

# 2007 Resident Credit For Taxes Paid to Another State or Country

## Arizona Form 309-R

### 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](http://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-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 the following instructions 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-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 Form 309-PY 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-R if you are a full-year Arizona resident filing Arizona Form 140. Use Form 309-R, 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 07-1. To get a copy of this procedure, visit the department's web site at [www.azdor.gov](http://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.*

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

1. You are filing a 2007 Arizona full year resident income tax return (Form 140).
  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-R. You must complete Form 309-R 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.

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.

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.

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.*

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.

- 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.

\***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, 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.

## 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 participated in the filing of a composite income tax return to the other state, you must attach a copy of the composite income tax return filed with the other state including all supporting schedules necessary to document the information you used to compute the credit.

**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.

- 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.

## Line-by-Line Instructions for Form 309-R

Enter your name and SSN as shown on Arizona Form 140 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 5 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 -

### 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 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 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-R.**

**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 part-time employment in State X. Mr. and Mrs. M also have Arizona rental property. During the taxable year, 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
Rental income from AZ property	\$ 20,000
<b>Total income</b>	<b>\$ 45,000</b>

<b>As Reported on State X Return</b>		<b>As Reported on Arizona Return</b>	
Federal adjusted gross income	\$ 45,000	Federal adjusted gross income	\$ 45,000
Less non-State X income (military & rental income)	(35,000)	Less subtractions from income (military income \$15,000 and dependent exemption \$2,300)	(17,300)
Less subtraction for two earner income	(1,000)	Arizona adjusted gross income	\$ 27,700
State X adjusted gross income	\$ 9,000		

Mr. and Mrs. M must report Mr. M's part-time employment wages of \$5,000 and Mrs. M's part-time employment wages of \$5,000 to Arizona. Mr. and Mrs. M also include the \$10,000 in income for State X. 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 reportable to both Arizona and to State X.

Mr. and Mrs. M would complete lines 1 through 3 of Arizona Form 309-R as follows:

1a wages	\$10,000
1b	
1c	
1d	
2 Add lines 1a through 1d	\$10,000
3 Amount of income from line 2 reportable to both Arizona and the other state or country	\$ 9,000

### **Portion of Out-of-State Income Taxable to Arizona - Lines 4 through 12 -**

Complete lines 4 through 12 to figure the amount of out-of-state income taxable to Arizona. To determine this amount, you must apportion your deductions and exemptions between income subject to tax in Arizona only and income subject to tax in both Arizona and the other state.

**Line 4 -**

Enter the amount from Form 140, page 1, line 16.

**Line 5 -**

Enter the amount from Form 140, page 2, line C18.

**Line 8 -**

Enter the amount from Form 140, page 1, line 17.

**Line 9**

Enter the sum of the amount from Form 140, page 1, line 18 plus the amount entered on Form 309-R, line 5.

**Lines 10 through 12 -**

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

### **Credit Computation - Lines 13 through 20 -**

#### **Line 13 - Other State or Country Taxable Income**

**NOTE:** *Since the other state can only tax a nonresident on income which is sourced to that state, the 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:** *Some states require a nonresident to compute its income tax on income from everywhere and then prorate the tax to reflect the tax actually imposed on income from sources within that state. If you filed a return with a state or country that computes its tax using this method, you must complete lines 13a through 13e to compute the taxable income sourced to the other state.*

On line 13e, 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 sourced to that other state or country. If you must compute the taxable income sourced to the other state or country, complete lines 13a through 13e. You can usually find the numbers required to be entered on lines 13a through 13e on different schedules filed with the return filed to the other state or country.

The following example will illustrate how to complete lines 13a through 13e.

**EXAMPLE:**

The following example will illustrate how to complete lines 13a through 13e of Form 309-R.

**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 State XY Income Allocation Schedule			
1. Federal adjusted gross income	\$ 58,000		<b>Column A</b> Income from federal return	<b>Column B</b> Income from Column A From State XY Sources	<b>Column C</b> Income from Column A reportable to State XY
2. Plus State XY additions	0	1. Wages			
3. Less State XY subtractions	0	2. Interest	38,000		38,000
4. State XY adjusted gross income	<u>\$ 58,000</u>	3. Dividends	4,000		4,000
5. Income from State XY sources	\$ 16,000	4. Farm Income	16,000	16,000	16,000
6. State XY taxable income. Enter the greater of line 4 or line 5	\$ 58,000	5. Capital Gains			
7. Income tax from tables	\$ 3,308	6. Rents, Royalties, Partnership, Sub S			
8. Divide line 5 by line 6	0.2759	7. Other Income			
9. State XY tax on income sourced to State XY. Multiply line 7 by line 8	\$ 913	Total income	58,000	16,000	<u>58,000</u>

Mr. and Mrs. F would complete lines 13a through 13e of Form 309-R as follows:					
13a. Other state taxable income from everywhere	58,000				
13b. Other state source income	16,000				
13c. Total income from everywhere	58,000				
13d. Divide line 13b by line 13c. Carry the result to four (4) decimal places.	.	2	7	5	9
13e. Other state taxable income. If you were required to complete lines 13a through 13d, multiply the amount on line 13a by the decimal on line 13d.	16,002				

**Line 15 -**

Enter your Arizona taxable income from Form 140, page 1, line 19.

**Line 17 -**

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	
140	Subtract line 21 from line 25.
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 18 -**

Multiply the amount on line 17 by the decimal on line 16.

**Line 19 -**

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 20 -**

Enter the smaller of the amount entered on line 18 or the amount on line 19. Enter the result here and also on Arizona Form 301, line 7a.

### List of State Abbreviations

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