you and your spouse cannot exceed \$3,000.

J. Qualified Wood Stove, Wood Fireplace, or Gas Fired Fireplace

Arizona law provides a subtraction for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 of the costs incurred for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, do not include taxes, interest, or other finance charges.

A qualified wood stove or a qualified wood fireplace is a residential wood heater that was manufactured on or after July 1, 1990, or sold at retail on or after July 1, 1992. The residential wood heater must also meet the U.S. Environmental Protection Agency's July 1990 particulate emissions standards.

A qualified gas fired fireplace is any device that burns natural or liquefied petroleum gas as its fuel through a burner system that is permanently installed in the fireplace. The conversion of an existing wood burning fireplace to

noncombustible gas logs that are permanently installed in the fireplace also qualifies as a gas fired fireplace.

K. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years.

You must make an entry here if **all** of the following apply.

1. During a year prior to 2010 you were required to repay income held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. You computed your tax for that prior year under Arizona's claim of right provisions.
4. A net operating loss or capital loss was established due to the repayment made in the prior year.
5. You are entitled to take that net operating loss or capital loss carryover into account when computing your 2010 Arizona taxable income.
6. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the amount included in your Arizona gross income.

Enter the amount by which the loss carryover allowed for the taxable year under Arizona law is more than the amount included in your Arizona gross income.

L. Certain Expenses Not Allowed for Federal Purposes

You may subtract some expenses that you cannot deduct on your federal return when you claim certain federal tax credits. These federal tax credits are:

- the federal work opportunity credit
- the empowerment zone employment credit
- the credit for employer-paid social security taxes on employee cash tips
- the Indian employment credit

If you received any of the above federal tax credits for 2010, enter the portion of wages or salaries attributable to income subject to Arizona tax that you paid or incurred during the taxable year that is equal to the amount of those federal tax credits you received.

M. Qualified State Tuition Program Distributions

If you are a beneficiary of a qualified state tuition program, you may subtract some of the amount distributed from the program for qualified education expenses. Enter the amount of the distribution included in your federal adjusted gross income that you included as income in the Arizona column. A qualified state tuition program is a program that meets the requirements of I.R.C. § 529.

N. Subtraction for World War II Victims

You may subtract distributions made to you for your persecution or the persecution of your ancestors by Nazi Germany or any other Axis regime for racial, religious or political reasons. If you are the first recipient of such distributions, enter the amount of the distributions that you had to include in your federal adjusted gross income that you also entered in the ARIZONA column on your Form 140PY.

You may also subtract items of income that are attributable to, derived from or related to assets that were stolen or hidden from or lost to you if you were persecuted by Nazi Germany or any other Axis regime for racial, religious or

political reasons before, during or immediately after World War II. If you are the first recipient of such income, enter the amount of income that you had to include in your federal adjusted gross income that you also entered in the ARIZONA column on your Form 140PY.

O. Installment Sale Income from Another State Taxed by the Other State in a Prior Taxable Year

You may subtract income from an installment sale if **both** of the following apply:

1. The income from the sale is subject to Arizona income tax in 2010; and
2. You paid income tax to another state on that income in a prior tax year.

Enter the amount of such income that you included in your Arizona gross income for 2010.

Do not enter any amount that is subject to tax by both Arizona and another state in 2010. In this case, you may be eligible for a tax credit. See Form 309 for details.

P. Recalculated Arizona Depreciation

Figure the total amount of depreciation allowable pursuant to I.R.C. § 167(a) for the taxable year calculated as if you had elected not to claim bonus depreciation for eligible properties for federal purposes. Enter the amount that is attributable to income taxable by Arizona.

Q. Basis Adjustment for Property Sold or Otherwise Disposed of During the Taxable Year

With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer who has complied with the requirement to add back all depreciation attributable to income taxable by Arizona with respect to that property on tax returns for all taxable years beginning from and after December 31, 1999, enter the amount of depreciation that has been allowed pursuant to I.R.C. § 167(a) attributable to income taxable by Arizona to the extent that the amount has not already reduced Arizona taxable income in the current or prior years. (Note: The practical effect of this is to allow a subtraction for the difference in basis for any asset for which bonus depreciation has been claimed on the federal return.) A part-year resident may subtract only that amount that is attributable to income subject to Arizona tax.

R. Fiduciary Adjustment

If the amount reported on line 3 of your Arizona Form 141AZ, Schedule K-1, is a negative number, enter that portion of Form 141AZ, Schedule K-1, line 3 that is allocable to estate or trust income taxable by Arizona as a subtraction from income. Enter the subtraction on line D35.

S. Adjustment for I.R.C. § 179 Expense Not Allowed

Enter 20% of the amount entered on line C23 for excess I.R.C. § 179 expense. This same amount can be subtracted in each of the following four taxable years also, effectively amortizing the difference in treatment over five years. If you made an addition for I.R.C. § 179 expense on your 2006, 2007, 2008 and/or 2009 return, also enter 20% of the amount added for 2006, 2007, 2008 and/or 2009.

T. Contributions to 529 College Savings Plans

For taxable years 2008 through 2012, you may subtract amounts you contribute to 529 college savings plans during

the taxable year. You may subtract the amount you contributed during the year, while an Arizona resident, up to a total of \$750 (\$1,500 for a married couple filing a joint return). If you are married filing separate returns, either you or your spouse may take the subtraction, or you may divide it between you, but the total taken by both of you cannot be more than \$1,500.

If you contribute more than \$750 (\$1,500 if married) during the year, your total subtraction is still limited to \$750 (\$1,500 if you are married). For example, Jorge and Kate are married and have two children. During 2010, Jorge and Kate, contributed \$1,500 to a 529 plan for Child 1 and \$1,500 to a 529 plan for Child 2. Even though Jorge and Kate contributed a total of \$3,000 during 2010, they may subtract only \$1,500 on their 2010 return.

You may take a subtraction for a contribution that you made during 2010, to a plan that existed before 2010. You may take a subtraction for a contribution that you made during 2010, to a plan established in another state. You may take a subtraction for a contribution that you made in 2010, to any 529 college savings plan. This could be a plan established for a child, grandchild, niece, nephew, or any other person for whom a plan has been established.

You cannot take a subtraction for an amount transferred from one college savings plan to a different college savings plan (a rollover).

U. Net Operating Loss Adjustment.

NOTE: *This subtraction applies to only those individuals who made an election under the special federal net operating loss rules for 2008 and 2009. Under the special rules for 2008 and 2009, you could have elected to carry the net operating loss back for 3, 4 or 5 years, instead of the normal 2 years. This election would have been allowed under I.R.C. § 172(b)(1)(h) as amended by the American Recovery and Reinvestment Act of 2009 or the Worker, Homeownership, and Business Assistance Act of 2009.*

Arizona did not adopt the special federal net operating loss rules for losses incurred during 2008 or 2009. For Arizona purposes, you must deduct an Arizona source net operating loss as if the loss was computed under I.R.C. § 172 in effect prior to the enactment of those special rules. If you made an election to deduct your 2008 or 2009 federal net operating loss under I.R.C. § 172(b)(1)(h), you may have to enter an amount here. Figure how much of the net operating loss carry forward would have been allowed as a deduction on your 2010 federal income tax return, if the election described in I.R.C. § 172(b)(1)(h) had not been made in the year of the loss. Then figure how much of the carry forward computed under that method is attributable to income taxed by Arizona. The amount you may take as a subtraction is the difference between the Arizona amount and the amount actually taken for federal purposes that you included in your Arizona gross income. On line D35, enter the amount of carry forward deduction allowable on your Arizona return that exceeds the actual amount of net operating loss carry forward deduction that was deducted in arriving at Arizona gross income.

V. Previously Deferred Discharge of Indebtedness (DOI) Income Adjustment

Generally, when a loan is settled for less than the amount owed, DOI income is realized by the debtor and usually must be included in the debtor's gross income. The amount of

DOI income is generally equal to the amount of loan forgiveness. DOI income also occurs when a debtor repurchases his or her own debt at a discount (a price lower than the adjusted basis issue price of the debt instrument). In debt repurchase transactions, the amount of DOI income is generally equal to the difference between the adjusted issue price and the price paid for the debt instrument.

For federal purposes, a taxpayer may have made a special election for taxable years 2009 or 2010 to include DOI income in connection with the reacquisition of a business debt instrument, ratably over a 5 year period. A taxpayer that made this election will generally include this income in federal adjusted gross income beginning with the 2014 taxable year. A taxpayer would have made the federal election under I.R.C. § 108(i) as added by the American Recovery and Reinvestment Act of 2009.

Arizona did not adopt the special federal DOI income deferral provisions for the 2009 or 2010 taxable year. For Arizona purposes, if you made the federal election to defer the inclusion of DOI income under I.R.C. § 108(i), you were required to add the amount of deferred DOI income to Arizona gross income on the return filed for the year in which you reacquired the debt instrument if the debt reacquisition occurred while you were an Arizona resident, or if the DOI income was from an Arizona source. (See the instructions for "Other Additions to Income.") If you made the required addition to Arizona income on the Arizona return filed for the year in which you reacquired the debt instrument (2009 or 2010), Arizona will not tax that DOI income twice. In the year in which you include that deferred DOI income in your federal adjusted gross income and likewise, your Arizona gross income, you may take a subtraction for the amount included for that year. Usually this subtraction will apply to taxable years 2014 through 2018. However, if you had to accelerate the deferral for federal purposes, this subtraction may apply to a taxable year prior to 2014. On line D35, enter the amount of previously deferred DOI income that you included in your Arizona gross income for the current taxable year to the extent that the amount was previously added to your Arizona income.

W. Original Issue Discount (OID) on Reacquisition of Debt Instrument

For federal purposes, when a taxpayer made the special election to defer DOI income under I.R.C. § 108(i) (see letter "V" above), the taxpayer was not allowed to take a deduction with respect to the portion of any OID that accrued with respect to that DOI income, during the income deferral period. In this case, the taxpayer must deduct the aggregate amount of the OID deductions disallowed ratably over a 5 year period, beginning with the period in which the income is includible in federal adjusted gross income.

Arizona did not adopt the federal provisions requiring a taxpayer to defer the OID deduction in cases where the taxpayer federally deferred the DOI income under I.R.C. § 108(i). For Arizona purposes, you were required to add the amount of deferred DOI income to Arizona gross income on the return filed for the year in which you reacquired the debt instrument if the debt reacquisition occurred while you were an Arizona resident, or if the DOI income was from an

Arizona source. If Arizona taxed the federally deferred DOI income for 2009 or 2010 on your 2009 or 2010 Arizona return, you may subtract the amount of OID that accrued during the taxable year with respect to that DOI income. On line D35, enter the amount of any OID related to that DOI income that was deferred and not allowed to be deducted in computing your federal adjusted gross income for 2010 under I.R.C. § 108(i).

X. Other Adjustments

Other special adjustments may be necessary. Call one of the numbers listed on the back cover if any of the following apply.

- You are a previously certified defense contractor that elected to amortize under Arizona Revised Statutes section 43-1024.
- You sold or disposed of property that was held for the production of income and your basis was computed under the Arizona Income Tax Act of 1954.
- You were an Arizona resident before December 31, 1975, and you are receiving IRA distributions from your IRA account to which you made contributions before December 31, 1975.
- You were an Arizona resident before December 31, 1975, and you are receiving distributions from your qualified self-employment retirement plan to which you made contributions before December 31, 1975.
- You deferred exploration expenses determined under Internal Revenue Code section 617 in a taxable year ending before January 1, 1990, and you have not previously taken a subtraction for those expenses.

Line D36 - Total Subtractions

Add lines D30 through D35. Enter the total here and on the front of your return, line 18.

Line E37 - Last Name(s) Used in Prior Years

Use line E37 if the last name that you are using on this return is not the same as the last name you used on Arizona returns filed for the last 4 years. On line E37, enter any other last name(s) that you used when filing your Arizona return during the last 4 years.

Totaling Your Income

Line 14 - Federal Adjusted Gross Income

You must complete your federal return before completing your Arizona return. You must complete a 2010 federal return to determine your federal adjusted gross income even if not filing a federal return.

Arizona uses federal adjusted gross income as a starting point to determine Arizona taxable income. Enter your federal adjusted gross income from page 2, line B18.

Line 15 - Arizona Income

Enter your Arizona income from page 2, line B19, of your return.

Line 16 - Additions to Income

Enter the amount from page 2, line C24, of your return.

Line 18 - Subtractions from Income

Enter the amount from page 2, line D36, of your return.

Figuring Your Arizona Tax

Line 20 - Itemized or Standard Deductions

You must decide whether to take the standard deduction or to itemize your deductions. Your Arizona income tax will be less if you take the larger of your standard deduction or your itemized deduction.



When you **e-File**, the software completes the math for you.

Your Standard Deduction

Tax Tip: *The standard deduction is not prorated.*

If you take the standard deduction, check box 20S.

| If your filing status is: | Your standard deduction is: |
|---------------------------|-----------------------------|
| • Single | \$4,677 |
| • Married filing separate | \$4,677 |
| • Married filing joint | \$9,354 |
| • Head of household | \$9,354 |

Your Itemized Deductions

You may itemize deductions on your Arizona return even if you do not itemize deductions on your federal return. The itemized deductions allowed for Arizona purposes are, with some exceptions, those itemized deductions that are allowable under the Internal Revenue Code.

A part-year resident who has no Arizona source income during the part of the year while an Arizona nonresident can deduct all of the following.

1. Those expenses incurred and paid during the part of the year while an Arizona resident.
2. Arizona source itemized deductions incurred and paid during the period of nonresidency.

Complete Arizona Form 140PY, Schedule A(PY), to determine your Arizona itemized deductions.

A part-year resident who also had Arizona source income during the part of the year while an Arizona nonresident can deduct all of the following.

1. Those expenses incurred and paid during the part of the year while an Arizona resident.
2. Arizona source itemized deductions incurred and paid during the period of nonresidency.
3. A portion of all other itemized deductions paid during the period of nonresidency.

Complete Arizona Form 140PY, Schedule A(PYN), to determine your Arizona itemized deductions. Form 140PY, Schedule A(PYN), is not included in your booklet. You may get this form by visiting our web site at www.azdor.gov.

To determine your Arizona itemized deductions, complete a federal Form 1040, Schedule A. Then complete the Arizona Form 140PY, Schedule A(PY) or A(PYN). If you itemize deductions, check box 20I.

NOTE: *If you itemize, you must attach a copy of your federal Schedule A to your Arizona return.*

For more information on itemized deductions allowed to a part-year Arizona resident, see Arizona Individual Income Tax Ruling *ITR 94-10*.

Line 21 - Personal Exemptions

Your personal exemption depends on your filing status. See Personal Exemption Chart. Then complete the Personal Exemption Worksheet.

NOTE For Active Duty Military Personnel Only: *If you were an active duty military member who either began or gave up Arizona residency during 2010, do not prorate the personal exemption. You are allowed a 100 percent deduction for the personal exemption (to include spouse).*

| Personal Exemption Worksheet | |
|---|----|
| 1. Enter amount from the chart above. Taxpayers, other than active duty military members, complete lines 2 and 3. If you are an active duty military member who either began or gave up Arizona residency during 2010, skip lines 2 and 3 and enter this amount on Form 140PY, page 1, line 21. | \$ |
| 2. Enter your Arizona percentage from Form 140PY, page 2, line B20. | % |
| 3. Multiply line 1 by the percent on line 2. Enter the result here and on Form 140PY, page 1, line 21. | \$ |

A married couple who does not claim any dependents may take one personal exemption of \$4,200 (prior to prorating). If the husband and wife file separate returns, either spouse may (prior to prorating) take the entire \$4,200 exemption, or the spouses may divide the \$4,200 (prior to prorating) between them. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$2,100 (prior to prorating). If you and your spouse do not complete Form 202, you may (prior to prorating) take an exemption of only \$2,100 (one-half of the total \$4,200).

A married couple who claims at least one dependent may take one personal exemption of \$6,300 (prior to prorating). If the husband and wife file separate returns, either spouse may (prior to prorating) take the entire \$6,300 exemption, or the spouses may divide the \$6,300 between them. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$3,150 (prior to prorating). If you and your spouse do not complete Form 202, you may (prior to prorating) take an exemption of only \$3,150 (one-half of the total \$6,300).

If you are a married person who qualifies to file as a head of household, you may take the entire \$6,300 (prior to prorating) personal exemption or you may divide the exemption with your spouse. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$3,150 (prior to prorating). If you and your spouse do not complete Form 202, you may take an exemption of only \$3,150 (prior to prorating) (one-half of the total \$6,300).

The spouse who claims more than one-half of the total personal exemption (prior to prorating) must attach the original Form 202 to his or her return. The spouse who claims less than one-half of the total personal exemption (prior to prorating) must attach a copy of the completed Form 202 to his or her return.

Line 22 - Taxable Income

Subtract lines 20 and 21 from line 19 and enter the result. Use this amount to calculate your tax using Tax Table X or Y.

| Personal Exemption Chart Caution, be sure to complete the worksheet below. | |
|---|---|
| If you checked filing status: | Personal Exemption before proration: |
| • Single (Box 7) | \$2,100 |
| • Married filing joint return (Box 4) and claiming no dependents (Box 10) | \$4,200 |
| • Married filing joint return (Box 4) and claiming at least one dependent (Box 10 excluding persons listed on Page 2, line A3a) | \$6,300 |
| • Head of household and you are not married (Box 5) | \$4,200 |
| • Head of household and you are a married person who qualifies to file as head of household (Box 5) | \$3,150 Or Complete Form 202 <i>Personal Exemption Allocation Election.</i> |
| • Married filing separately (Box 6) with neither spouse claiming any dependents (Box 10) | \$2,100 Or Complete Form 202 <i>Personal Exemption Allocation Election.</i> |
| • Married filing separately (Box 6) with one spouse claiming at least one dependent (Box 10 excluding persons listed on Page 2, line A3a) | \$3,150 Or Complete Form 202 <i>Personal Exemption Allocation Election.</i> |

Line 23 - Tax Amount

Enter the tax from Tax Table X or Y.

Line 24 - Tax From Recapture of Credits From Arizona Form 301

Enter the amount of tax due from recapture of the credits from Form 301, Part II, line 31.

Line 25 - Subtotal of Tax

Add lines 23 and 24.

Lines 26 and 27 - Clean Elections Fund Tax Reduction

You may designate \$5 of your tax go to the Clean Elections Fund and may also reduce your tax by up to \$5. If you are married filing a joint return, both you and your spouse may make this designation and also reduce your tax by up to \$10.

Single Taxpayers, Heads of Household, and Married Taxpayers Filing a Joint Return With Only One Spouse Making a Designation

To make this designation, Check box 261 marked yourself.

If you checked box 261 and the amount on Form 140PY, page 1, line 25, is \$10 or more, enter \$5 on line 27. If the amount on line 25 is less than \$10, complete the following worksheet.

Married Taxpayers Filing a Joint Return With Both Spouses Making a Designation

If both spouses want to make this designation, one spouse should check box 261, and the other spouse should check box 262.

If you checked both box 261 and box 262 and the amount on Form 140PY, page 1, line 25, is \$20 or more, enter \$10 on line 27. If the amount on line 25 is less than \$20, complete the following worksheet.

| | |
|--|--|
| 1. Enter the amount of tax from Form 140PY, page 1, line 25. | |
| 2. If you checked box 261, enter \$5. If a joint return and your spouse also checked box 262, enter \$10. | |
| 3. Balance of tax eligible for tax reduction. Subtract line 2 from line 1. If less than zero, enter zero "0". | |
| 4. If you checked box 261, enter \$5. If a joint return and your spouse also checked box 262, enter \$10. | |
| 5. Tax reduction. Enter the lesser of line 3 or line 4. Also enter this amount on Form 140PY, page 1, line 27. | |

NOTE: Amounts designated to the Clean Elections Fund here do not qualify for the credit on line 32.

Line 28 - Reduced Tax

Subtract line 27 from line 25. Enter the result.

Line 29 - Family Income Tax Credit

e-file e-File software will let you know if you are eligible and will figure the credit for you.

You may take this credit if your income does not exceed the maximum income allowed for your filing status.

- Complete steps 1, 2, and 3 to see if you qualify for this credit.
- If you qualify to take this credit, complete Worksheet II in step 4.

Step 1

Complete Worksheet I below.

| | |
|---|--|
| 1. Enter the amount from Form 140PY, page 1, line 19. | |
| 2. Enter the amount Form 140PY, page 2, line D30. | |
| 3. Add lines 1 and 2. Enter the result. | |

Step 2

Look at the following tables. Find your filing status.

- Use Table I if married filing a joint return.
- Use Table II if head of household.
- Use Table III if single or married filing a separate return.

Step 3

- Look at the column (a) labeled "number of dependents" and find the number of dependents you are claiming (Form 140PY, page 1, box 10, excluding persons listed on Page 2, line A3a.).
- Find the maximum income [amount in column (b)] for the number of dependents you are claiming.
- Compare that income [the amount in column (b)] with the income listed in Step 1 on Worksheet I, line 3.

If the amount entered in step 1 on Worksheet I, line 3, is equal to or less than the maximum income allowed for the number of dependents you are claiming, you qualify to take this credit. To figure your credit, complete step 4.

| Column (a) | Column (b) |
|--|----------------|
| Number of dependents you are claiming on Form 140PY, page 1, box 10, excluding persons listed on Page 2, line A3a. | Maximum Income |
| • 0 or 1 | \$20,000 |
| • 2 | \$23,600 |
| • 3 | \$27,300 |
| • 4 or more | \$31,000 |

| Column (a) | Column (b) |
|--|----------------|
| Number of dependents you are claiming on Form 140PY, page 1, box 10, excluding persons listed on Page 2, line A3a. | Maximum Income |
| • 0 or 1 | \$20,000 |
| • 2 | \$20,135 |
| • 3 | \$23,800 |
| • 4 | \$25,200 |
| • 5 or more | \$26,575 |

| Table III Single Or Married Filing Separately | |
|--|-------------------|
| Column (a) | Column (b) |
| Number of dependents you are claiming on Form 140PY, page 1, box 10, excluding persons listed on Page 2, line A3a. | Maximum Income |
| • 0 or more | \$10,000 |

Step 4

If you qualify to take the credit, complete this worksheet following the tables.

| Worksheet II You must complete Steps 1 through 3 before you complete Worksheet II | |
|--|--|
| 1. Enter the number of dependents you entered on Form 140PY, page 1, box 10, excluding persons listed on Page 2, line A3a. | |
| 2. Number of personal exemptions. If you checked filing status 4, enter the number 2. If you checked filing status 5, 6, or 7, enter the number 1. | |
| 3. Add lines 1 and 2. Enter the result. | |
| 4. Multiply the amount on line 3 by \$40. Enter the result. | |
| 5. If you checked filing status 4 or 5, enter \$240 here. If you checked filing status 6 or 7, enter \$120 here. | |
| 6. Family income tax credit. Enter the lesser of line 4 or line 5. Also enter this on Form 140PY, page 1, line 29. | |
| NOTE: <i>The family income tax credit will only reduce your tax and cannot be refunded.</i> | |

Line 30 - Nonrefundable Credits From Arizona Form 301 or Forms 310, 321, 322 and 323 if Form 301 is not Required

Complete line 30 if you can take any of the following credits. Also make sure that you attach the Arizona Form 301 if you are required to complete Form 301 and the appropriate credit form or forms to your return.

- 1. Defense Contracting Credits.** Your unused defense contracting credit carryover may be carried forward as a credit against subsequent taxable years' tax liability through tax year 2011. See Form 302 for details.
- 2. Enterprise Zone Credit.** You may qualify for this credit if your business in an Arizona enterprise zone had net increases in qualified employment positions. Use Form 304 to figure this credit.
- 3. Environmental Technology Facility Credit.** You may qualify for this credit if your business incurred expenses in constructing a qualified environmental technology manufacturing facility. Use Form 305 to figure this credit.
- 4. Military Reuse Zone Credit.** You may qualify for this credit if you have qualifying net increases in full-time employment within a military reuse zone. Use Form 306 to figure this credit.
- 5. Recycling Equipment Credit.** The recycling equipment credit allowable to individuals has been repealed. You may

not take this credit for taxable years beginning January 1, 2003 or later. However, the repeal did not affect any credit carryover that accrued prior to the repeal. Use Form 307 to figure any allowable credit carryover.

6. Credit for Increased Research Activities - Individuals. You may qualify for this credit if you incurred qualified research expenses for research conducted in Arizona. Use Form 308-I to figure this credit.

7. Credit for Taxes Paid to Another State or Country. You may qualify for this credit if you paid tax to Arizona and another state or country on the same income. Use Form 309 to figure this credit.

8. Credit for Solar Energy Devices. You may qualify for this credit if you installed a solar energy device in your residence located in Arizona. Use Form 310 to figure this credit.

9. Agricultural Water Conservation System Credit. You may qualify for this credit if you incurred expenses to purchase and install an agricultural water conservation system in Arizona. Use Form 312 to figure this credit.

10. Pollution Control Credit. You may qualify for this credit if you purchased depreciable property used in a trade or business to reduce or prevent pollution. Use Form 315 to figure this credit.

11. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets. You may qualify for this credit if you install solar hot water heater plumbing stub outs or electric vehicle recharge outlets in houses or dwelling units you construct. The taxpayer that constructed the dwelling may also transfer the credit to a purchaser. Use Form 319 to figure this credit.

12. Credit for Employment of TANF Recipients. You may qualify for this credit if you employed TANF recipients during the taxable year. Use Form 320 to figure this credit.

13. Credit for Contributions to Charities that Provide Assistance to the Working Poor. You may qualify for this credit if you made contributions to certain charities that provide help to the working poor. Use Form 321 to figure this credit.

14. Credit for Contributions Made or Fees Paid to Public Schools. You may qualify for this credit if you made contributions or paid certain fees to public schools in Arizona. Use Form 322 to figure this credit.

15. Credit for Contributions to Private School Tuition Organizations. You may qualify for this credit if you made contributions to a school tuition organization that provides scholarships or grants to qualified schools. Use Form 323 to figure this credit.

16. Agricultural Pollution Control Equipment Credit. You may qualify for this credit if you are involved in commercial agriculture and incur expenses to purchase tangible personal property that is primarily used in your trade or business to control or prevent pollution. Use Form 325 to figure this credit.

17. Credit for Donation of School Site. You may qualify for this credit if you donated real property and improvements to a school district or a charter school for use as a school or as a site for the construction of a school. Use Form 331 to figure this credit.

18. Credit for Healthy Forest Enterprises. You may qualify for this credit if you had net increases in qualified employment positions as a healthy forest enterprise. Use Form 332 to figure this credit.

19. Credit for Employing National Guard Members. You may qualify for this credit if you are an employer who has an employee that is a member of the Arizona National Guard if the employee is placed on active duty. Use Form 333 to figure this credit.

20. Motion Picture Credits. A credit is available to motion picture production companies that produce motion pictures, commercials, music videos, or television series completely or partially in Arizona. A tax credit for investments in motion picture infrastructure projects in Arizona is also available. Use Form 334 to figure this credit.

21. Credit for Solar Energy Devices - Commercial or Industrial Applications. This credit is available to taxpayers that install solar energy devices for commercial, industrial or other nonresidential applications in Arizona. Use Form 336 to figure this credit.

22. Credit for Investment in Qualified Small Businesses. You may qualify for this credit if you made an investment in a qualified small business. Use Form 338 to figure this credit.

23. Credit for Water Conservation Systems. You may qualify for this credit if you installed a qualifying water conservation system in your residence located in Arizona. Use Form 339 to figure this credit.

24. Credit for Donations to the Military Family Relief Fund. You may qualify for this credit if you made a cash contribution to the Arizona Military Family Relief Fund during the taxable year. Use Form 340 to figure this credit.

Compute your credit on the appropriate form. Then, if required, complete Form 301 and enter the amount from Form 301, line 59. The credits on line 30 cannot reduce your tax below zero. These credits are not refundable credits.

Attach Arizona Form 301 along with any supporting documents to your return.

Line 31 - Credit Type

| | |
|--|---------------------------|
| If you entered an amount on line 30, write the form number of each credit claimed. | |
| If you are claiming: | Write form number: |
| 1. Defense Contracting Credits | 302 |
| 2. Enterprise Zone Credit | 304 |
| 3. Environmental Technology Facility Credit | 305 |
| 4. Military Reuse Zone Credit | 306 |
| 5. Recycling Equipment Credit | 307 |
| 6. Credit for Increased Research Activities - Individuals | 308 |
| 7. Credit for Taxes Paid to Another State or Country | 309 |
| 8. Credit for Solar Energy Devices | 310 |
| 9. Agricultural Water Conservation System Credit | 312 |
| 10. Pollution Control Credit | 315 |
| 11. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets | 319 |
| 12. Credit for Employment of TANF Recipients | 320 |
| 13. Credit for Contributions to Charities That Provide Assistance to the Working Poor | 321 |

| | |
|---|-----|
| 14. Credit for Contributions Made or Fees Paid to Public Schools | 322 |
| 15. Credit for Contributions to Private School Tuition Organizations | 323 |
| 16. Agricultural Pollution Control Equipment Credit | 325 |
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| 22. Credit for Investment in Qualified Small Businesses | 338 |
| 23. Credit for Water Conservation Systems | 339 |
| 24. Credit for Donations to the Military Family Relief Fund | 340 |

Line 32 - Clean Elections Fund Tax Credit

NOTE: An Amount entered on Form 140PY, page 1, line 27 does not qualify for the credit. Do not include that amount here. For the purpose of this credit, that amount is not a donation.

If you made a donation to the Citizens Clean Elections Fund, you may take a credit for that gift.

For 2010, you may claim a credit for:

- Donations made directly to the fund during 2010.
- A donation made to the fund on your 2009 income tax return that you filed in 2010.

You may not claim a credit on the 2010 return for a donation made to the fund with your 2010 return that you file in 2011. You may claim a credit for that donation on your 2011 return.

Complete the following worksheet to figure your credit.

| Worksheet for Calculating the 2010 Clean Elections Fund Tax Credit | |
|--|--|
| 1. Enter the amount donated directly to the fund during 2010. | |
| 2. Enter the amount donated to the fund with your 2009 tax form. | |
| 3. Add line 1 and line 2. Enter the total. | |
| 4. Enter the amount from Form 140PY, page 1, line 28. | |
| 5. Enter the amount from Form 140PY, page 1, line 29. | |
| 6. Enter the amount from Form 140PY, page 1, line 30. | |
| 7. Add line 5 and line 6. Enter the total | |
| 8. Subtract line 7 from line 4. | |
| 9. Multiply line 8 by 20% (.20). | |
| 10. Enter \$640 if single, head of household, or married filing separately. Enter \$1,280 if married filing joint. | |
| 11. Enter the larger of line 9 or line 10. | |
| 12. Enter the smaller of line 3, line 8, or line 11 here and also on Form 140PY, page 1, line 32. | |

NOTE: This credit will only reduce your tax and cannot be refunded. You may not carry forward any amount of unused credit.

Line 33 - Balance of Tax

Subtract lines 29, 30 and 32 from line 28. If the sum of lines 29, 30 and 32 is more than line 28, enter zero.

Totaling Payments

Line 34 - Arizona Income Tax Withheld

Enter the Arizona income tax withheld as shown on the Form(s) W-2 from your employer. Also enter the Arizona income tax withheld shown on your Form(s) 1099-R (distributions from pensions, annuities, etc.). Attach the Form(s) W-2 and 1099 after the last page of your return. Do not include income taxes withheld by any other state.

Line 35 - Arizona Estimated Tax Payments for 2010 and Amount Applied From 2009 Return

Use this line if you did one of the following:

1. Made estimated income tax payments to Arizona for 2010.
2. Applied any of your refund from your 2009 Arizona return to 2010 estimated taxes for Arizona.

Enter the total amount paid and/or applied to 2010 taxes.

NOTE: *If you made joint Arizona estimated payments for 2010, but are filing separate 2010 Arizona income tax returns, see Arizona Department of Revenue Income Tax Ruling ITR 02-3.*

Line 36 - 2010 Arizona Extension Payment (Form 204)

Use this line to report the payment you sent with your extension request, or the electronic extension payment you made using www.aztaxes.gov.

Line 37 - Increased Excise Tax Credit

You may take this credit if you meet all of the following:

1. You meet the income threshold for your filing status.
2. You are not claimed as a dependent by any other taxpayer.
3. You were not sentenced for at least 60 days of 2010 to a county, state or federal prison.

If you are married filing a joint return, or a head of household, you may take this credit if the amount on Form 140PY, page 1, line 14, is \$25,000 or less. If you are single or married filing a separate return, you may take this credit if the amount on Form 140PY, page 1, line 14, is \$12,500 or less.

To figure your credit, complete the following worksheet.

| Credit for Increased Excise Taxes Worksheet | |
|--|-------------|
| | Check one |
| | Yes No |
| If you checked filing status 4 or 5, is the amount on Form 140PY, page 1, line 14, \$25,000 or less? | |
| If you checked filing status 6 or 7, is the amount on Form 140PY, page 1, line 14, \$12,500 or less? | |
| If you checked no, STOP. You do not qualify for this credit. If you checked yes, complete the rest of this worksheet. | |
| 1. Enter the number of dependents you entered on Form 140PY, page 1, box 10, excluding persons listed on Page 2, line A3a. Also exclude any dependent that is not an Arizona resident. | |

| Credit for Increased Excised Tax Worksheet Continued | | |
|--|--------|----|
| 2. Number of personal exemptions. If you checked filing status 4, enter the number 2 here. If you checked filing status 5, 6, or 7, enter the number 1 here. | | |
| 3. Add lines 1 and 2. Enter the result. | | |
| 4. Multiply the amount on line 3 by \$25. Enter the result. | | |
| 5. Maximum credit. | \$ 100 | 00 |
| 6. Enter the smaller of line 4 or line 5 here and also on Form 140PY, page 1, line 37. | | |

Note: *The credit cannot exceed \$100 per household. Do not claim this credit if someone else in your household has already claimed \$100 of the credit. If someone else in your household has claimed less than \$100, you may claim the credit as long as all credit claims filed from your household do not exceed \$100.*

Line 38 - Other Refundable Credits

Enter the total of refundable credits you are claiming from Form 308-I, *Credit for Increased Research Activities - Individuals*, or Form 342, *Credit for Renewable Energy Industry*.

If you enter an amount on this line, be sure you check the box or boxes to show which credits you are claiming. Also be sure to attach the credit claim form (308-I or 342) to your return when you file.

Credit for Increased Research Activities - Individuals (Form 308-I)

You may qualify for the refundable increased research activities credit if you incurred qualified research expenses for research conducted in Arizona. For more information about this credit, and to see whether you may claim a refund of this credit, see Arizona Form 308-I.

If you are claiming a refund of the increased research activities credit from Form 308-I, enter the amount from Form 308-I, Part IV, line 23, here.

Renewable Energy Industry Credit (Form 342)

You may qualify for the refundable renewable energy industry credit if you expanded or located a qualified renewable energy operation in Arizona. For more information about this credit, see Arizona Form 342.

If you are claiming the renewable energy industry credit, from Form 342, enter the amount from Form 342, Part IV, line 12, here.

NOTE: *If you are claiming a refundable credit from both Form 308-I and Form 342, add the amount from Form 308-I, Part IV, line 23 to the amount from Form 342, Part IV, line 12 and enter the total on Form 140PY, page 1, line 38.*

Line 39 - Total Payments and Refundable Credits

Add lines 34 through 38. Enter the total.

Also, do the following if you computed your 2010 tax under Arizona's claim of right provisions.

1. Write "ARS § 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.

2. Include the credit for the prior year tax reduction in the total entered on line 39.
3. Attach a schedule explaining the amounts repaid and the computation of the prior year tax reduction.

For more information on Arizona's claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure *ITP 95-1*.

Figuring Your Overpayment or Tax Due

Line 40 - Tax Due

If line 33 is more than line 39, you have tax due. Subtract line 39 from line 33. Skip lines 41, 42, and 43.

Line 41 - Overpayment

If line 39 is more than line 33, subtract line 33 from line 39. Complete lines 42 and 43.

Line 42 - Amount of Line 41 to Apply to 2011 Tax

If you want all or part of your refund applied to next year's Arizona estimated taxes, enter that amount.

NOTE: *If you apply any of the amount shown on line 41 to 2011, you cannot use that amount to pay any tax that is later found to be due for 2010. You also may not claim a refund for that amount until you file your 2011 return.*

Line 43 - Balance of Overpayment

Subtract line 42 from line 41 to determine your overpayment balance before voluntary gifts and any estimated payment penalty.

Making Voluntary Gifts

You can make voluntary gifts to each of the funds shown below. A gift will reduce your refund or increase the amount due with your return.

NOTE: *If you make a gift, you cannot change the amount of that gift later on an amended return.*

Line 44 - Aid to Education Fund

Gifts go to the Arizona Assistance for Education Fund. The Arizona Board of Education will distribute money in this fund to school districts.

CAUTION: *If you make a contribution to the Aid to Education Fund, you must contribute your entire refund. You may not give more than or less than your entire refund.*

Line 45 - Arizona Wildlife Fund

You may give some or all of your refund to the Arizona Wildlife Fund. You may also give more than your entire refund.

Your gift to the Arizona Wildlife Fund helps protect wildlife in the state. Many species like bald eagles, Apache trout and black-footed ferrets benefit from your gifts to this fund. Gifts are also used to improve areas for watching wildlife statewide.

Line 46 - Citizens Clean Elections Fund

You may give some or all of your refund to the Citizens Clean Elections Fund. You may also send in additional money with your return. If you send in additional money with your return, include that amount on line 60. Enter the amount you want to donate on line 46.

If you make a donation to the fund with your 2010 return, that you file in 2011, you may claim a credit for that donation on your 2011 return.

The Citizens Clean Elections Fund provides funding to each participating candidate who qualifies for campaign funding.

Line 47 - Child Abuse Prevention Fund

You may give some or all of your refund to the Arizona Child Abuse Prevention Fund. You may also give more than your entire refund.

Gifts go to the Arizona Child Abuse Prevention Fund. This fund provides financial aid to community agencies for child abuse prevention programs.

Line 48 - Domestic Violence Shelter Fund

You may give some or all of your refund to the Domestic Violence Shelter Fund. You may also give more than your entire refund.

Gifts go to the Domestic Violence Shelter Fund. This fund provides financial aid to shelters for victims of domestic violence.

Line 49 - I Didn't Pay Enough Fund

You may give some or all of your refund to the I Didn't Pay Enough Fund. You may also give more than your entire refund.

Gifts that you make to the I Didn't Pay Enough Fund will aid the state by going to the Arizona general fund.

Line 50 - National Guard Relief Fund

You may give some or all of your refund to the National Guard Relief fund. You may also give more than your entire refund.

Gifts go to the National Guard Relief Fund. This fund provides financial aid to families of Arizona National Guard members when the National Guard member is placed on active duty and is serving in a combat zone.

Line 51 - Neighbors Helping Neighbors Fund

You may give some or all of your refund to the Neighbors Helping Neighbors Fund. You may also give more than your entire refund.

Gifts go to the Neighbors Helping Neighbors Fund. This fund provides eligible recipients with emergency aid in paying energy utility bills and conserving energy.

Line 52 - Special Olympics Fund

You may give some or all of your refund to the Special Olympics Fund. You may also give more than your entire refund.

Gifts go to the Special Olympics Fund. This fund helps provide programs of the Arizona Special Olympics.

Line 53 - Veterans' Donations Fund

You may give some or all of your refund to the Veterans' Donations Fund. You may also give more than your entire refund.

Gifts go to the Veterans' Donations Fund, which may be used for veterans in Arizona.

Line 54 - Political Gift

Gifts go to one of the following political parties:

- Democratic
- Green
- Libertarian
- Republican

You may give some or all of your refund to a political party. You may also give more than your entire refund.

Line 55 - Political Party

Check the box for the political party to which you wish to give. Select only one party. If you do not select a political party, the department will return the amount on line 54.

Line 56 - Estimated Payment Penalty and MSA Withdrawal Penalty

Estimated Payment Penalty

NOTE: Do not complete Form 221, *Underpayment of Estimated Tax by Individuals*, if the amount on Form 140PY, page 1, line 34, is more than the amount on Form 140PY, page 1, line 33. If the amount on Form 140PY, page 1, line 34, is more than the amount on Form 140PY, page 1, line 33, skip line 56, unless you must report an MSA penalty.

You must have made Arizona estimated income tax payments during 2010 if:

| Your filing status is: | AND Your Arizona gross income for 2009 was greater than: | AND Your Arizona gross income for 2010 exceeded: |
|---------------------------|---|---|
| Married Filing Joint | \$150,000 | \$150,000 |
| Single | \$75,000 | \$75,000 |
| Head of Household | \$75,000 | \$75,000 |
| Married Filing Separately | \$75,000 | \$75,000 |

If you report as a farmer or fisherman for federal purposes, you were not required to make estimated payments during 2010 if the following apply.

1. You are a calendar year filer. You file your Arizona return by March 1, 2011. You pay in full the amount stated on your return as owed.
2. You are a fiscal year filer. You file your Arizona return by the first day of the third month after the end of your fiscal year. You pay in full the amount stated on your return as owed.

If the above applies, check box 2 on line 57 and do not complete Form 221.

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

Complete and attach Form 221, *Underpayment of Estimated Tax by Individuals*, to determine if any penalty is due. Enter the total penalty from Form 221.

MSA Withdrawal Penalty

You must pay a withdrawal penalty if you made an MSA withdrawal during 2010 and all of the following apply.

1. You used the amount withdrawn for purposes other than to pay for qualified medical expenses.
2. You made the withdrawal on a day other than the last business day of the year.
3. The withdrawal is not subject to the federal withdrawal penalty.

The penalty is equal to 10% of the withdrawal. The withdrawal penalty is not subject to abatement. You must remit this penalty with your income tax return filed for the year in which you made the withdrawal.

Multiply the amount of your withdrawal subject to penalty by 10%. Enter the result.

The following withdrawals are not subject to the penalty.

1. Any withdrawal subject to the federal withdrawal penalty.
2. Withdrawals made from your MSA on the last business day of the tax year.
3. Any withdrawal made by an account holder who is at least age 59 1/2 when he or she makes the withdrawal.

NOTE: The following are not withdrawals. Do not enter a penalty for any of the following.

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

For more information, see the department's MSA brochure, Pub 542.

Line 57 -

Box 1 - Check box 1 if any of the following applies to you.

1. You checked the box on line 1 of Form 221.
2. You completed the annualized income worksheet on Form 221.
3. You elected to be treated as a nonresident alien on your federal income tax return. You made three estimated payment installments. Your first installment equaled 50 percent of the total of all of your required installments.

Box 2 - If you are an individual who for federal purposes reports as a farmer or fisherman, check box 2.

Box 3 - If you completed and attached Form 221, check box 3.

Box 4 - If you included an MSA penalty on line 56, check box 4.

Figuring Your Refund or Tax Due

Line 59 - Refund

Subtract line 58 from line 43. Enter your refund on line 59 and skip line 60.

If you owe money to any state agency and certain federal agencies, your refund may go to pay some of the debt. If so, the department will let you know by letter.

Tax Tip: If you change your address before you get your refund, let the department know. Write to: Refund Desk, Arizona Department of Revenue, 1600 W Monroe, Phoenix AZ 85007. Include your SSN in your letter.

Direct Deposit of Refund

Complete the direct deposit line if you want us to directly deposit the amount shown on line 59 into your account at a bank or other financial institution (such as a mutual fund, brokerage firm or credit union) instead of sending you a check.

NOTE: Check the box on line 59A if the direct deposit will ultimately be placed in a foreign account. If you check box 59A, do not enter your routing or account numbers. If this box is checked, we will not direct deposit your refund. We will send you a check instead.

Why Use Direct Deposit?

- You will get your refund fast – even faster if you e-file!
- Payment is more secure since there is no check to get lost.
- It is more convenient. No trip to the bank to deposit your check.
- Saves tax dollars. A refund by direct deposit costs less to process than a check.

NOTE: We are not responsible for a lost refund if you enter the wrong account information. Check with your financial institution to get the correct routing and account numbers and to make sure your direct deposit will be accepted. If the direct deposit is rejected, a check will be sent instead.

Routing Number

The routing number must be 9 digits. The first 2 digits must be 01 through 12 or 21 through 32. Otherwise, the direct deposit will be rejected and a check sent instead. On the following sample check, the routing number is 250250025.

Your check may state that it is payable through a financial institution different from the one at which you have your checking account. If so, **do not** use the routing number on that check. Instead, contact your financial institution for the correct routing number to enter here.

Account Number

The account number can be up to 17 characters (both numbers and letters). **DO NOT** include hyphens, spaces or special symbols. Enter the number from left to right and leave any unused boxes blank. On the following sample check, the account number is 20202086. Be sure **not** to include the check number.

Sample Check

JOHN DOE OR JANE DOE
123 First Street
Sometown, AZ 00000

PAY TO THE ORDER OF _____ \$ 1234.00

THIS BANK Sometown, AZ 00000

For | 250250025 | 20202086 | 1234

NOTE: The routing and account numbers may be in different places on your check.

Line 60 - Amount Owed

Add lines 40 and 58. Enter the amount you owe on line 60. If you are making voluntary donations on lines 45 through 54 in excess of your overpayment, enter the difference on line 60. You may pay only with a check, electronic check, money order, or credit card.

Check or money order

NOTE: Attach your check to the front of your return in the upper left hand corner where indicated. Please do not send cash.

Make your check payable to Arizona Department of Revenue. Write your SSN on the front of your check or money order.

The department cannot accept checks or money orders in foreign currency. You must make payment in U.S. dollars.

Electronic payment from your checking or savings account

You can make an electronic payment from your checking or savings account to pay your balance due for 2010. There is no fee to use this method. To make an electronic payment, go to www.aztaxes.gov click on the "Make a Payment" link. The "E-Check" option in the "Payment Method" drop-down box will debit the amount from the checking or savings account that you specify. If you make an electronic payment from your checking or savings account, you will receive a confirmation number. **Please keep this confirmation number as proof of payment.**

NOTE: You may not make an electronic payment from your checking or savings account if the payment will ultimately be coming from a foreign account. In this case, you must pay by check or money order.

Credit card payment

You can pay with your Discover, MasterCard, Visa, or American Express credit card. Go to www.aztaxes.gov click on the "Make a Payment" link and choose the credit card option. This will take you to a third party vendor site. The provider **will charge** you a convenience fee based on the amount of your tax payment. The service provider will tell you what the fee is during the transaction; you will have the option to continue or cancel the transaction. If you complete the credit card transaction, you will receive a confirmation number. **Please keep this confirmation number as proof of payment.**

Installment Payments

If you cannot pay the full amount shown on line 60 when you file, you may ask to make monthly installment payments. To make this request, complete Arizona Form 140-IA and mail the completed form to the address on the Form 140-IA. **Do not mail Form 140-IA with your income tax return.** You may obtain Arizona Form 140-IA from our web site at www.azdor.gov.

If you cannot pay the full amount shown on line 60, you will be charged interest and may be charged a late payment penalty on the tax not paid by April 18, 2011. To limit the interest and penalty charges, pay as much of the tax as possible when you file.

Sign Your Return

You must sign your return. If married filing a joint return, both you and your spouse must sign even if only one had income. Form 140PY is not considered a valid return unless you sign it. The department cannot send a refund check without proper signatures on the return.

Instructions Before Mailing

- Make sure your SSN is on your return.
- Be sure you enter your home telephone number in the space provided on the front of your return. If your daytime telephone number is not the same as your home number, also enter a daytime number.
- Check to make sure that your math is correct. A math error can cause delays in processing your return.
- If claiming **dependent** exemptions, write the number of dependents claimed on the **front** of the return. On page 2 of the return, also write each dependent's name, relationship, SSN, and the number of months that he or she lived in your home.
- If claiming exemptions for qualifying parents or ancestors, write the number of qualifying parents or ancestors claimed on the **front** of the return. On page 2 of the return, also write each parent's or ancestor's name, relationship, SSN, and the number of months that he or she lived in your home.
- Check the **boxes** to make sure you filled in all required boxes.
- If you requested a filing extension, make sure that you check box 82F on page 1 of the return.
- Sign your return and have your spouse sign if filing jointly.
- Write your SSN on the front of your check. Attach your check to the front of your return in the upper left hand corner where indicated.

The Department of Revenue may charge you \$25 for a check returned unpaid by your financial institution.

- Attach **all** required documents. Place these documents to the back of your return. Use just one staple to attach your documents where shown on page 1 of the return. Please do not use tape. Documents you must attach include those items listed in numbers 1 through 5 below.
1. Attach *Form(s) W-2* after the last page of your return. Also attach *Form(s) 1099-R* after the last page of your return if you had Arizona tax withheld from your pension or annuity.
 2. Attach Arizona Form 301, applicable credit forms, and your own schedules after page 2 of your return. If itemizing, attach these forms after your Arizona Schedule A and your federal Schedule A.
 3. If you are claiming a credit for taxes paid to another state or country, attach copies of the other state's or country's filed return.
 4. If you have tax exempt interest income, be sure to attach a schedule listing the payors and the amount received from each payor.
 5. If you itemize, be sure to attach Arizona Schedule A(PY), or A(PYN), and a copy of the federal Schedule A. Attach the Arizona Schedule A(PY) or A(PYN) and the federal Schedule A directly after page 2 of your return. Attach other forms and schedules behind the Schedules A.
- Do not send correspondence with your return.

Filing Your Return

Before you mail your return, make a copy of your return. Also make a copy of any schedules that you are sending in with your return. Keep the copies for your records. Be sure that you file the original and not a copy.

To mail your return, use the envelope that came in your booklet.

To avoid delays, please use separate envelopes for each return.

Where Should I Mail My Return?

If you are expecting a refund, or owe no tax, or owe tax but are not sending a payment, use the yellow address label attached to the envelope. If the envelope or label is missing, send the return to: Arizona Department of Revenue, PO Box 52138, Phoenix AZ 85072-2138.

If you are sending a payment with this return, use the white address label attached to the envelope. If the envelope or label is missing, send the return to: Arizona Department of Revenue, PO Box 52016, Phoenix AZ 85072-2016.

Make sure you put enough postage on the envelope.

The U.S. Post Office must postmark your return or extension request by midnight April 18. A postage meter postmark will not qualify as a timely postmark. *Only a postmark from the U.S. Post Office will qualify.* You may also use certain private delivery services designated by the IRS to meet the "timely mailing as timely filed" rule.

How Long To Keep Your Return

You must keep your records as long as they may be needed for the administration of any provision of Arizona tax law. Generally, this means you must keep records that support items shown on your return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund or the department can assess additional tax. A period of limitations is the limited time after which no legal action can be brought. Usually, this is four years from the date the return was due or filed.

In some cases, the limitation period is longer than four years. The period is six years from when you file a return if you underreport the income shown on that return by more than 25%. The department can bring an action at any time if a return is false or fraudulent, or you do not file a return. To find out more about what records you should keep, get federal Publication 552.

Where's My Refund?

If you e-filed, you can expect your refund within 2 weeks of the date you filed. If you filed a paper return, you can expect your refund within 12 weeks of the date you filed. You can check on your refund by visiting www.azdor.gov and clicking on "Where's my refund?" If you have not received your refund within the noted time frames, you may call one of the numbers listed on the back cover. Before you call, be sure to have a copy of your 2010 tax return on hand. You will need to know your SSN, your filing status and your 5-digit zip code.

Calling the Department

Your tax information on file with the department is confidential. If you want the department to discuss your tax matters with someone other than yourself, you must authorize the department to release confidential information to that person. You may use Form 285 to authorize the department to release confidential information to your appointee. See Form 285 for details.