

**2021 Arizona S Corporation Income Tax Return**

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

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

**Tax forms, instructions, and other tax information**

If you need tax forms, instructions, and other tax information, go to the department’s website at [www.azdor.gov](http://www.azdor.gov).

**Income Tax Procedures and Rulings**

These instructions may refer to the department’s income tax procedures and rulings for more information. To view or print these, go to our website and select *Reports & Legal Research* from the main menu, then click on *Legal Research* and select a Document Type and a Category from the drop down menus.

**Publications**

To view or print the department’s publications, go to our website, select *Reports & Legal Research* from the main menu, and click on *Publications* in the left hand column.

**General Instructions**

**Who Must Use Arizona Form 120S**

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

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

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

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

The federal tax classification of an entity under the federal "check-the-box rules" determines the entity’s classification for Arizona tax purposes. Refer to the department’s ruling, CTR 97-1, *Federal "Check-The-Box Rules" on Elective Tax Classification*.

**Limited Liability Companies**

A limited liability company (LLC) that makes a valid federal election to be taxed as an S Corporation must file Arizona Form 120S.

A single-member LLC that is disregarded as an entity for federal income tax purposes is treated as a branch or division of its owner, and is included in the tax return of its owner. Refer to the department’s ruling CTR 97-2, *Limited Liability Companies*, for further information.

**Marijuana Establishments, Marijuana Testing Facilities, Dual Use Licensees and Nonprofit Medical Marijuana Dispensaries**

- An S Corporation licensed by the Arizona Department of Health Services (ADHS) as a Marijuana Establishment (Adult Use) or Marijuana Testing Facility (Adult Use), must file an Arizona S Corporation Income Tax Return – Arizona Form 120S to report the income and expenses of its operations for the taxable year.
- An S Corporation licensed by ADHS as a Dual Use Licensee (Dual Use) that elected to operate on a for-profit basis, must file an Arizona Form 120S to report the income and expenses of ALL its operations for the taxable year.
- An S Corporation licensed by ADHS as a Dual Licensee that did not elect to operate on a for-profit basis, must file Arizona Form 99M to report the income and expenses from the Nonprofit Medical Marijuana Dispensary (NMMD) portion of its operations, AND file Arizona Form 120S. The Dual Licensee that did not elect to operate on a for-profit basis must also complete Arizona Form 120S Schedules K-1 and K-1(NR) and provide copies of each shareholder’s respective K-1 or K-1(NR) to the shareholder as the shareholders are not exempt from Arizona income tax.
- An S Corporation registered by ADHS as an NMMD only, must file Arizona Form 99M and Arizona Form 120S to report the income and expenses from its operation as an NMMD. The NMMD must also complete Arizona Form 120S Schedules K-1 and K-1(NR) and provide copies of each shareholder’s respective K-1 or K-1(NR) to the shareholder as the shareholders are not exempt from Arizona income tax.

**Records**

Every S Corporation should maintain books and records substantiating information reported on the return and keep these documents for inspection. Refer to the department’s General Tax Ruling (GTR) 96-1, *Electronic Data Processing* for more information about record retention requirements.

**IRC § 7519 Required Payments**

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

**Rounding Dollar Amounts**

Taxpayers must round amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.

**Examples:**

Company A (A) reports federal taxable income of \$15,000. A has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .326954. A multiplies the federal taxable income by the apportionment ratio. The result is \$4,904.31. Company A rounds the result to \$4,904.00.

Company W (W) reports a federal taxable loss of (\$27,000). W has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .005946. W multiplies its federal loss of (\$27,000) by the apportionment ratio. The result is an Arizona loss of (\$160.54). Company W rounds the result to (\$161.00).

Company Z (Z) reports a federal taxable loss of (\$500). Z has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .075000. Z multiplies its federal loss of (\$500) by the apportionment ratio. The result is an Arizona loss of (\$37.50). Company Z rounds the result to (\$38.00).

**Electronic Filing of S Corporation Income Tax Returns**

**Electronic filing of Arizona S Corporation income tax returns is required for the 2021 taxable year.** Please see the department's website at <https://azdor.gov/e-services/approved-vendors> for a list of approved software vendors.

**Which S Corporations Cannot Electronically File (e-file) Their Arizona Income Tax Returns?**

- S Corporations that cannot e-file their federal return cannot e-file their Arizona return.
- Any S Corporation that was granted a waiver from filing its federal return cannot e-file its Arizona return.
- An S Corporation submitting the 2021 Arizona Form 120S for a 2022 short period return, submit a paper filed return. Do NOT submit this short period return electronically.

**Requesting a Waiver**

Any S Corporation taxpayer who is required to file its income tax return electronically may apply to the director for an annual waiver from the electronic filing requirement. The waiver may be granted if any of the following apply:

- The taxpayer has no computer.
- The taxpayer has no internet access.
- Any other circumstance considered to be worthy by the director.

Waivers are granted on an annual basis and expire at the end of the requested tax year. Waivers must be renewed each calendar year. If a waiver is not renewed, you will be subject to statutory electronic filing and payment requirements at the expiration of your waiver.

To request a waiver, submit Arizona Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Arizona Form 292 is available at: <https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

A waiver is not required if the S Corporation income tax return cannot be electronically filed for reasons beyond the taxpayer's control, including situations in which the taxpayer was instructed by either the Internal Revenue Service or the Arizona Department of Revenue to file by paper.

Please contact the department at [azefile@azdor.gov](mailto:azefile@azdor.gov) if you need assistance in electronically submitting your Arizona S Corporation income tax return.

**Submitting Arizona Form 120S Schedule(s) K-1 and Arizona Form 120S Schedule(s) K-1(NR)**

Schedules K-1 and K-1(NR) [Notice] are an integral part of the S Corporation return. File one copy of each shareholder's Notice with the S Corporation return. Provide each shareholder with a copy of their completed Notice. Retain a copy of each completed Notice for the S Corporation's records.

For calendar year filers, check the box, "calendar year 2021." For fiscal year filers, check the box, "fiscal year" and enter the beginning and ending dates for the fiscal year. If this is a short-period return, indicate the beginning and ending dates for the short period.

**NOTE:** Complete Arizona Form 120S, Schedule K-1, for all resident and part-year resident individual shareholders, all resident estate shareholders and all resident trust shareholders. Complete Arizona Form 120S, Schedule K-1(NR), for all other shareholders.

**S Corporations filing their S Corporation return electronically** must submit Schedule(s) K-1 and Schedule(s) K-1(NR) to the department electronically.

**S Corporations filing a paper return** must submit Schedule(s) K-1 and K-1(NR) to the department by paper.

**Timely Filing of Returns**

- The department determines the timeliness of an electronically filed tax return by the date of the electronic postmark. If the taxpayer and the electronic return preparer or the electronic return transmitter are in different time zones, it is the taxpayer's time zone, as determined by the taxpayer's address, that controls the timeliness of the electronically filed return. When a return has been electronically received on the host system of more than one electronic return preparer or electronic return transmitter during its ultimate transmission to the department, the return shall be deemed filed and received by the department on the date of the earliest electronic postmark.
- The department determines the timeliness of a tax return by the postmark or other official mark of the United States mail stamped on the envelope in which the return is mailed. See the department's ruling, GTR 16-1, *Timely Filing of Income or Withholding Tax Returns Through the United States Mail*.
- The Department will accept proof of mailing from a private delivery service included in the Internal Revenue Service (IRS) list of designated private delivery services. Contact the private delivery service for information regarding how to obtain written proof of mailing.

- If the due date for the return falls on a Saturday, Sunday, or a legal holiday, the return is considered timely filed if it is postmarked the next business day. See the department's ruling, GTR 16-2, *Timely Filing of Income or Withholding Tax Return – Holidays and Weekends*.

### Extension of Time to File a Return

- A request for an extension of time to file an Arizona corporate income tax return **must** be submitted by the original due date of the return.
- **The department may grant an extension request for a maximum of six months.**
- The extension request can be made by filing a federal extension request, or by filing an Arizona extension request, Arizona Form 120EXT.
- The department will accept a valid federal extension for the same period of time covered by the federal extension.
- If the original return is filed under extension, do not include a copy of the extension with your return. However, make sure to check the extension box, 82F, on page 1 of your return.
- Arizona Form 120EXT must be used to transmit extension payments by check or money order regardless of how you request an Arizona extension (valid federal extension or Arizona Form 120EXT).
- If you made extension payments over the Internet, you are not required to file Arizona Form 120EXT unless you are requesting an Arizona filing extension.
- The Arizona extension and the federal extension provide an extension of time to file, but they do not provide an extension of time to pay tax.
  - You must pay 90% of your tax liability (including the \$50 minimum tax) by the original due date of your return.
  - The department imposes the extension underpayment penalty on any late or underpaid extension requests.
- See the department's ruling, CTR 01-3, *Extensions*, for additional information.
- Submit the extension request to the department electronically or mail Form 120EXT to:
 

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

### Filing Original Returns

- Returns are due by the 15<sup>th</sup> day of the 3<sup>rd</sup> month following the close of the taxable year.
- An S Corporation filing a short-period return must file the return by the 15<sup>th</sup> day of the 3<sup>rd</sup> month after the short period ends.
- If the S Corporation has a valid federal or Arizona filing extension, the return is due by the extended due date. If the due date for the return falls on a Saturday, Sunday, or a legal holiday, the return is considered timely filed if it is postmarked the next business day. See the department's ruling, GTR 16-2, *Timely Filing of Income or Withholding Tax Return – Holidays and Weekends*.

- The return must be signed by one or more of the officers of the S Corporation (President, Treasurer, or any other principal officer).
- Do not submit a blank Arizona return with a copy of the federal return. S Corporations must:
  - Furnish complete data,
  - Answer all questions on the return,
  - Complete all applicable schedules, and,
  - Include all appropriate supplementary schedules.
- The department requests that S Corporations include a copy of their "as-filed" federal Form 1120-S and all its schedules and attachments with their Arizona return.
- Submit the return to the department electronically unless the S Corporation has been granted a waiver pursuant to A.R.S. §43-323(F), or has been directed to file a paper return by the IRS or by the department.

### Taxable Year Covered by Return

The S Corporation must have the same taxable year for Arizona purposes as it has for federal purposes.

File the 2021 Arizona Form 120S for calendar year 2021, for fiscal years that begin in 2021 and end in 2022, and for a tax year of less than 12 months that begins in 2021. Indicate whether the taxable year is a calendar year or a fiscal year. If the return is for a fiscal year, indicate the beginning and ending dates for the year in the space(s) provided at the top of page 1.

The 2021 Arizona Form 120S can also be used if the S Corporation has a tax year of less than 12 months that begins and ends in 2022 and the 2022 Arizona Form 120S is not available at the time the S Corporation is required to file its return. The S Corporation must show its 2022 year on the 2021 Arizona Form 120S and take into account any tax law changes that are effective for tax years beginning after December 31, 2021. If submitting the 2021 Arizona Form 120S for a 2022 short-period return, submit a paper filed return. Do not submit this short-period return electronically.

### Filing Amended Returns

Electronic filing of amended S Corporation returns for the 2021 taxable year is available. S Corporations that filed their original return electronically, must submit their amended return electronically. S Corporations that had a waiver from electronic filing, or were directed to file a paper return by the IRS or the department, submit the amended return to the address indicated on the form.

- Any S Corporation that files an amended return with the IRS **must** file an Arizona amended return on Arizona Form 120S, for the tax year amended (i.e. 2021 Arizona Form 120S for tax year 2021) within 90 days of final determination of the federal amended return by the IRS. When filing an amended return, check the box labeled "Amended" in the upper right corner of the return.
- S Corporations **must** report to the department changes or corrections to their taxable income by the IRS or as a result of renegotiation of a contract or subcontract with the United States.

- Within 90 days after the final determination of the change or correction, the S Corporation must:
  - File a copy of the final determination with the department, concede the accuracy of the determination or state any errors, and request that the department recompute the tax owed Arizona, or
  - File an amended return as required by the department.
- If your amended Arizona return is due to federal changes, either an amended federal return or an Revenue Agent Report (RAR), please include a copy of your amended federal return or RAR with your amended Arizona return.
- The S Corporation must provide sufficient information for the department to recompute the S Corporation's Arizona taxable income based on the RAR changes.
- The department may require the S Corporation to file an amended return if the department does not have this information.
- Submit the amended Arizona Form 120S to the department electronically. If electronic filing is unavailable, mail Arizona Form 120S to:
 

Arizona Department of Revenue  
PO Box 29079  
Phoenix, AZ 85038-9079
- If the S Corporation was required to make its tax payments for the 2021 taxable year by electronic funds transfer (EFT), it is must pay any additional tax due from an amended return by EFT.

**NOTE:** *File amended returns for prior taxable years on the respective Arizona Form 120S for those taxable years. Use the 2021 Arizona Form 120S to amend only the taxable year 2021. Do NOT file an amended return until your original return has been processed.*

### Payment of Tax, Penalties, and Interest

The entire amount of tax, penalties, and interest is due by the original due date of the return.

#### Payment by Electronic Funds Transfer

S Corporations with a tax liability of \$500 or more for the 2021 taxable year must pay their tax liability by Electronic Funds Transfer (EFT).

**NOTE:** *If an S Corporation was required to make its tax payments for taxable year 2021 by EFT, it must also pay any additional tax due from an amended return by EFT.*

An S Corporation may apply to the director for an annual waiver from the electronic payment requirement. The application must be received by December 31 of each year. The director may grant the waiver if any of the following applies:

- The S Corporation has no computer.
- The S Corporation has no internet access.
- Any other circumstance considered to be worthy by the director exists, including:
  - The S Corporation has a sustained record of timely payments, and,
  - No delinquent tax account with the department.

To request a waiver, submit Arizona Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Arizona Form 292 is available at: <https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

**NOTE:** *A corporation who is required to pay by EFT but who fails to do so is subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O). For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.*

### How to Make EFT Payments

S Corporations making EFT payments must register with the department before their EFT payments may be accepted. **An officer of the corporation must complete the initial registration.**

Taxpayers may use [www.AZTaxes.gov](http://www.AZTaxes.gov) to make EFT payments:

- Electronic payment from checking or savings account/e-check/ACH Debit.

Payments can be made electronically from a checking or savings account. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov) and choose the e-check option. Follow the prompts to complete your registration.

There is no fee to use this method. This payment method will debit the amount from the specified checking or savings account on the date specified. If an electronic payment is made from a checking or savings account, a confirmation number will be generated. Please keep this confirmation number as proof of payment.

- Online credit card payment

Payments can be made by American Express, Discover, MasterCard, or Visa credit cards. Go to [www.AZTaxes.gov](http://www.AZTaxes.gov) and choose the credit card option. This will take you to the website of the credit card payment service provider. Follow the prompts to make your payment.

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

Taxpayers may also make EFT payment by ACH Credit.

To register to make ACH Credit payments, go to the department's website, [www.azdor.gov](http://www.azdor.gov). Click on "Forms", then click "Other Forms." Click on Form number 10366, Electronic Funds Transfer (EFT) Disclosure Agreement for ACH Credit filers. Click "Download." Complete the form as instructed. Submit the completed at least five business days before the first anticipated transaction as it may take that long to process the application.

Fax the completed form to the department at (602) 771-9913. You may also email the completed form to the department at [electronicfundstransfer@azdor.gov](mailto:electronicfundstransfer@azdor.gov). Once the application is processed, the corporation will receive additional information to present to its bank to make the ACH Credit payment.

The payment will be electronically transferred into the department's account, normally the next business day. The corporation should consult with its bank for the timeframe required to make timely payments. **NOTE:** The corporation may be charged a service fee.

**NOTE:** *S Corporations using a foreign bank account to make EFT payments cannot make EFT payments by ACH Debit. The department does not accept ACH Debit payments from a foreign bank account. If the S Corporation wishes to make payment from a foreign bank account by EFT, the payment MUST be made by ACH Credit. See the instructions for ACH Credit above to register and make ACH Credit payments.*

### Estimated Tax Payments

S Corporations expecting an Arizona income tax liability for the taxable year of \$1,000 or more must make Arizona estimated income tax payments. All S Corporations required to make Arizona estimated payments must make those payments by the 15<sup>th</sup> day of the 4<sup>th</sup>, 6<sup>th</sup>, 9<sup>th</sup>, and 12<sup>th</sup> months of their taxable year.

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

S Corporations that fail to make the required estimated tax payments are subject to a penalty on any estimated tax payment which is late or underpaid.

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

- Ninety percent of the S Corporation's Arizona tax liability for the *current* taxable year; or
- An amount equal to the sum of:
  - Ninety percent of the portion of the *current* taxable year's Arizona tax liability attributable to built-in gains income or certain capital gains income, plus
  - One hundred percent of the portion of the *prior* taxable year's Arizona tax liability that is attributable to excess net passive income.

**NOTE:** *For the S Corporation to base its estimated tax payments on the tax liability described in B above, the S Corporation's return filed for the prior taxable year must have been for a period of twelve months.*

Complete Arizona Form 120W to compute the estimated payments for 2022.

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

*For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.*

### Making Estimated Tax Payments for 2022

S Corporations making estimated payments for 2022 that expect a 2022 income tax liability of \$500 or more must make Arizona corporate estimated tax payments using the EFT program. See the Section *Payment of Tax Liability by Electronic Funds Transfer* on page 3 for details on making tax payments by EFT.

**NOTE:** *S Corporations that make estimated tax payments by EFT should not submit Arizona Form 120ES.*

S Corporations making estimated payments for 2022 who expect a 2022 income tax liability of less than \$500 may pay by check, e-check, money order, credit card, or they may elect to participate in EFT. See the Section, *Payment of Tax Liability by Electronic Funds Transfer* on page 4 for additional information. If paying by check or money order, complete Arizona Form 120ES and include the check or money order with the form.

### Is the S Corporation subject to the Estimated Underpayment Penalty for the 2021 taxable year?

*See the instructions for Arizona Form 220.*

### Penalties and Interest

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

#### A. Late Filing Penalty

Without a valid federal or Arizona extension, a return filed after the original due date is subject to the late filing penalty. A return filed after its extended due date is also subject to the late filing penalty. The late filing penalty is 4.5% (.045) of the amount of tax required to be shown on the return. The penalty period is each month or fraction of a month between the due date of the return and the date the taxpayer filed the return. The maximum penalty is 25% of the tax found to be remaining due.

#### B. Extension Underpayment Penalty

The S Corporation must pay 90% of the tax liability reported on its return by the original due date of the return. If it does not, the extension underpayment penalty is charged on any late or underpaid extension payments. The extension underpayment penalty is 0.5% (.005) of the tax not paid for each 30-day period or fraction of a 30-day period between the original due date and the date the tax is paid. The maximum penalty is 25% of the unpaid tax. Taxpayers subject to the extension underpayment penalty are not subject to the late payment penalty described in C below.

#### C. Late Payment Penalty

The late payment penalty is charged on any amount shown as tax on a return that is not paid by the due date. The late payment



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

**NOTE Amended Return Filers:** *If you voluntarily file an amended return and pay the additional tax due when you file your amended return, the department will not assess the late payment penalty. Exceptions are:*

- *The taxpayer is under audit by the department.*
- *The amended return was filed on demand or request by the department.*

Refer to the department's ruling, CTR 09-1, *When do Penalties Apply to an Income Tax Return Filed Under an Extension*, regarding the application of penalties to returns filed under extension.

#### **D. Information Return Penalty**

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

#### **E. Interest**

The department charges interest on any portion of the tax not paid by the due date. The department compounds interest annually and applies it in the same manner and at the same time as prescribed by the IRS. The Arizona rate of interest for both underpayments and overpayments *for all taxpayers* is the federal underpayment rate.

On January 1 of each year, the department adds any interest outstanding as of that date to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

#### **F. Underpayment of Estimated Tax Penalty**

The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 220, *Underpayment of Estimated Tax by Corporations*, for further details.

- The S Corporation must complete Arizona Form 220 if it made its estimated tax payments based on either the annualized income installment or adjusted seasonal installment methods, or if it is a large corporation that computed its first required installment based on the S Corporation's tax liability for the prior taxable year. This is required even if no penalty is due.
- The S Corporation does not have to complete Arizona Form 220 if the S Corporation made its estimated tax payments in four equal installments based on an amount equal to either 90% of the current taxable year's tax liability or 100% of the prior year's tax liability. "Tax liability" means the liability reduced by any refundable tax credits and the claim of right adjustment, if applicable.

The department will compute the estimated tax underpayment penalty based on either of these methods and notify the S Corporation of any amount due.

## **Arizona Apportionment Methods**

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

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

### **1. Air Carrier Apportionment**

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

### **2. Standard Apportionment**

All non-air carrier taxpayers are allowed to continue to use Arizona's standard apportionment formula, which double-weights the sales factor. Check Box 2 on line A of page 1 and complete Schedule A using the number on the left-hand side of line A3e, column A, to double-weight the sales factor. Divide the total ratio by four.

### **3. Sales Factor Only Apportionment**

All non-air carrier taxpayers may use Arizona's sales factor only apportionment formula, which is determined by dividing Arizona Sales by Everywhere Sales. Check Box 3 on line A of page 1, complete Schedule A, Section A3, "Sales Factor", lines a through f.

## **Specific Instructions**

For calendar year filers, check the box, "calendar year 2021." For fiscal year filers, check the box, "fiscal year" and enter the beginning and ending dates for the fiscal year. If this is a short-period return, indicate the beginning and ending dates for the short-period.

Type or print the required information in the name, address, and information boxes on the top of page 1. If the taxpayer has a foreign address, enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code. **Do not abbreviate the country's name.**

Enter the S Corporation's employer identification number (EIN). S Corporations that fail to include their EIN may be subject to a penalty.

#### **Box 68**

- Check box A, "This is a first return" if this is the S Corporation's first return filed to Arizona.
- Check box B, "Name change", if the S Corporation changed its name during the tax year.
- Check box C, "Address change", if the S Corporation changed its address during the tax year.

**Box 82F**

Check box 82F if this return is filed under extension.

**Line A**

- If the S Corporation is a multistate S Corporation, check the box indicating its method of apportioning income to Arizona.
  - Check Box 1, if the S Corporation used the Air Carrier Apportionment. Complete Arizona form ACA and include it with this return.
  - Check Box 2, if the S Corporation used Standard apportionment.
  - Check Box 3, if the S Corporation used Sales Factor Only apportionment.
- If the S Corporation is not a multistate S Corporation, or did not apportion its income to Arizona, do not check any boxes.

**Line B**

- Check this box only if the S Corporation elected to be treated as a multistate service provider by completing Arizona Schedule MSP and including it with this return. If this box is checked, check the appropriate box, Yr 1 through Yr 5, to indicate the year of the taxpayer's election cycle.
- If the S Corporation did not elect multistate service provider treatment, leave this line blank.

**Line C** - Is this the S Corporation's final Arizona income tax return using this EIN?

- If yes, check "Yes" and check the appropriate box.
  - Check Box 1 if the S Corporation is "Dissolved,";
  - Check Box 2 if the S Corporation has "Withdrawn" from Arizona; or
  - Check Box 3 if the S Corporation "Merged/Reorganized." If there is a successor corporation, indicate the EIN of the successor corporation in the space provided.
- If this is not the S Corporation's final return under this EIN, check "No."

**Line D** - Check "Yes" if the S Corporation conducts business within and without Arizona. If not, check "No."

**Line E** - Check "Yes" if a composite return will be filed on Arizona Form 140NR. If not, check "No."

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

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

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

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

**Marijuana Establishments Only**

*Only a marijuana establishment licensed or registered by ADHS should fill out line I or line J.*

*All other S Corporations, go to line 1.*

**Line I**

- Check Box 1 if the S Corporation is licensed by ADHS as an Adult Use only establishment,
- Check Box 2 if the S Corporation is licensed by ADHS as a Dual Licensee that has elected to operate on a for-profit basis or
- Check Box 3 if the S Corporation is licensed by ADHS as a Dual Licensee that has not elected to operate on a for-profit basis.
- Check Box 4 if the S Corporation is registered with ADHS as an NMMD only.

**Line J** - If a box on Line I is checked, enter the registry identification number issued by the ADHS for that marijuana establishment.

**Arizona Income Computation****Line 1 - Total Distributive Income (Loss)**

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

**Income Subject to Federal and Arizona Corporate Income Taxes****Lines 2 through 4 - Excess Net Passive Income and Capital Gains/Built-in Gains**

If the S Corporation was subject to the federal excess net passive income tax, capital gains tax, or built-in gains tax on its federal Form 1120S, it is subject to Arizona corporate income tax on the total of this income. Use the federal worksheet included in the instructions for federal Form 1120S to calculate the amount of excess net passive income and capital gains/built in gains that was subject to federal taxation.

**Special Instructions for S Corporations that are Marijuana Establishments Subject to Tax at the Federal Level**

- If an S Corporation licensed by ADHS as a Marijuana Facility or as a Marijuana Testing Facility is subject to corporate income tax at the federal level, it is also subject to Arizona corporate income tax. Complete lines 2 through 12 of Arizona Form 120S as instructed.
- If an S Corporation licensed by ADHS as a Dual Licensee that made the election to operate on a for-profit basis is subject to corporate income tax at the federal level, it is also subject to Arizona corporate income tax. Complete Lines 2 through 12 of Arizona Form 120S as instructed.
- If an S Corporation licensed by ADHS as a Dual Licensee that has not made the election to operate on a for-profit basis is subject to corporate income tax at the

federal level it is subject to Arizona corporate income on the portion of the net income attributable to its operations as an adult use facility. It is not subject to Arizona corporate income tax on the net income attributable to its operations as an NMMD.

- If the source of the income subject to tax at the federal level is attributable to the operations of the Adult Use marijuana facility, complete lines 2 through 13 of Arizona Form 120S as instructed.
- If the source of the income subject to tax at the federal level is attributable to the operations of the NMMD marijuana facility, do not complete lines 2 through 13. The S Corporation is not subject to Arizona corporate income tax on that income.
- If the source of the income subject to tax at the federal level is attributable to the operations of the S Corporation as both an Adult Use facility and as an NMMD, complete lines 2 through 13.
  - For Lines 2 & 3 - Enter the **total** amount of income subject to tax at the federal level less the portion of the income attributable to NMMD operations.
- If an S Corporation registered as an NMMD *only* by ADHS is subject to corporate income tax at the federal level, it is not subject to Arizona corporate income tax. Do not complete lines 2 through 12 of Arizona Form 120S.

**Line 2 - Excessive Net Passive Income**

Enter the amount of excess net passive income that was subject to federal corporate income tax.

**Line 3 - Capital Gains/Built-In Gains**

Enter the amount of capital gains/built in gains that was subject to federal corporate income tax.

**Line 4 - Total Federal Income Subject to Corporate Income Tax**

Add line 2 and line 3. Enter the total on line 4.

- 100% Arizona S Corporations, check box 4a. Skip to line 11.
- Multistate S Corporations, continue to line 5.

**NOTE:**

- *An S Corporation that has income from business activity that is taxable entirely within Arizona is a 100% Arizona S Corporation.*
- *An S Corporation that has income from business activity taxable in more than one state is a multistate S Corporation.*

**Lines 5 through 10 - Apportionment Computation  
Multistate S Corporations Only**

Any S Corporation that has income from business activity that is taxable both within and without Arizona (multistate S Corporation) must allocate and apportion its net income according to the Uniform Division of Income for Tax Purposes Act (UDITPA), A.R.S. §§ 43-1131 through 43-1150. See the instructions beginning on page 10 for more detailed information regarding apportionment of income.

**Line 5 - Nonapportionable or Allocable Income  
Multistate S Corporations Only**

Nonbusiness income is nonapportionable and specifically allocable to a particular state. "Business income" under the transactional and functional tests means income arising from transactions and activity in the regular course of the taxpayer's trade or business, and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations.

"Nonbusiness income" means all income other than business income.

**NOTE:** Refer to A.R.S. §§ 43-1134 through 43-1138, and A.A.C. R15-2D-501 through R15-2D-508 for the methods of allocating certain types of nonbusiness income.

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

**Line 7 - Arizona Apportionment Ratio  
Multistate S Corporations Only**

Compute the apportionment ratio following the instructions for Schedule(s) A (non-air carrier S Corporations) or ACA (for air carrier S Corporations). Enter the average apportionment ratio on line 7. Carry out the decimal to six places.

**NOTE:** If line 7 is "0.000000", the S Corporation is considered to have no Arizona nexus.

If line 7 is blank or 1.000000, the S Corporation's income is considered to be sourced entirely within Arizona.

**Line 9 - Other Income Allocated to Arizona  
Multistate S Corporations Only**

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

**Arizona Tax Liability Computation**

If the S Corporation is subject to federal and Arizona corporate income tax, it must complete lines 2 through 25. If the S Corporation is subject to Arizona corporate income tax from the recapture of the Arizona credits for renewable energy industry or qualified facilities, it must complete lines 13 through 25, even if not required to complete lines 2 through 12.

**Line 11 - Net income subject to Arizona income tax**

- 100% Arizona S Corporations, enter the amount from line 4.
- Multistate S Corporations, enter the amount from line 10.

**Line 12 - Arizona Tax**

The S Corporation is subject to the tax computed on line 12 **only** if it has income subject to tax at the corporate level



reported on federal Form 1120S, even if line 11 is zero or a negative amount. The amount of Arizona income tax is the greater of \$50 or 4.9% of line 11.

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

Enter the amount of tax due from the recapture of tax credits from Arizona Form 300, Part 2, line 25.

### Line 14 - Subtotal

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

### Line 15 - Nonrefundable Tax Credits

Enter the allowable nonrefundable tax credit amount from Arizona Form 300, Part 2, line 46. This amount cannot be larger than the amount on line 14. Include the completed credit forms and Arizona Form 300 with the tax return.

- **Environmental Technology Facility Credit**

The environmental technology facility credit has been repealed for individual taxpayers. An S Corporation may claim this credit only if the S Corporation is applying it against its corporate tax. The credit cannot be passed through to S Corporation shareholders. This tax credit is for costs incurred in constructing a qualified environmental technology manufacturing, producing, or processing facility. If the S Corporation is claiming this credit to apply against its corporate income tax, complete Arizona Form 305 to claim this tax credit.

- **Military Reuse Zone Credit**

*The credit for the military reuse zone credit has been repealed.* The unused portion of valid military reuse zone credits may be carried forward for the respective five-year carryforward period. Complete Arizona Form 306 to claim this carry-forward tax credit.

- **Credit for Increased Research Activities**

This tax credit is for taxpayers who incur qualified research expenses for research conducted in Arizona. A portion of the excess credit claimed for taxable years beginning from and after December 31, 2009, may be refundable with approval from the Arizona Commerce Authority. Enter only the nonrefundable portion of this credit on line 15. Complete Arizona Form 308 to claim this tax credit.

- **Pollution Control Credit**

This tax credit is for expenses incurred during the taxable year to purchase real or personal property used in the taxpayer's trade or business in Arizona to control or prevent pollution. Complete Arizona Form 315 to claim this tax credit.

- **Credit for Taxes Paid for Coal Consumed in Generating Electrical Power**

This tax credit is for a percentage of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona. Complete Arizona Form 318 to claim this tax credit.

- **Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets**  
*The credit for solar hot water heater plumbing stub outs and electric vehicle recharge outlets has been repealed.* All credits for solar hot water heater plumbing stub outs and electric vehicle recharge outlets that were properly established can be carried forward for the respective five-year carry-forward period. Complete Arizona Form 319 to claim this carry-forward tax credit.
- **Credit for Employment of TANF Recipients**  
This tax credit is for net increases in qualified employment for recipients of temporary assistance for needy families (TANF) who are residents of Arizona. Complete Arizona Form 320 to claim this tax credit.
- **Credit for Donation of School Site**  
This tax credit is for the donation of real property and improvements to an Arizona school district or Arizona charter school for use as a school or as a site for the construction of a school. Complete Arizona Form 331 to claim this tax credit.
- **Credit for Employing National Guard Members**  
This tax credit is for an employer who has an employee that is a member of the Arizona National Guard and the employee was placed on active duty. Complete Arizona Form 333 to claim this tax credit.
- **Credit for Corporate Contributions to School Tuition Organizations**  
This credit is for corporations who make contributions to school tuition organizations which provide scholarships and tuition grants to children attending qualified nongovernmental schools. Complete Arizona Form 335 to claim this tax credit.
- **Credit for Solar Energy Devices - Commercial and Industrial Applications**  
This tax credit expired December 31, 2018. The expiration did not affect carryovers of this properly established credit. Complete Arizona Form 336 to the carryforward of this tax credit.
- **Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students with Disabilities**  
This tax credit is for corporations who make contributions to school tuition organizations that provide scholarships and tuition grants to qualifying children attending qualified nongovernmental schools. Complete Arizona Form 341 to claim this tax credit.
- **Renewable Energy Production Tax Credit**  
This tax credit is for taxpayers that produce electricity using qualified energy resources. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Complete Arizona Form 343 to claim this tax credit.
- **Credit for New Employment**  
This tax credit is for taxpayers that have net increases in employment. The credit limit is administered by the

Arizona Commerce Authority. Complete Arizona Form 345 to claim this tax credit.

**• Additional Credit for Increased Research Activities for Basic Research Payments**

This tax credit is for taxpayers that make qualified basic research payments for research conducted in Arizona. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Complete Arizona Form 346 to claim this tax credit.

**• Credit for Renewable Energy Investment and Production for Self-Consumption by International Operations Centers**

This tax credit is for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy resources if the power will be used primarily for International Operations Centers. Complete Arizona Form 351 to claim this tax credit.

**• Healthy Forest Production Tax Credit**

This tax credit is for the processing of qualifying forest products. Complete Arizona Form 353 to claim this credit.

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

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

**Line 16 - Credit Type**

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

Nonrefundable Income Tax Credit	Form
Military Reuse Zone Credit	306
Credit for Increased Research Activities	308
Pollution Control Credit	315
Credit for Taxes Paid for Coal Consumed in Generating Electrical Power	318
Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	319
Credit for Employment of TANF Recipients	320
Credit for Donation of School Site	331
Credit for Employing National Guard Members	333
Credit for Corporate Contributions to School Tuition Organizations	335
Credit for Solar Energy Devices - Commercial and Industrial Applications	336
Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students With Disabilities	341
Renewable Energy Production Tax Credit	343
Credit for New Employment	345
Additional Credit for Increased Research Activities for Basic Research Payments	346

Nonrefundable Income Tax Credit	Form
Credit for Renewable Energy Investment and Production for Self-Consumption by International Operations Centers	351
Healthy Forest Production Tax Credit	353

**Line 17 - Arizona Tax Liability**

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

**Tax Payments and Refundable Credits**

**Line 18 - Refundable Tax Credits**

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

**NOTE:** *If the S Corporation is passing the refundable portions of the Credit for Increased Research Activities and/or the Credit for Qualified Facilities through to its shareholders, do not enter an amount on this line, enter "0".*

**Credit for Increased Research Activities**

A portion of this tax credit is refundable for qualified taxpayers. The refund is limited to 75% of the excess credit, which is the current year's credit less the current year's tax liability, not to exceed the amount approved by the Arizona Commerce Authority. Include a copy of your "Certificate of Qualification" from the Arizona Commerce Authority, Arizona Form 300, and Arizona Form 308 with your tax return. Enter the amount from Arizona Form 308, Part 7, line 42.

**Credit for Qualified Facilities**

This tax credit is for expanding or locating a qualified facility in Arizona and is refundable in five equal installments. Pre-approval and post-approval are required through the Arizona Commerce Authority. Include a copy of your "Certification of Qualification" from the Arizona Commerce Authority and Arizona Form 349 with your tax return to claim this credit. Enter the amount from Arizona Form 349, Part 8, line 20.

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

Refundable Credit Worksheet	
1. Enter the refundable credit from Arizona Form 308, Part 7, line 42.	
2. Enter the apportioned credit from Arizona Form 349, Part 8, line 20.	
3. Add the amounts on lines 1 and 2. Enter the total here and on Arizona Form 120S, line 18.	

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

**Line 19 - Extension Payments**

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

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

**NOTE:** S Corporations whose 2021 income tax liability is \$500 or more, must make extension payments by EFT. See the instructions for Arizona Form 120EXT for additional information.

**Line 20 - Estimated Payments**

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

*Amended Returns:* Enter the total amount of estimated tax payments made by the S Corporation for the taxable year. Do not include the amount of any penalties paid, or any reduction for the amount of an overpayment that was designated as an estimated tax payment for 2021 on a prior return.

**Line 21 - Total Payments**

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

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

- Add the amounts entered on lines 18, 19, and 20;
- Add the amount of a payment sent with the original return (if any);
- Add the amount of any payments made after the original return was filed; and
- Subtract the amount of any overpayment of tax (from the original return, line 23) and the total amount of any overpayments from an Arizona Department of Revenue correction notice, a prior amended return, or an audit.

Do not include or enter the amount of any penalties or interest paid.

**Computation of Total Due or Overpayment****Line 22 - Balance of Tax Due**

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

**Line 23 - Overpayment of Tax**

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

**Line 24 - Penalty and Interest**

The S Corporation may choose to calculate any penalty and interest due as a result of late filing, late payment of tax, or extension underpayment of tax. Interest is calculated on the amount shown on line 22 at the prevailing rate. The interest period is from the original due date of the return to the payment date. See the "Penalties and Interest" section beginning on page 3 of these instructions.

**Do not include or enter the amount from the Estimated Tax Underpayment Penalty.**

**NOTE:** If the S Corporation chooses to calculate the penalty and interest amount(s) to be entered on this line, round the result to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents or less, round down.

If the S Corporation chooses not to calculate interest and penalties, the department will calculate them, and include that amount in any refund, or bill the taxpayer, as appropriate.

**Line 25 - Estimated Tax Underpayment Penalty**

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

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

- The annualized income installment method;
- The adjusted seasonal installment method; or
- An amount, paid in four equal installments, that is equal to the sum of:
  - Ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in gains income or certain capital gains income; plus
  - One hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

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

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

**Line 26 - Information Return Penalty**

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

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

**Line 27 - Total Due**

If the taxpayer has a balance of tax due on line 22, add line 22, line 24 and line 25. Enter the total on line 27. S Corporations that do not have a tax liability, enter the amount from line 26. This is the total amount due.

**Payment of Tax, Penalties, and Interest**

Full payment for all tax, penalties, and interest is due by the original due date of the return.

**S Corporations required to make payments by EFT**, see the Section, *Payment by Electronic Funds Transfer* on page 4 of these instructions for options to pay your tax liability by EFT.

**S Corporations not required to make payments by EFT**, may elect to pay by EFT. They may also pay by check or money order. Make the check or money order payable to Arizona Department of Revenue. Include the corporation's EIN on the front of the check or money order. *If paying by check or money order, include the check or money order with the return.* Mail the check and the return to:

Arizona Department of Revenue  
PO Box 29079  
Phoenix, AZ 85035-9079

**Line 28 - Overpayment**

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

**Line 29 - Overpayment Applied to Estimated Tax**

*Original Returns:* The taxpayer may apply part or all of an overpayment reported on line 28 as a 2021 estimated tax payment. Enter the applicable amount on line 29.

*Amended Returns:* The taxpayer may apply part or all of an overpayment reported on line 28 as a 2021 estimated tax payment, if this amended return is filed during the taxpayer's taxable year 2021. Enter the applicable amount on line 29.

**Line 30 - Refund**

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

**Schedule A – Apportionment of Income  
(Multistate S Corporations Only)**

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

**NON-APPORTIONABLE INCOME**

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

**ADMINISTRATIVE RELIEF REQUESTS**

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

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

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

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

**COMPUTING THE APPORTIONMENT RATIO**

When computing the factors of the apportionment ratio, carry the result out to six places after the decimal. If the seventh place after the decimal is five or more, round the sixth decimal place up to the next higher digit. If the seventh place after the decimal is less than five, leave the sixth place decimal as it is.

**Example #1:**

Arizona Amount	123,456
Everywhere Amount	789,654
Factor	.1563418

The seventh digit after the decimal is "8". Since "8" is greater than "5," the sixth digit after the decimal is increased to the next higher digit, "2".

The factor rounded to six decimal places is .156342.

**Example #2:**

Total Ratio	.179865
Divided by	4
Apportionment Ratio	.0449662

The seventh digit after the decimal is "2". Since "2" is less than "5," the sixth digit after the decimal remains "6". No increase to the sixth digit after the decimal is made.

The apportionment ratio rounded to six decimal places is .044966.

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

A.R.S. § 43-1139(B) requires a taxpayer that is a qualifying air carrier to use revenue miles to apportion its business income to Arizona. The taxpayer must be engaged in air commerce. "Air commerce" means transporting persons or property for hire by aircraft in interstate, intrastate or international transportation. The taxpayer must complete Schedule ACA. Schedule ACA is available on the department's website. Check Box 1 on line A of Arizona Form 120S. Do not complete Schedule A.

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

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

- The sales factor only apportionment formula; or
- The standard apportionment formula.

Check the box on line A of page 1 of the return to indicate which apportionment formula, "STANDARD" or "SALES FACTOR ONLY," will be used to calculate the apportionment ratio on the S Corporation's return. Whichever apportionment method is indicated on line A of page 1, the taxpayer must complete the apportionment ratio using that formula. (The taxpayer cannot use "Standard" to calculate one factor of the ratio, and "SALES FACTOR ONLY" to calculate another factor of the ratio.)

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

For taxable years beginning after December 31, 2016, Sales Factor Only Apportionment replaced the enhanced apportionment ratio. The numerator is Arizona sales. The denominator is Everywhere sales. The property factor and the payroll factor are not included in this computation.

Taxpayers apportioning income or (loss) must complete lines 5 through 10 on page 1.

**Line A1 - Property Factor - Standard Apportionment**

*Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT" - leave blank.*

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

The value of tangible personal property and real property owned by the taxpayer is its original cost. The taxpayer normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period. Property used to generate non-apportionable or nontaxable income is not included in the property factor.

The value of tangible personal property and real property rented by the taxpayer is eight (8) times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the taxpayer for rented property, less the aggregate annual subrental rates paid by subtenants of the taxpayer. The taxpayer automatically achieves averaging for rented property by the method of determining the net annual rental rate of such property.

For a discussion of the treatment of computer software in the property factor, refer to the department's ruling, CTR 01-2, *How Does a Taxpayer Filing an Arizona Corporate Income Tax Return Determine Whether Computer Software is Included in the Property Factor*.

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

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

Divide the numerator of the property factor by the denominator. Express the ratio as a decimal carried out to six places. (The property factor may not exceed 1.0.) Enter the result on line A1c, Column C.

*Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT," leave lines A1a through A1c, Columns A through C, blank*

*For additional information on the property factor, refer to: A.R.S. §§ 43-1140 through 43-1142  
A.A.C. R15-2D-601 through R15-2D-607 and R15-2D-902  
CTR 01-2, How Does a Taxpayer Filing an Arizona Corporate Income Tax Return Determine Whether Computer Software is Included in the Property Factor*

**Line A2 - Payroll Factor - Standard Apportionment**

*Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT" - leave blank.*

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

Report the salaries, wages, or other compensation of officers, employees, etc., as within Arizona if the performance of their services occurs entirely in Arizona. This rule applies regardless of where payment is made or control exercised. This rule also applies regardless of whether the performance of the services is partly or wholly in connection with the apportionable business carried on outside the state or in interstate or foreign commerce. Payroll used to generate non-apportionable or nontaxable income is not included in the payroll factor.

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

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

**Taxpayers Electing "STANDARD APPORTIONMENT"**

Divide the numerator of the payroll factor by the denominator. Express the ratio as a decimal carried out to six (6) places. (The payroll factor may not exceed 1.0.) Enter the result on line A2, Column C.

**Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT,"** leave line A2, Columns A through C, blank.

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

**Line A3 - Sales Factor**

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

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

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

**TAXPAYERS THAT QUALIFY AS MULTISTATE SERVICE PROVIDERS ELECTING TO SOURCE SALES FROM SERVICES OR SALES FROM INTANGIBLES TO ARIZONA USING MARKET SALES**

Taxpayers that qualify as a Multistate Service Provider (MSP) may elect to treat sales from services and from designated intangibles as being sourced to Arizona based on market sales.

**NOTE:** For purposes of the Multistate Service Provider Election and Computation, sales from designated intangibles means sales derived from credit and charge card receivables, including fees, merchant discounts, interchanges, interest and related revenue (A.R.S. § 43-1147(E)(3)(a)). **The sale of**

**any other intangible may not be included in the calculation of this election.**

Multistate taxpayers complete Schedule MSP to determine if they qualify as a MSP. If the taxpayer qualifies, and wishes to make the election, the completed Schedule MSP must be included with the taxpayer's original, timely-filed tax return. (The election to be treated as a MSP **cannot** be made on an amended return.) Once made, the election is binding for five years. For each year of the election period, Schedule MSP must be completed by the taxpayer to source sales from services or sales from intangibles to Arizona. Once Schedule MSP is completed, the taxpayer can compute the sales factor.

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

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

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

Enter the Arizona sales from services or sales from intangibles on line A3b from the completed Schedule MSP, line B.

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

- Leave line A3b blank.
- Enter Arizona sales from services on line A3c.

**Taxpayers Electing "STANDARD APPORTIONMENT"**

- Check the box labeled "STANDARD" on line A of the return.
- Multiply the numerator of the sales factor by two. Divide that result by the denominator. Express the ratio as a decimal carried out to six places. (The sales factor may not exceed 2.0.) Enter the result on line A3f, Column C.

**Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT"**

- Check the box labeled "SALES FACTOR ONLY" on line A of the return.
- Divide the numerator (Arizona sales) by the denominator (Everywhere sales). Express the ratio as a decimal carried out to six places. (The sales factor may not exceed 1.0.) Enter the result on line A3f, Column C. Also enter the result on page 1, line 7.



For more information on the sales factor, refer to:  
 A.R.S. §§ 43-1145 through 43-1147  
 A.A.C. R15-2D-801 through R15-2D-807, and R15-2D-903  
 CTR 02-2, *Apportionment of Installment Sale Gain*  
 CTR 07-1, *Inclusion of Short Term Investments in the Sales Factor*

**Line A4 - Total Ratio****Taxpayers Electing "STANDARD APPORTIONMENT"**

Add the amounts in Column C of lines A1c, A2, and A3f and enter the total.

**Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT," leave this line blank.**

**Line A5 - Average Apportionment Ratio**

**NOTE:** Taxpayers must exclude a factor if both the numerator and the denominator of a factor are zero. Do not exclude a factor if the numerator of the factor is zero and the denominator of a factor is greater than zero. See A.A.C. R15-2D-901(B).

**Taxpayers Electing "STANDARD APPORTIONMENT"**

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

**Taxpayers Electing "STANDARD APPORTIONMENT"**

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

**Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT," leave this line blank.**

**NOTE:** If line A5 is "0.000000", the S Corporation is considered to have no Arizona nexus.

If line A5 is blank, the S Corporation's income is considered to be sourced entirely within Arizona.

**Schedule B - Other Information**

Answer all questions as accurately and completely as possible.

**Question B3:** List the name, title and telephone number of the individual who Department of Revenue employees may contact to:

- Schedule an audit of this return;
- Ask questions related to the processing of this return; or,
- Provide the status of any refund, or tax due, that may result from the processing of this return.

This does not authorize the individual named to:

- Enter into any agreements on the taxpayer's behalf;
- Bind the taxpayer in any way; or,
- Make any changes to the taxpayer's account, such as an address change.

Confidential information may be disclosed to a principal officer, any person designated by a principal officer, any

person designated in a resolution by the corporate board of directors or other similar governing body, or to an individual designated as an authorized representative in a valid power of attorney. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary. Refer to the department's ruling, GTR 02-1, *What is a controlled subsidiary for purposes of Arizona Revised Statutes § 42-2003*, for additional information on the definition of a controlled subsidiary. If THIS INDIVIDUAL IS NOT A PRINCIPAL OFFICER, OR IS NOT DESIGNATED AS AN AUTHORIZED REPRESENTATIVE IN A VALID POWER OF ATTORNEY, THE TAXPAYER UNDERSTANDS AND AGREES THAT CONFIDENTIAL INFORMATION MAY BE DISCLOSED TO THIS INDIVIDUAL.

**Schedule C - Shareholder Information**

Enter the requested information for each shareholder. If the S Corporation has more than 8 shareholders, include additional schedules as necessary.

**NOTE:**

**Column (d),** enter the shareholder's Tax Information Number with no dashes. For an individual shareholder, enter the individual's social security number (SSN) or individual taxpayer identification number (ITIN). For all other shareholders, enter the shareholder's EIN. **Do not truncate the shareholder's TIN.**

**Column (e),** enter the shareholder's ownership percentage at year end. Enter the ownership percentage as a number with 3 digits to the left of the decimal and 6 digits to the right. For example, for a shareholder with a 1% ownership share, enter the shareholder's ownership percentage as 001.000000.

**Column (f),** enter the shareholder's pro rata share of the S Corporation's Total Distributive Income from Page 1, line 1.

**Column (g),** enter "R" for resident, "N" for Nonresident, or "O" for other entity (i.e. exempt organization, and certain trusts and estates.).

**Certification**

One or more of the following officers (president, treasurer, or any other principal corporate officer) must sign the return. If receivers, trustees in bankruptcy, or assignees are in control of the property or business of the organization, such receivers, trustees, or assignees must sign the return.

**Paid preparers:** Sign and date the return. Complete the firm name and address lines (the paid preparer's name and address, if self-employed).

Paid preparers must provide a Tax Identification Number (TIN). Paid preparers that fail to include their TIN may be subject to a penalty.

The TIN for a paid preparer may be one of the following:

- The preparer's PTIN,
- The EIN for the business,
- The individual preparer's social security number (SSN), if self-employed.

## Schedule K-1 - S Corporation Instructions

Complete Arizona Form 120S, Schedule K-1 for the following shareholders:

- All resident individual shareholders,
- All part-year resident individual shareholders,
- All resident estate shareholders, and
- All resident trust shareholders.

**NOTE:** *An S Corporation share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the individual grantor.*

*An S Corporation share that is owned by a single-member LLC that is disregarded for federal income tax purposes is treated as owned by the member.*

Complete Arizona Form 120S, Schedule K-1(NR) for all other shareholders.

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

### Truncating the shareholder's TIN on Schedule K-1.

The S Corporation may truncate a shareholder's identifying number on the Schedule K-1 it sends to the shareholder. Truncation is not permitted on Schedule C of Arizona Form 120S. The S Corporation cannot truncate its own TIN on any form. To truncate, where permitted, follow the guidelines established by the IRS.

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

## Part 1 - Net Capital Gain (Loss) from Investment in a Qualified Small Business – Information Schedule

Arizona allows individuals, estates, and shareholders a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business if:

- The gain is included in:
  - The individual taxpayer's federal adjusted gross income, or,
  - The estate or trust's federal taxable income, and
- The business in which the S Corporation invested is determined to be a qualified small business by the Arizona Commerce Authority.

An S Corporation shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction, or,
- Complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 2 to provide information to:

- The resident and part-year resident shareholder to calculate the subtraction for net capital gain from investment in a qualified small business.
- The resident estate or trust shareholder to:
  - Calculate the subtraction for net capital gain from investment in a qualified small business, or,
  - Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 1, line 1 and Part 3, line 4, if the shareholder's federal Form 1120S, Schedule K-1 includes any net capital gain (loss) from investment in a qualified small business. If Part 1, line 1 is zero, enter "0" on Part 3, line 4.

Do NOT complete Arizona Form 120S Schedule K-1, Part 1 and Part 3, line 4, if the shareholder's federal Form 1120S, Schedule K-1 does not include any net capital gain (loss) from investment in a qualified small business.

## Part 2 - Net Capital Gain (Loss) From the Exchange of Legal Tender – Information Schedule

For taxable years beginning from and after December 31, 2017, Arizona allows an exclusion for any net capital gain included in Arizona gross income that is derived from the exchange of one kind of legal tender for another kind of legal tender.

An S Corporation shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction, or,
- Complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 2 to provide information to:

- The resident and part-year resident shareholder to calculate the exclusion for any net capital gain (loss) derived from the exchange of one kind of legal tender for another kind of legal tender.
- The resident estate or trust shareholder to:
  - Calculate the exclusion for net capital gain (loss) derived from the exchange of one kind of legal tender for another kind of legal tender, or,
  - Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 2, line 2 and Part 3, line 4, if the shareholder's federal Form 1120S, Schedule K-1 includes any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender. If Part 2, line 2 is zero, enter "0" on Part 3, line 4.

Do NOT complete Arizona Form 120S Schedule K-1, Part 2, line 2 and Part 3, line 4, if the shareholder's federal Form 1120S, Schedule K-1 does not include any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender.

### Part 3 - Net Long-Term Capital Gain (Loss) Subtraction – Information Schedule

Arizona allows individuals, estates, and trusts a subtraction from Arizona gross income for a percentage of any net long-term capital gain if:

- The asset was acquired after December 31, 2011.
- The gain is included in:
  - The individual's federal adjusted gross income, or
  - The estate or trust's federal taxable income.

In addition:

- Only include net long-term gains if the S Corporation can verify the asset was acquired after December 31, 2011.
- If the S Corporation cannot verify the asset was acquired after December 31, 2011, treat it as a capital gain asset acquired before January 1, 2012.

An S Corporation shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction, or,
- Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 3 to provide information to:

- The resident and part-year resident shareholder to calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.
- The resident estate or trust shareholder to:
  - Calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011, or,
  - Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary so the beneficiary can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

Complete Part 3, lines 3 through 5 (if applicable) of Arizona Form 120S Schedule K-1, as instructed on the form.

Do NOT complete Part 3, lines 3 through 5 if the shareholder's federal Form 1120S, Schedule K-1 does not include any capital gain (loss).

A worksheet is provided at the end of these instructions to assist in determining the amount(s) to include on each shareholder's Arizona Form 120S Schedule K-1, Part 3, line 3.

### Part 4 – Marijuana Establishments Only Information Schedule

*Line 6. Disallowed Federal Expenses*

- If the S Corporation is licensed by ADHS as a Marijuana Establishment or a Marijuana Testing Facility, enter the amount of disallowed federal expenses from *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments*.
- If the S Corporation is licensed by ADHS as a ***Dual Licensee that has made the election to operate on a for-profit basis***, enter the amount of disallowed federal

expenses from *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments*.

- If the S Corporation is licensed by ADHS as a ***Dual Licensee that has not made the election to operate on a for-profit basis***, leave blank.
- If the S Corporation is registered by ADHS as an ***NMMD***, leave blank.

Multiply the amount on line 6 by the shareholder's ownership percentage indicated on page 1. Enter the result. This is the shareholder's percentage of the Disallowed Federal Expenses.

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

Complete Arizona Form 120S, Schedule K-1(NR) for the following shareholders:

- All nonresident individual shareholders,
- All nonresident estate shareholders,
- All nonresident trust shareholders, and
- All exempt organization shareholders.

**NOTE:** *An S Corporation share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the individual grantor.*

*An S Corporation share that is owned by a single-member LLC that is disregarded for federal income tax purposes is treated as owned by the member.*

Complete Arizona Form 120S, Schedule K-1 for all other shareholders.

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

### Truncating the shareholder's TIN on Schedule K-1(NR).

The S Corporation may truncate a shareholder's identifying number on the Schedule K-1(NR) it sends to the shareholder. Truncation is not permitted on Schedule C of Arizona Form 120S. The S Corporation cannot truncate its own TIN on any form. To truncate, where permitted, follow the guidelines established by the IRS.

### Part 1 - Share of Income and Deductions

#### Column (a) - Distributive Share Amount

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

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

**Column (b) - Arizona Apportionment Ratio**

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

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

**Column (c) - Arizona Source Income**

**Wholly Arizona S Corporations** - Enter the amount from column (a) in column (c).

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

Step 1 The shareholder's distributive share of the S Corporation's income subject to apportionment multiplied by the average ratio in column (b).

Step 2 The shareholder's distributive share of the S Corporation's income (loss) which is specifically allocable to Arizona.

Step 3 The total of the amounts computed in steps 1 and 2 that is to be entered in column (c).

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

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

**Part 2 - Net Capital Gain (Loss) From Investment in a Qualified Small Business – Information Schedule**

Arizona allows individuals, estates, and trusts, a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business if:

- The gain is included in:
  - The individual's federal adjusted gross income; or
  - The estate or trust's federal taxable income, and
- The business in which the S Corporation invested is determined to be a qualified small business by the Arizona Commerce Authority.

A shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction for the estate or trust; or
- Complete Arizona Form 141AZ Schedule K-1, or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S, Schedule K-1(NR), Part 2, line 14, and Part 4, line 17 if the shareholder's federal Form 1120S, Schedule K-1 includes any net capital gain (loss) from investment in a qualified small business. If Part 2, line 14 is zero, enter "0" on line 17.

Do NOT complete Arizona Form 120S, Schedule K-1(NR), Part 2, line 14 or Part 4, line 17 if the shareholder's federal Form 1120S, Schedule K-1 does not include any net capital gain (loss) from investment in a qualified small business.

**Part 3 - Net Capital Gain (Loss) From the Exchange of Legal Tender – Information Schedule**

For taxable years beginning from and after December 31, 2017, Arizona allows an exclusion for any net capital gain included in Arizona gross income that is derived from the exchange of one kind of legal tender for another kind of legal tender.

An S Corporation shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction; or,
- Complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S, Schedule K-1(NR), Part 3, line 15, and Part 4, line 18 if the shareholder's federal Form 1120s, Schedule K-1 includes any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender. If Part 3, line 15, is zero, enter "0" on line 18.

Do NOT complete Arizona Form 120S Schedule K-1(NR), Part 3, line 15 or Part 4, line 18 if the shareholder's federal Form 1120S, Schedule K-1 does not include any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender.

**Part 4 - Net Long-Term Capital Gain Subtraction – Information Schedule**

Arizona allows individuals, estates, and trusts, a subtraction from Arizona gross income for a percentage of any net long-term capital gain if:

- The gain arises from assets acquired after December 31, 2011, and
- The gain is included in:
  - The individual's federal adjusted gross income, or
  - The estate or trust's federal taxable income.

In addition:

- Only include net long-term gains if you can verify the asset was acquired after December 31, 2011.
- If you cannot verify the asset was acquired after December 31, 2011, treat it as a capital gain asset acquired before January 1, 2012.
- A shareholder that is a pass-through entity (estate or trust) will need this information to:
  - Calculate its subtraction, or,
  - Complete Arizona Form 141AZ Schedule K-1, or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S Schedule K-1(NR) to provide information to:

- The nonresident shareholder to calculate the subtraction for net long-term capital gain from assets acquired after December 31, 2011;
- The nonresident estate or trust shareholder to:
  - Calculate the subtraction for net long-term capital gain from assets acquired after December 31, 2011, or,

- o Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary so each can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

A worksheet is provided at the end of these instructions to assist in determining the amount(s) to include on each shareholder's Arizona Form 120S Schedule K-1(NR), Part 4, lines 16 through 18.

## Part 5 – Marijuana Establishments Only Information Schedule

### Line 19. Disallowed Federal Expenses

- If the S Corporation is licensed by ADHS as a Marijuana Establishment or a Marijuana Testing Facility, enter the amount of disallowed federal expenses from *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments*.
- If the S Corporation is licensed by ADHS as a ***Dual Licensee that has made the election to operate on a for-profit basis***, enter the amount of disallowed federal expenses from the *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments*.
- If the S Corporation is licensed by ADHS as a ***Dual Licensee that has not made the election to operate on a for-profit basis***, leave blank.
- If the S Corporation is registered by ADHS as an ***NMMD***, leave blank.

Multiply the amount on line 19 by the shareholder's ownership percentage indicated on page 1. Enter the result. This is the shareholder's percentage of the Disallowed Federal Expenses.

### Shareholder Reporting Requirements for 2021

#### Exempt Organization Shareholders

Exempt organization shareholders must file Arizona Form 99T to report the income (loss) from the S Corporation. This income (loss) is included in the organization's unrelated business taxable income from the federal Form 990-T.

## Resident or Part-Year Resident Individual Shareholders

Resident or part-year individual shareholders are taxable on their entire distributive share of income from the S Corporation. The distributive share of income reported on the federal return will flow through to Arizona Form 140 or Arizona Form 140PY.

## Nonresident Individual Shareholders

Nonresident individual shareholders of S Corporations operating in Arizona are subject to Arizona income tax on their distributive share of the income (loss) earned by the S Corporation in Arizona. Refer to Arizona Form 120S Schedule K-1(NR). Nonresident shareholders must file Arizona Form 140NR to report this income (loss).

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

Refer to the department's ruling ITR 16-2, for more information regarding filing a composite return on Arizona Form 140NR.

## Estate and Trust Shareholders

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

The instructions for the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*, are after the worksheet on page 17.

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

Original return     Amended return

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

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



**2021 Arizona S Corporation Income Tax Return**

**Worksheet Instructions**

**Purpose of the Worksheet**

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

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

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

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

**Who Should Complete the Worksheet?**

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

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

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

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

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

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

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

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

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

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

For each shareholder, enter the amounts of the distributive share from line 6 of the worksheet to Part 2 of Arizona Form 120S Schedule K-1 or on Part 2 of Arizona Form 120S Schedule K-1(NR).