

2001 Credit for Taxes Paid to Another State or Country

Phone Numbers

If you have questions, please call one of the following numbers:

Phoenix	(602) 255-3381
From area codes 520 & 928 toll-free	(800) 352-4090
Form orders	(602) 542-4260
Forms by Fax	(602) 542-3756
Recorded Tax Information	
Phoenix	(602) 542-1991
From area codes 520 & 928 toll-free	(800) 845-8192
Hearing impaired TDD user	
Phoenix	(602) 542-4021
From area codes 520 & 928 toll-free	(800) 397-0256

You may also visit our web site at: www.revenue.state.az.us

Purpose of Form

Use Form 309 to figure your credit for taxes paid to Arizona and another state or country on the same income.

If claiming a credit for more than one state or country, make a separate computation for each state or country.

For more information, see Arizona Department of Revenue Income Tax Procedure ITP 97-1. To get a copy of this procedure, call one of the help numbers listed on this page.

NOTE: You must notify the department immediately if the other state or country credits or refunds taxes for which you have received an Arizona credit. In this case, you must file an amended return.

Complete this form only if you meet the following.

1. You are filing a 2001 Arizona income tax return.
 2. You paid a **net** income tax to another qualified state or country for 2001.
- If you are claiming a credit for taxes paid to another state, payroll taxes withheld from income do not constitute a net income tax. Having tax withheld from your pay by Arizona and another state does not by itself qualify you for this credit. You must file a net income tax return to the other state.
 - If you are claiming a credit for taxes paid to another country, a net income tax paid to another country includes those taxes that qualify for a credit under Internal Revenue Code Sections 901 and 903.

NOTE: To claim a credit for taxes paid to a foreign country, you must complete Arizona Form 309. You must complete Form 309 even if you did not have to complete federal Form 1116 to claim a credit on your federal return.

You may not claim this credit for the following.

1. Income taxes paid to any city or county.
2. Interest or penalties paid to another state or country.

Application of Credit

Claim this credit only if the income was subject to tax in both Arizona and the other state or country in the same tax year.

You cannot apply this credit against interest or penalties payable to Arizona.

NOTE: You may use this credit only in the year incurred. If your credit is more than your 2001 Arizona income tax liability, you cannot carry the credit forward to the next year. You also cannot carry the credit back to a prior year.

Arizona Resident

Arizona residents are allowed a credit against Arizona income taxes for net income taxes imposed by and paid to another state or country if the following apply.

1. The income taxed in Arizona is derived from sources within another state or country. This income is subject to a net income tax in the other state or country regardless of your residence.
2. The other state or country does not allow Arizona residents a credit for taxes imposed on income subject to tax in both Arizona and the other state or country.

As an Arizona resident, returns filed with the following states qualify for the credit:

Alabama, Arkansas, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, West Virginia and Wisconsin.

NOTE: This list is subject to change at any time.

Important: As an Arizona resident, returns filed with the following states **DO NOT** qualify for the credit:

Alaska, California, District of Columbia, Florida, Indiana, Nevada, New Hampshire, Oregon, South Dakota, Tennessee, Texas, Virginia, Washington and Wyoming.

Dual Resident of Arizona and Another State

For taxable years beginning before January 1, 2002, you may claim a credit for taxes paid to another state if you are an Arizona resident who is also considered to be a resident of another state under the laws of that other state.

You may claim a credit against Arizona income taxes for net income taxes imposed by and paid to the other state if the following apply.

1. You are a resident of Arizona (domiciled in Arizona), but spend extended periods of time in another state and that state considers you to be a resident of that state under its laws.
2. The other state taxes your income and does not allow you a credit against its taxes for taxes imposed by Arizona on income subject to tax in both Arizona and the other state.

Nonresident

A credit against Arizona income taxes is allowed for Arizona nonresidents who are not allowed a credit by their state or country of residence for taxes paid to Arizona if either:

1. The other state or country does not tax Arizona residents on income derived from sources within the other state or country.
2. The other state or country allows Arizona residents credit for taxes paid on income subject to tax by the other state or country and Arizona.

Arizona nonresidents who file resident returns with the following states qualify for the credit.

California, Indiana, Oregon and Virginia.

NOTE: This list is subject to change at any time.

Part-Year Residents

For that part of the year you were a resident of Arizona, follow the instructions for residents.

For that part of the year you were an Arizona nonresident, follow the instructions for nonresidents.

Required Attachments

If you are claiming a credit for taxes paid to another state, you must attach a copy of the tax return filed to the other state.

If you are claiming a credit for taxes paid to a foreign country, attach the following information to your Arizona income tax return.

1. A copy of the tax return you filed to the foreign country. If you are claiming a credit for taxes paid to a foreign country for amounts withheld at the source, and are not required to file a return with that country, attach documentation showing the amount of tax imposed and paid.
2. A copy of the foreign law which imposes the tax.
3. In cases where English is not the official language of the foreign country, an English translation of all required documentation.
4. Where the tax is paid in a foreign currency, a statement substantiating the conversion rate on the date of payment. Identify your authority for your conversion rate.

Line-by-Line Instructions

Enter your name and social security number as shown on Arizona Form 140, Form 140PY, Form 140NR, or Form 140X.

Make sure that every return, statement, or document that you file with the department has your social security number. Failing to include the proper numbers may subject you or your preparer to a penalty. Make sure that all of the required identification numbers are clear and correct. Your return may take longer to process if identification numbers are missing, incorrect, or unclear.

If your name appears first on the return, make sure your social security number is the first number listed.

Part I - Computation of Income Subject to Tax by Both Arizona and the Other State or Country During 2001

In order for income to be taxed by both Arizona and another state or country, the following must exist.

For an Arizona resident:

1. The same income must be taxed by both Arizona and the other state or country; and
2. The income must have its source within the other state or country.

For a nonresident:

1. The same income must be taxed by both Arizona and the other state or country; and
2. The income must have its source within Arizona.

For a dual resident of Arizona and another state:

1. The same income must be taxed by both Arizona and the other state.
2. You are a resident of Arizona (domiciled in Arizona), but spend extended periods of time in another state and that state considers you to be a resident of that state under its laws.
3. The other state taxes your income and does not allow you a credit against its taxes for taxes imposed by Arizona on income subject to tax in both Arizona and the other state.

Lines 1 through 6 -

Provide a breakdown of your income which is subject to tax in both Arizona and the other state or country. Complete lines 1 through 6 separately for each income item listed in columns (a) through (c). If you have more than three items of income from the other state or country for which you are claiming the credit, complete additional schedules.

Line 1 -

Identify the income item from which the income subject to tax in both Arizona and the other state is derived. If you have more than one income item, complete column(s) (b) and (c) as necessary. Examples of such income are business income, partnership income, wages, etc. Enter an item in column (a) only if your Arizona adjusted gross income and the adjusted gross income of the return filed with the other state or country includes the income from that item.

If you are claiming a credit for taxes paid to another country, and that country withheld at the source, and you are not required to file a return with that country, enter the item of income from which the foreign taxes were withheld.

Line 2 -

Enter the amount of income from the item listed on line 1 reportable to both Arizona and the other state or country. This is the amount of income derived from that item which you must include in the income reported to both Arizona and the other state or country.

Line 3 -

Enter that portion of the income entered on line 2 which is subject to tax by Arizona. This amount is that portion of the income included in your Arizona adjusted gross income adjusted by any additions or subtractions related to that income required under Arizona law.

Line 4 -

Enter that portion of the income entered on line 2 which is subject to tax by the other state or country. This amount is that portion of the income included in the other state's or country's adjusted gross income adjusted by any additions or subtractions related to that income required under the other state's or country's law.

If you are claiming a credit for taxes paid to another country, and that country withheld at the source, and you are not required to file a return with that country, enter the amount of income subject to tax in that foreign country.

Line 5 -

Enter the smaller of the amount entered on line 3 or line 4. This is the amount of income from that item which is subject to tax by both Arizona and the other state or country.

Line 6 -

Add line 5, columns (a) through (c). This is the total income subject to tax in both Arizona and the other state or country. Enter the amount from Part I, line 6, on Part II, line 8 and also on Part II, line 13.

Note: *The amounts on lines 2 through 5 may be the same. However, differences may occur due to the application of the other state's law. See the example below.*

The following example illustrates how to complete lines 1 through 6 of Arizona Form 309.

EXAMPLE:

Facts:

Mr. and Mrs. M are Arizona residents. Mr. M is an active duty military member who is stationed in State X. Mr. M receives wages from the military and from a part-time job in State X. Mrs. M receives wages from employment in State X. During the taxable year for which the credit is being claimed, Mr. and Mrs. M received the following income.

Mr. M's military wages	\$ 15,000
Mr. M's part-time employment wages	\$ 5,000
Mrs. M's part-time employment wages	\$ 5,000
Total income	<u>\$ 25,000</u>

As Reported on State X Return		As Reported on Arizona Return	
Federal adjusted gross income	\$ 25,000	Federal adjusted gross income	\$ 25,000
Less non-state X income (military)	(15,000)	Less dependent exemption	(2,300)
Less subtraction for two earner income	(1,000)	Arizona adjusted gross income	\$ 22,700
State X adjusted gross income	\$ 9,000		

Mr. and Mrs. M must include Mr. M's part-time employment wages of \$5,000 and Mrs. M's part-time employment wages of \$5,000 in both the Arizona adjusted gross income and the State X adjusted gross income. Therefore, the amount of wage income reportable to both Arizona and State X is \$10,000. Since there are no additions or subtractions related to that income required under Arizona law, \$10,000 of that income is subject to tax by Arizona. However, since \$1,000 of the \$10,000 wage income is subtracted from State X adjusted gross income under State X law, only \$9,000 of that \$10,000 is subject to tax by State X. Mr. and Mrs. M complete lines 1 through 6 of Arizona Form 309 as follows:

	(a)
1. Description of income items.	wages
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$10,000
3. Portion of income included on line 2 subject to tax by Arizona.	\$10,000
4. Portion of income included on line 2 subject to tax by the other state or country.	\$ 9,000
5. Amount of income from item listed on line 1 which is subject to tax by both Arizona and the other state or country. Enter the smaller of the amount entered on line 3 or 4.	\$ 9,000
6. Total income subject to tax in both Arizona and the other state or country.	\$ 9,000

Part II - Computation of Other State or Country Tax Credit

Line 7 -

Enter your Arizona tax liability less any credits. However, do not reduce your Arizona tax liability by the other state tax credit.

For 2001, use the chart below to help you figure your Arizona tax liability prior to tax credits.

Form	
140	Subtract line 21 from line 25
140PY	Subtract line 24 from line 28
140NR	Subtract line 24 from line 28
140X	Subtract line 26 from line 29

If you are taking other tax credits, you must reduce your Arizona tax by the amount of those other tax credits.

Line 9 - Entire Income Upon Which Arizona Tax is Imposed

Enter your entire income upon which Arizona tax is imposed. This is the Arizona adjusted gross income excluding allowable exemptions for age 65 or over, blind, dependents, or qualifying parents and ancestors.

Use the appropriate worksheet below to figure your entire income upon which Arizona tax is imposed.

Worksheet for Arizona Residents	
1. Enter the amount from Arizona Form 140, page 1, line 16.	
2. Enter the amount from Arizona Form 140, page 2, line C17.	
3. Add the amount on lines 1 and 2. Enter the total here and on line 9 of Arizona Form 309.	

Worksheet for Arizona Nonresidents	
1. Enter the amount from Arizona Form 140NR, line 19.	
2. Enter the amount from Arizona Form 140NR, Page 2, line D24.	
3. Add the amounts on lines 1 and 2. Enter the total here and on line 9 of Arizona Form 309.	

Worksheet for Arizona Part-Year Residents With No Arizona Source Income for the Period of the Year in Which You Were an Arizona Nonresident

1. Enter the amount from Arizona Form 140PY, line 19.	
2. Enter the amount from Arizona Form 140PY, page 2, line D31.	
3. Add the amounts on lines 1 and 2. Enter the total here and on line 9 of Arizona Form 309.	

Part-Year Residents With Arizona Source Income for the Period of the Year in Which You Were an Arizona Nonresident.

If you have Arizona source income for the period of the year in which you were an Arizona nonresident, you must separately determine the amount of Arizona adjusted gross income for the period in which you were a resident and the amount of Arizona adjusted gross income for the period in which you were a nonresident. These figures are not separately stated on any particular line on your Arizona Form 140PY.

Line 12 -

Enter the amount of income tax paid to the other state or foreign country. Do not include federal income taxes or any taxes paid to a city or county. Also, do not include any amount paid to the other state or foreign country for penalty or interest. Amounts of tax paid or accrued to a foreign country do not include amounts that are reasonably certain to be refunded, credited, rebated, abated, or forgiven.

Line 14 - Entire Income Upon Which Other State's or Country's Income Tax is Imposed

Enter the entire income upon which the other state's or country's income tax is imposed. This is the other state's or country's equivalent of Arizona adjusted gross income. Such income must include items of income and loss, but not exemptions and itemized or standard deductions. Such income must also be adjusted by any additions or subtractions required under the other state's law which relate to the income from sources within the other state. This amount may not be shown on a specific line of the return filed with the other state.

If you are claiming a credit for taxes paid to another country, and that country withheld at the source, and you are not required to file a return with that country, enter the amount of income subject to tax in that foreign country.

NOTE FOR ARIZONA RESIDENTS ONLY (excluding dual residents): Since the other state can only tax a nonresident on income which is sourced to that state, the entire income upon which the other state's income tax is imposed includes only income sourced to that other state under its income tax laws. Source income is generally income derived from property located within a state or from an activity carried on within a state when the income recipient is a nonresident.

NOTE: You may not be able to take the entire income upon which the other state's or country's tax is imposed from a specific line on the return filed to the other state or country. If you must determine this amount, attach a schedule.

The example following line 17 illustrates how an Arizona resident figures the entire income subject to tax in the other state or country.

If you have questions concerning what amount to enter on line 14 call one of the help numbers listed at the beginning of these instructions.

Line 17 -

Enter the smaller of line 11 or line 16. If this is the only state or country for which you are claiming a credit, also enter this amount on Arizona Form 301, line 7.

If you are claiming a credit for more than one state or country, make a separate computation for each. Enter the total from all Arizona Forms 309 on Arizona Form 301, line 7.

EXAMPLE:

The following example will illustrate how to figure a credit for taxes paid to another state.

Facts:

Mr. and Mrs. F are Arizona residents who derive income from a farm in State XY. During the taxable year for which the credit is being claimed, Mr. and Mrs. F received the following income.

Interest income	\$ 38,000
Dividend income	\$ 4,000
Farm income from State XY	<u>\$ 16,000</u>
Total income	<u>\$ 58,000</u>

As Reported on State XY Return		As Reported on Arizona Return	
Federal taxable income	\$ 44,600	Federal adjusted gross income	\$ 58,000
Plus State XY additions	0	Plus Arizona additions	0
Less State XY subtractions	0	Less Arizona subtractions	0
State XY taxable income	<u>\$ 44,600</u>	Arizona adjusted gross income	\$ 58,000
State XY tax	<u>\$ 913</u>	Less standard deduction	(7,200)
		Less personal exemption	(4,200)
		Arizona taxable income	<u>\$ 46,600</u>
		Arizona tax	<u>\$ 1,425</u>

State XY computes its nonresident tax as follows:

Tax from State XY tax table \$3,308 (on \$44,600)

State XY can only tax a nonresident on income derived from sources within State XY. Therefore, State XY prorates the amount of tax so that tax is imposed only on income derived from sources within State XY. State XY prorates the State XY tax table as follows:

State XY income	$\frac{\$16,000}{\$58,000} \times \$3,308 = \913
Federal adjusted gross income	\$58,000

Credit Computation:

Mr. and Mrs. F must include State XY farm income of \$16,000 in both Arizona adjusted gross income and the state XY adjusted gross income. Therefore, the amount of farm income reportable to both Arizona and State XY is \$16,000. Since there are no additions or subtractions related to that income required under either Arizona law, or State XY law, \$16,000 of that income is subject to tax by Arizona and \$16,000 of that income is subject to tax by State XY. Mr. and Mrs. F complete Arizona Form 309 as follows:

Arizona Form 309**Part I – Computation of Income Subject to Tax by Both Arizona and the Other State or Country**

	(a)	(b)
1. Description of income item(s)	farm income	
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$ 16,000	
3. Portion of income included on line 2 subject to tax by Arizona.	\$ 16,000	
4. Portion of income included on line 2 subject to tax by the other state or country.	\$ 16,000	
5. Amount of income from item listed on line 1 which is subject to tax by both Arizona and the other state or country.	\$ 16,000	
6. Total income subject to tax in both Arizona and the other state or country.		\$ 16,000

Part II – Computation of Other State or Country Tax Credit

7. Arizona tax liability less any credits (except other state tax credit).....	7	1425
8. Amount from Part I, line 6.....	8	16,000
9. * Entire income upon which Arizona income tax is imposed.....	9	58,000
10. Divide the amount on line 8 by the amount on line 9 (100% maximum).....	10	27.59%
11. Multiply the amount on line 7 by the percent on line 10.....	11	393
12. Income tax paid to State XY (tax less credits).....	12	913
13. Amount from Part I, line 6.....	13	16,000
14. **Entire income upon which State XY's income tax is imposed.....	14	16,000
15. Divide the amount on line 13 by the amount on line 14 (100% maximum).....	15	100%
16. Multiply the amount on line 12 by the percentage on line 15.....	16	913
17. Other state or country tax credit. Enter the smaller of line 11 or line 16.....	17	393

* **Line 9** – This amount is computed as follows:

Arizona adjusted gross income	\$58,000
Plus dependent, blind, age 65 or over, and qualifying parent and ancestor exemptions	0
Entire income upon which Arizona income tax is imposed	<u>\$58,000</u>

** **Line 14** – This is the entire income upon which State XY tax is imposed. This is State XY's adjusted gross income equivalent for these individuals. Since these individuals are nonresidents of State XY, State XY adjusted gross income (not including exemptions and standard or itemized deductions), includes only that income which is sourced to State XY. It should be noted that in this case, the entire income upon which State XY income tax is imposed had to be determined. This amount was not separately shown on a specific line of the State XY return, since State XY computes its tax on the total income and then prorates that tax to reflect the tax attributable to income derived from sources within State XY.

State XY's equivalent of Arizona adjusted gross income is computed as follows:

State XY source farm income	\$ 16,000
Plus State XY additions related to State XY farm income	0
Less State XY subtractions related to State XY farm income	(0)
State XY adjusted gross income equivalent	<u>\$ 16,000</u>