

2007 Part-Year Resident Credit For Taxes Paid to Another State or Country

Arizona Form 309-PY

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
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.azdor.gov

Why Has Arizona Form 309 Changed?

In *Stearns v. Arizona Department of Revenue*, 212 Ariz. 333, 131 P.3d 1063 (App. 2006), the Arizona Court of Appeals overruled the department's interpretation of the formula for calculating the credit for taxes paid to another state. The department's former method of calculating the credit was based on adjusted gross income. Under the court's decision, "a resident taxpayer's 'taxable income' forms the denominator of the tax credit" and "the numerator of the fraction, which consists of 'income subject to tax' in both the other state and Arizona, is equivalent to that portion of the out-of-state income that is taxable in both states." *Stearns* at 335-36, 131 P.3d at 1065-66. To reflect the new formula that the *Stearns* decision requires, the department has developed new forms.

Which Form Should I Use?

Form 309-PY

Use Form 309-PY to figure your credit if you are a part-year Arizona resident filing Form 140PY and you qualify to claim the credit. See the following instructions for more information.

Form 309-R

Use Form 309-R to figure your credit if you are a full-year Arizona resident filing Form 140, you have source income from another state, and you qualify to claim the credit. See Form 309-R for more information.

Form 309-D

Use Form 309-D to figure your credit if you are a full-year Arizona resident filing Form 140, you are also considered to be a resident of another state under the laws of that other state, and you are filing a resident return to that other state. See Form 309-D for more information.

Form 309-NR

Use Form 309-NR to figure your credit if you are a nonresident of Arizona filing Form 140NR and you qualify to claim the credit. See Form 309-NR for more information.

Purpose of Form

Use Form 309-PY 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 about this credit, see Arizona Department of Revenue Income Tax Procedure ITP 07-1. To

get a copy of this procedure, visit the department's web site at www.azdor.gov, or call one of the phone 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.*

Should I Complete Form 309-PY?

Complete Form 309-PY only if you meet the following.

1. You are filing a 2007 Arizona Form 140PY.
2. You paid a **net** income tax to another qualified state or country for 2007.
 - 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-PY. You must complete Form 309-PY 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.

NOTE: *If you file an amended return after you claim this credit, be sure to recalculate the credit, if required.*

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. You cannot carry the credit forward to the next year. You also cannot carry the credit back to a prior year.*

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. You must attach a copy of the return filed with the other state even if you are participating in the filing of a composite return with the other state.

NOTE: *If you do not attach a copy of the return filed with the other state, you may not claim the credit.*

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.

- If 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.

Credit for the Period of the Year While an Arizona Resident

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

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

If you had source income from another state or country for the part of the year you were a resident of Arizona, you 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.

- 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.
- 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 a part-year resident, claiming the credit for income taxes paid to another state, on income sourced to the other state that you received while 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.

***Minnesota** sources the sale of certain partnership interests to Minnesota. Minnesota allows an Arizona resident a credit for taxes paid to Minnesota for the sale of a partnership interest that is subject to Minnesota tax. As an Arizona resident, you cannot claim this credit for taxes paid to Minnesota on the sale of a partnership interest that is sourced to Minnesota.

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

Important: *As an Arizona resident, claiming the credit for income subject to tax in both Arizona and another state during the period in which you were 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.

Credit for the Period of the Year While an Arizona Nonresident

If you had Arizona source income for the part of the year you were a nonresident of Arizona, you 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.

- The other state or country does not tax Arizona residents on income derived from sources within the other state or country.

or

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.

- You are not allowed a credit by your state or country of residence for taxes paid to Arizona.

As an Arizona part-year resident claiming the credit for the part of the year in which you were a nonresident, nonresident returns filed with the following states qualify for the credit.

California, Indiana, Oregon and Virginia.

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

Line-by-Line Instructions for Form 309-PY

Enter your name and SSN as shown on Arizona Form 140PY or 140X.

Make sure that every return, statement, or document that you file with the department has your SSN. 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.

If you are claiming a credit for income taxes paid to another state, enter in the space provided, the two-letter abbreviation for that state. See page 6 of these instructions for a list of state abbreviations.

If you are claiming a credit for income taxes paid to another country, enter the name of that country on the line provided.

Computation of Income Subject to Tax by Both Arizona and the Other State or Country During 2007 - Lines 1 through 3

NOTE: *If you are a part-year resident, DO NOT complete Form 309-PY unless you reported the SAME income to both Arizona and the other state or country and both Arizona and the other state or country imposed income tax on that income.*

Line 1 -

Identify the income item from which the income subject to tax in both Arizona and the other state or country is derived. If you have more than one income item, complete lines 1(b) through 1(d) as necessary. Examples of such income are business income, partnership income, wages, etc.

Enter an item on lines 1(a) through 1(d) only if both your Arizona gross income and the 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 -

Add the amounts entered on lines 1(a) through 1(d). Enter the total on line 2.

Line 3 -

Enter the amount of income from line 2 that is included in both Arizona adjusted gross income and in the other state's or country's equivalent of Arizona adjusted gross income. This is the amount of income reportable to both Arizona and the other state or country adjusted by additions and subtractions related to that income required under Arizona law, or any additions or subtractions related to that income required under the other state's or country's law.

The following example illustrates how to complete lines 1 through 3 of Arizona Form 309-PY.

Facts:

Mr. and Mrs. P became Arizona residents on June 1 of the taxable year. During the taxable year, Mr. P worked in State Z and earned wages of \$25,000. Mrs. P also worked in State Z during that period and had wages of \$15,000. Mr. and Mrs. P also have rental property in State Z and received \$24,000 of rental income from that property. After moving to Arizona, Mr. P earned wages of \$25,000 and Mrs. P earned wages of \$25,000. Therefore, during the taxable year, Mr. and Mrs. P received the following income.

Mr. P's wages earned in State Z	\$ 25,000
Mrs. P's wages earned in State Z	\$ 15,000
Mr. P's wages earned in Arizona	\$ 25,000
Mrs. P's wages earned in Arizona	\$ 25,000
Rental income from State Z property (\$10,000 received while a resident of State Z and \$14,000 received while an Arizona resident)	<u>\$ 24,000</u>
Total income	<u>\$ 114,000</u>

As Reported on Income Allocation of State Z Return		As Reported in Arizona Column on Arizona Form 140PY	
Wages	\$40,000	Wages	\$50,000
Rental Income from State Z Property	24,000	Rental Income from State Z Property	14,000
State Z gross income	\$64,000	Arizona gross income	\$64,000
As Reported on State Z Return		As Reported on Arizona Return	
State Z gross income	\$64,000	Arizona gross income	\$64,000
Plus additions to income	0	Plus additions to income	0
Less subtractions to income	0	Less subtractions from income	0
State Z adjusted gross income	\$64,000	Arizona adjusted gross income	\$64,000

Mr. and Mrs. P must report to State Z, Mr. P's wages of \$25,000 that he earned while Mr. P was a resident of State Z, and Mrs. P's wages of \$15,000 that she earned while a resident of State Z and the \$24,000 rental income from State Z property. Mr. and Mrs. P must report to Arizona Mr. P's wages of \$25,000 that he earned while an Arizona resident and Mrs. P's wages of \$25,000 that she earned while an Arizona resident and \$14,000 of the total \$24,000 rental income from State Z property that was received while Mr. and Mrs. P were Arizona residents. Therefore, Mr. and Mrs. P must include \$14,000 of rental income from property located in State Z in the adjusted gross income of both Arizona and State Z.

Mr. and Mrs. P would complete lines 1 through 3 of Arizona Form 309-PY as follows.

1a Rental income from State Z property	\$14,000
1b	
1c	
1d	
2 Add lines 1a through 1d	\$14,000
3 Amount of income from line 2 included in both Arizona adjusted gross income and the adjusted gross equivalent of the other state or country	\$14,000

Portion of Income Reportable to Both Arizona and the Other State or Country Taxable to Arizona - Lines 4 through 12 -

Complete lines 4 through 12 to figure the amount of income reportable to both Arizona and the other state or country that is taxable to Arizona. To determine this amount, you must apportion your deductions and exemptions between income taxable in Arizona only and income taxable in both Arizona and the other state or country.

Line 4 -

Enter the amount from Form 140PY, page 1, line 19.

Line 5 -

Enter the amount from Form 140PY, page 2, line D30.

Line 8 -

Enter the amount from 140PY, page 1, line 20.

Line 9 -

Enter the sum of the amount from 140PY, page 1, line 21 plus the amount entered on Form 309-PY, line 5.

Lines 10 through 12 -

To complete lines 10 through 12, follow the instructions on Form 309-PY for those lines.

Portion of Income Reportable to Both Arizona and the Other State or Country Taxable to the Other State or Country - Lines 13 through 21 -

Complete lines 13 through 21 to figure the amount of income reportable to both Arizona and the other state or country that is taxable to the other state or country. To determine this amount, you must apportion your deductions and exemptions between income taxable in the other state or country only and income subject to tax in both Arizona and the other state or country.

Line 13 -

Enter the amount of the other state's or country's adjusted gross income computed as if it were computed under Arizona law.

Line 14 -

Enter the amount of the other state's equivalent of Arizona exemptions, for age 65 or over, blind, dependents or qualifying parents or ancestors, to the extent such amounts were deducted in computing the adjusted gross income of the other state or country.

Line 17 -

Enter the amount of the other state's or country's itemized deductions or standard deduction claimed in computing the taxable income of the other state or country.

Line 18 -

Enter the sum of the amount of the other state's equivalent of the Arizona personal exemption or other exemptions claimed in computing the taxable income of the other state or country plus the amount entered on Form 309-PY, line 14.

Lines 19 through 21 -

To complete lines 19 through 21, follow the instructions on Form 309-PY for those lines.

Credit Computation - Lines 22 through 31 -

Line 22 -

Enter the amount from Form 140PY, page 1, line 22.

Line 24 -

NOTE: Some states require a part-year resident to compute its income tax on income from everywhere and then prorate the tax to reflect the tax actually imposed on income taxable to that state. If you filed a return with a state or country that computes its tax using this method, you must complete lines 24a through 24e to compute the income actually taxable to that other state.

On line 24e, enter the taxable income from the return filed with the other state or country unless the other state or country computes its tax on income from everywhere and then prorates the tax to reflect the tax actually imposed on income taxable to that other state or country. If you must compute this amount, complete lines 24a through 24e. You can usually find the numbers required to be entered on lines 24a through 24e on different schedules filed with the return filed to the other state or country.

The following example will illustrate how to compute lines 24a through 24e.

EXAMPLE:

Facts:

Mr. and Mrs. D became Arizona residents on July 1 of the taxable year. During the taxable year, Mr. D worked in State YZ and earned wages of \$30,000. Mrs. D also worked in State YZ during that period and had wages of \$20,000. Mr. and Mrs. D also have rental property in State YZ and received \$26,000 of rental income from that property. After moving to Arizona, Mr. D earned wages of \$20,000 and Mrs. D earned wages of \$20,000. Therefore, during the taxable year, Mr. and Mrs. D received the following income.

Wage income	\$ 90,000
Rental income from property located in state YZ	\$ 26,000
Total income	<u>\$ 116,000</u>

As Reported on State YZ Return		As Reported on State YZ Income Allocation Schedule			
1. Federal adjusted gross income	\$116,000		Column A Income from federal return	Column B Income from Column A taxable to State YZ	Column C Income from Column A taxable to other state
2. Plus State YZ additions	0	1. Wages	90,000	50,000	40,000
3. Less State YZ subtractions	0	2. Interest			
4. State YZ adjusted gross income	116,000	3. Dividends			
5. Itemized deductions	16,000	4. Business Income			
6. Personal Exemption	6,000	5. Capital Gains			
7. State YZ taxable income	94,000	6. Rents Royalties, Partnership, Sub S	26,000	26,000	13,000
8. State YZ tax from tax tables	4,880	7. Other Income			
9. Amount from Income Allocation Schedule, Column B, line 8	76,000	8. Total income	116,000	76,000	53,000
10. Divide line 9 by line 4	.6552				
11. State YZ tax on income taxable to State YZ. Multiply line 8 by line 10	3,197				

Mr. and Mrs. D would complete lines 24a through 24e of Form 140PY as follows:

24a. Other state taxable income from everywhere	94,000
24b Income reportable to the other state upon which the other state imposes it tax	76,000
24c Total income from everywhere	116,000
24d Divide line 24b by line 24c. Carry the result to four (4) decimal places.	. 6 5 5 2
24e Other state taxable income. If you were required to complete lines 24a through 24d, multiply the amount on line 24a by the decimal on line 24d	61,589

Line 26 -

Enter the amount of income tax paid to the other state or foreign country. This is the tax paid to the other state or country minus any tax credits claimed against the other state's or country's income tax. 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 29 -

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

For 2007, use the chart below to help you figure your Arizona tax liability prior to tax credits.

Form	
140PY	Subtract line 24 from line 28.
140X	Subtract line 27 from line 30

NOTE: *If you are taking other tax credits, you must reduce your Arizona tax by the amount of those other tax credits. For the purpose of this computation, be sure to reduce your Arizona tax by both refundable and nonrefundable credits.*

Line 31 -

Enter the smaller of the amount entered on line 27 or the amount on line 30. Enter the result here and also on Arizona Form 301, line 7c.

List of State Abbreviations

State		State		State		State	
Alabama	AL	Indiana	IN	Mississippi	MS	Oklahoma	OK
Arkansas	AR	Iowa	IA	Missouri	MO	Oregon	OR
California	CA	Kansas	KS	Montana	MT	Pennsylvania	PA
Colorado	CO	Kentucky	KY	Nebraska	NE	Rhode Island	RI
Connecticut	CT	Louisiana	LA	New Jersey	NJ	South Carolina	SC
Delaware	DE	Maine	ME	New Mexico	NM	Utah	UT
Georgia	GA	Maryland	MD	New York	NY	Vermont	VT
Hawaii	HI	Massachusetts	MA	North Carolina	NC	Virginia	VA
Idaho	ID	Michigan	MI	North Dakota	ND	West Virginia	WV
Illinois	IL	Minnesota	MN	Ohio	OH	Wisconsin	WI