

2000 Corporation Income Tax Return (Short Form)

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www.revenue.state.az.us

General Instructions

Which Corporations Must File a Return

Every corporation subject to the Arizona Income Tax Act of 1978 must file an Arizona corporate income tax return.

NOTE: *Homeowners associations described in IRC § 528 are not exempt from tax under ARS § 43-1201. These associations must file Form 120A. However, certain homeowners associations are federally tax exempt under IRC § 501(c)(4), as social welfare organizations or under IRC § 501(c)(7), as clubs organized for pleasure or recreation. These homeowners associations are similarly tax exempt for Arizona income tax purposes. These organizations may file the Form 99.*

Which Corporations May Use Form 120A

The standard corporation income tax return, Form 120, is designed to accommodate any taxpayer including the most complex filing under the combined or consolidated methods. The short form, Form 120A, is designed for corporate taxpayers with less complex filing requirements.

A corporation **MAY USE** Form 120A if it files its return on a separate company (separate entity) basis and it is a "wholly Arizona corporation". A corporation that has income from business activity that is taxable entirely within Arizona is a "wholly Arizona corporation". A corporation files on a separate company (separate entity) basis if: (1) it is not part of a group of corporations comprising a unitary business; or (2) it is not a member of an affiliated group that elected to file an Arizona consolidated return.

A corporation **MUST USE** Form 120 if: (1) it is a multistate corporation; or (2) it is a member of a unitary group of corporations that files an Arizona return on a combined basis; or (3) it is a member of an affiliated group of corporations that elects to file an Arizona consolidated return. A corporation that has income from business activity that is taxable in more than one state is a "multistate corporation".

NOTE: *The corporation must file Form 120 if the corporation is: (1) a partner in a multistate partnership, or*

(2) a partner in a partnership with business activity conducted entirely outside Arizona.

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 Arizona Corporate Tax Ruling CTR 97-1 for further information. An entity that is disregarded as an entity separate from its owner is included in the tax return of its owner.

Limited Liability Companies

Under the provisions of the Arizona Limited Liability Company Act, a limited liability company (LLC) is classified as a partnership, or as a corporation, or is disregarded as an entity as determined under the Internal Revenue Code as defined in ARS § 43-105. A single member LLC that is disregarded as an entity is treated as a branch or division of the owner. An LLC classified as a partnership for federal tax purposes must file Form 165. An LLC classified as a corporation for federal tax purposes must file Form 120 or Form 120A. An LLC classified as a corporation for federal tax purposes that makes a valid federal election to be taxed as an S corporation must file Form 120S. A single member LLC that is disregarded as an entity for federal tax purposes is included in the Arizona return of its owner. Refer to Arizona Corporate Tax Ruling CTR 97-2 for further information.

Electing Small Business Corporations

Corporations taxed as S corporations under Subchapter S of the Internal Revenue Code must file Form 120S.

Taxable Year Covered by Return

File returns for the calendar year or fiscal year. Indicate the period covered by the taxable year on page 1 of the return (in an MM/DD/YYYY format) and whether the taxable year is a calendar year or a fiscal year.

Filing Original Returns

Returns are due by the 15th day of the fourth month following the close of the taxable year. If the taxpayer has a valid federal or Arizona extension, file the return by the extended due date. If the taxpayer uses a FEDERAL extension, the taxpayer must check the federal extension box on page 1 of the return. If the taxpayer uses an ARIZONA extension, the taxpayer must attach a copy of the Arizona extension to the front of the return. Send the return to the Arizona Department of Revenue, PO Box 29079, Phoenix AZ 85038-9079. One or more of the following officers (president, treasurer, or any other principal officer) must sign the return. Attach a copy of the completed federal return (Form 1120, 1120A, etc.) to the Arizona return.

The department normally determines the timeliness of a return by the postmark or other official mark of the U.S. Postal Service stamped on the envelope in which the return is mailed. Refer to Arizona General Tax Ruling GTR 93-1 for further information. The department will also accept proof of mailing from a private delivery service included in the Internal Revenue Service list of designated private delivery services.

Contact the private delivery service for information regarding how to obtain the written proof of mailing.

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.

Treatment of Installment Obligations When Corporation Activities Cease

If a corporation elects to report income from the sale or other disposition of property on the installment method, and does not report the entire amount of income from the sale before the year the corporation ceases to be subject to Arizona corporation income tax, the corporation must report the unreported income in the last year in which the corporation is subject to the tax. This provision does not apply if a reorganization transfers the installment obligation to another taxpayer subject to Arizona tax as the transferee. The transferee may not use its capital losses to offset income from the installment obligation transferred from a corporation no longer subject to the tax.

Payment of Tax

The entire amount of tax is due by the original due date of the return.

Estimated Tax Payments

Corporations that expect an Arizona income tax liability for the taxable year of \$1,000 or more must make Arizona estimated tax payments. Use Form 120ES, *Corporation Estimated Tax Payment*.

For exceptions to the estimated tax requirements, see the instructions for Form 220, *Underpayment of Estimated Tax by Corporations*.

A corporation that fails to make the required estimated tax payments is subject to a penalty on any estimated tax payment which is late or underpaid.

The Arizona required annual payment of corporate estimated tax is the smaller of:

- Ninety percent of the taxpayer's Arizona tax liability (reduced by claim of right adjustments, if applicable) for the current taxable year; or
- One hundred percent of the taxpayer's Arizona tax liability (reduced by claim of right adjustments, if applicable) for the prior taxable year.

NOTE: *In order for the taxpayer to base its Arizona corporate estimated tax payments on the prior taxable year's tax liability:*

- *The taxpayer's return filed for the prior taxable year must have shown at least some amount of tax liability (an amount greater than zero); and*
- *The taxpayer's return filed for the prior taxable year must have been for a period of twelve months.*

Taxpayers required to make Arizona corporate estimated tax payments should use the 2001 Form 120W, *Estimated Tax Worksheet for Corporations*, to compute the required installments. REFER TO THE 2001 FORM 120W AND ITS INSTRUCTIONS BEFORE COMPLETING THE 2001 FORM 120ES.

ESTIMATED TAX PAYMENTS BY ELECTRONIC FUNDS TRANSFER. Refer to ARS § 42-1129 and the related Arizona Administrative Code rules (AAC R15-10-301 through R15-10-307) for detailed information regarding electronic funds transfer.

Effective for taxable years beginning on or after January 1, 1997, taxpayers whose Arizona corporate income tax liability for the preceding taxable year was \$20,000 or more must make Arizona corporate estimated tax payments via the electronic funds transfer program. If the taxpayer makes its estimated tax payments by electronic funds transfer (EFT), the taxpayer should not submit the Form 120ES to the department.

Taxpayers required to make estimated tax payments via electronic funds transfer must complete the department's electronic funds transfer authorization agreement at least 30 days prior to initiation of the first applicable transaction.

Taxpayers whose Arizona corporate income tax liability for the preceding taxable year was less than \$20,000 may elect voluntary participation in the electronic funds transfer program. Voluntary participants in the program must complete the department's electronic funds transfer authorization agreement at least 30 days prior to the first applicable transaction.

Obtain additional information concerning the Arizona electronic funds transfer program by contacting the EFT Helpline at (800) 572-7037 (nationwide toll-free) or at (602) 542-2040 in Phoenix. The FAX line is (602) 542-3605.

Extension of Time To File a Return

A request for an Arizona extension of time to file a corporate income tax return is made by filing a completed Form 120EXT by the original due date of the return. The taxpayer can use a valid federal extension rather than applying for an Arizona extension. The Form 120EXT must be used to transmit any extension payments, whether the taxpayer uses a valid federal extension or requests an Arizona extension. If the taxpayer uses a FEDERAL extension, the taxpayer must check the federal extension box on page 1 of the return. If the taxpayer uses an ARIZONA extension, the taxpayer must attach a copy of the Arizona extension to the front of the return.

The taxpayer must pay 90 percent of the tax liability by the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments.

The department grants an Arizona extension for a period of six months. Arizona law provides that six months is the maximum extension of time to file that the department may grant. However, Arizona law provides that the department may accept the federal extension for the same period as covered by the federal extension.

Penalties and Interest

A. Late Filing Penalty. A return filed after the original due date is subject to the late filing penalty unless the taxpayer has a valid federal or Arizona extension. If the taxpayer uses a FEDERAL extension, the taxpayer must check the federal extension box on page 1 of the return. If the taxpayer uses an ARIZONA extension, the taxpayer must attach a copy of the

Arizona extension to the return. A return filed after its extended due date is also subject to the late filing penalty. The late filing penalty is 5 percent of the tax found to be remaining due. 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 percent of the tax found to be remaining due.

B. Extension Underpayment Penalty. A return filed without an attached Arizona extension (if the taxpayer uses an Arizona extension) is subject to the extension underpayment penalty. A return filed without a check in the federal extension box on page 1 of the return (if the taxpayer uses a federal extension) is subject to the extension underpayment penalty. The taxpayer must pay 90 percent of the tax liability disclosed by the taxpayer's return on or before the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid. The penalty period is each 30 day period or fraction thereof between the original due date of the return and the date the taxpayer paid the tax. The maximum penalty is 25 percent of the tax not paid.

C. Late Payment Penalty. The department imposes the late payment penalty on tax not paid by the date prescribed for its payment. The late payment penalty is 10 percent of the tax not paid within the time prescribed for its payment.

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

D. Interest. The department assesses interest on any portion of the tax, whether determined by the department or the taxpayer, not paid by the date prescribed for its payment. The department applies interest, compounded annually, in the same manner and at the same times as prescribed by Internal Revenue Code § 6621 with the following exception.

Exception: The Arizona rate of interest for both underpayments and overpayments *for all taxpayers* is the federal underpayment rate under IRC § 6621(a)(2) [the federal short-term rate, determined pursuant to IRC § 6621(b), plus three percentage points]. 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.

E. 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 Form 220 for further details. The penalty imposed is the penalty prescribed by ARS § 43-582 for the applicable period.

Furnishing Data

Corporations must attach a copy of the federal return (along with all schedules and attachments) to the Arizona return.

Do not send in a blank Arizona return with a copy of the federal return; the return will not process accurately. Taxpayers must furnish complete data. Answer all questions on the return. Complete all applicable schedules. Also attach all appropriate supplementary schedules.

Filing Amended Returns

Any taxpayer who files an amended return with the Internal Revenue Service must file an Arizona amended return on Form 120X. The taxpayer must report changes or corrections of the taxpayer's taxable income by the Internal Revenue Service to the department. The taxpayer must also report changes in the taxpayer's taxable income as the result of renegotiation of a contract or subcontract with the United States to the department. The taxpayer must report the change or correction or file an amended return to the department within 90 days after the final determination of the change or correction.

Records

Every corporation should maintain books and records substantiating information reported on the return and keep these documents for inspection. Arizona General Tax Ruling GTR 96-1 discusses the general requirements for the maintenance and retention of books, records, and other sources of information received, created, maintained, or generated through various computer, electronic, and imaging processes and systems. Refer to this tax ruling for further information.

Use of Federal Figures

To calculate its Arizona taxable income, a corporation must compute its federal taxable income and make the adjustments required by Arizona law. (Refer to Article 3, Chapter 11, Title 43, of the Arizona Revised Statutes.)

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.

Specific Instructions

Type or print the required information in the name, address, and information boxes on the top of page 1.

Indicate the period covered by the taxable year on page 1 of the return (in an MM/DD/YYYY format) and whether the taxable year is a calendar year or a fiscal year.

Enter the corporation's federal employer identification number, which is the taxpayer identification number (TIN).

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). Taxpayers that fail to include their TIN may be subject to a penalty. Paid tax return preparers must include their TIN where requested. The TIN for a paid tax return preparer is the individual's social security number or preparer identification number or the federal employer identification number of the business. Paid tax return preparers that fail to include their TIN may be subject to a penalty.

Arizona Taxable Income Computation

Line 1 - Taxable Income Per Federal Return

Enter taxable income as reported on the federal income tax return filed with the Internal Revenue Service.

Line 2 - Additions to Taxable Income

Enter total adjustments from page 2, Schedule A, line A11. See instructions for Schedule A.

Line 4 - Subtractions From Taxable Income

Enter total adjustments from page 2, Schedule B, line B12. See instructions for Schedule B.

Line 5 - Adjusted Income

Subtract line 4 from line 3 and enter the difference.

Line 6 - Arizona Basis Net Operating Loss Carryforward

Enter unused net operating losses attributable to Arizona for the last five taxable years. This amount should not exceed the amount on line 5.

If the corporation incurred losses in prior taxable years, the corporation can apply these losses against current Arizona income. A net operating loss carryforward applies to the next five succeeding taxable years, subject to certain adjustments and rules. (Refer to ARS § 43-1123 and Arizona Administrative Code rule AAC R15-2D-302.) Attach a separate schedule showing the computation of the loss carried forward.

Arizona Tax Liability Computation**Line 8 - Arizona Tax**

Multiply the Arizona taxable income (page 1, line 7) by 7.968 percent. If the computed amount of tax is less than \$50, enter the minimum tax of \$50.

Line 9 - Tax From Recapture of Tax Credits

Enter the amount of tax due from recapture of the environmental technology facility credit and/or the neighborhood electric vehicle credit from Form 300, Part II, line 24.

Line 10 - Subtotal

Add lines 8 and 9. This is the amount of tax to which the Clean Elections Fund tax reduction and the total amount of tax credits claimed by the taxpayer may be applied.

Line 11 - Clean Elections Fund Tax Reduction

Check the box on line 11 to send five dollars to the Clean Elections Fund and reduce the tax amount on line 10 by five dollars. Enter the amount of the tax reduction (five dollars) on line 11.

Line 12 - Nonrefundable Tax Credits

Enter the allowable nonrefundable tax credit amount from Form 300, Part II, line 47. This amount cannot be larger than the amount on line 10 less the amount on line 11. Do not include refundable tax credits on this line.

- **Defense Contracting Credits.** There are two tax credits for qualified defense contractors. Qualified defense contractors may claim a tax credit for net increases in employment positions under United States Department of Defense contracts and in private commercial employment positions. There is also a tax credit for property taxes paid by a qualified defense contractor. Complete Form 302 to claim these tax credits.

- **Enterprise Zone Credit.** Taxpayers located in an enterprise zone may claim a credit for net increases in qualified employment positions. Taxpayers may not claim the credit for qualified employment positions at a business location where tangible personal property is sold at retail. Effective for taxable years beginning from and after December 31, 1997, the credit for previously qualified employees and previously dislocated workers is limited to the available credit carryover. Complete Form 304 to claim this tax credit.
- **Environmental Technology Facility Credit.** This tax credit is for costs incurred in constructing a qualified environmental technology manufacturing, producing, or processing facility as described in ARS § 41-1514.02. Complete Form 305 to claim this tax credit.
- **Military Reuse Zone Credit.** This tax credit is for net increases in employment of full-time employees working in a military reuse zone established under Arizona law. The employees must primarily engage in providing aviation or aerospace services or in manufacturing, assembling, or fabricating aviation or aerospace products. Complete Form 306 to claim this tax credit.
- **Recycling Equipment Credit.** This tax credit has been repealed effective for taxable years beginning from and after December 31, 1999. Taxpayers may claim carryovers of unused tax credits from taxable years beginning prior to January 1, 2000. Complete Form 307 to claim the carryover of this tax credit.
- **Research and Development Expenses Credit.** This tax credit is for corporate taxpayers who incur qualified research expenses for research conducted in Arizona. The credit applies to qualifying expenses incurred from and after December 31, 1993, through December 31, 2003. The law provides no carryforward for this credit. Complete Form 308 to claim this tax credit.
- **Agricultural Water Conservation System Credit.** This tax credit has been repealed effective for taxable years beginning from and after December 31, 1999. Taxpayers may claim carryovers of unused tax credits from taxable years beginning prior to January 1, 2000. Complete Form 312 to claim the carryover of this tax credit.
- **Alternative Fuel Vehicle (AFV) Credit.** This tax credit has been substantially revised by legislation enacted in 2000. The legislative changes have varying effective dates. Complete Form 313 to claim this tax credit.
- **Underground Storage Tanks Credit.** This tax credit is for expenses incurred by a corporate taxpayer not liable or responsible for corrective actions required due to the release of a regulated substance. The credit applies to taxable years beginning from and after December 31, 1993. The law provides no carryforward for this tax credit. Complete Form 314 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. The

credit applies to taxable years beginning from and after December 31, 1994. Complete Form 315 to claim this tax credit.

- Construction Materials Credit.** This tax credit has been repealed effective for taxable years beginning from and after December 31, 1999. Taxpayers may claim carryovers of unused tax credits from taxable years beginning prior to January 1, 2000. Complete Form 316 to claim the carryover of 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. "Amount paid by the seller or purchaser as transaction privilege tax or use tax" means that the Arizona transaction privilege tax was passed through to the taxpayer by the seller as an added charge or that the seller collected the Arizona use tax from the taxpayer or that the taxpayer paid the Arizona use tax to the department. The credit applies to taxable years beginning from and after December 31, 1997. Complete Form 318 to claim this tax credit.
- Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets.** This tax credit is for the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets in houses or dwelling units constructed by the taxpayer. The houses or dwelling units must be located in Arizona. The tax credit applies to taxable years beginning from and after December 31, 1997. Complete Form 319 to claim this tax credit.
- Credit for Employment of TANF Recipients.** This tax credit is for net increases in qualified employment for recipients of the temporary assistance for needy families (TANF) who are residents of Arizona. This tax credit applies to taxable years beginning from and after December 31, 1997. Complete Form 320 to claim this tax credit.
- Credit for Donation of Motor Vehicle to Wheels to Work Program.** This tax credit is for the fair market value of any motor vehicle donated by the taxpayer to the wheels to work program established by ARS § 46-142. The credit applies to taxable years beginning from and after December 31, 1998. The law provides no carryforward for this tax credit. Complete Form 324 to claim this tax credit.
- Agricultural Pollution Control Equipment Credit.** This tax credit is for expenses incurred during the taxable year to purchase tangible personal property that is primarily used in the taxpayer's business in Arizona to control or prevent pollution. The taxpayer must be involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural, or floricultural crops or products in Arizona. The credit applies to taxable years beginning from and after December 31, 1998. Complete Form 325 to claim this tax credit.

- Credit for Alternative Fuel Delivery Systems.** This tax credit has been substantially revised by legislation enacted in 2000. The legislative changes have varying effective dates. Complete Form 326 to claim this tax credit.
- Vehicle Refueling Apparatus Credit.** This tax credit has been substantially revised by legislation enacted in 2000. The legislative changes have varying effective dates. Complete Form 327 to claim this tax credit.
- Neighborhood Electric Vehicle (NEV) Credit.** This tax credit is for the purchase of new neighborhood electric vehicles. This tax credit has been revised by legislation enacted in 2000. Complete Form 328 to claim this tax credit.

Complete the appropriate credit forms for each credit. Attach the completed credit forms to the tax return with Form 300.

Line 13 - Credit Type

Indicate which nonrefundable tax credits were claimed on line 12 by writing the applicable form number(s) in the space provided.

Income Tax Credit	Form
Defense Contracting Credits	302
Enterprise Zone Credit	304
Environmental Technology Facility Credit	305
Military Reuse Zone Credit	306
Recycling Equipment Credit	307
Research and Development Expenses Credit	308
Agricultural Water Conservation System Credit	312
Alternative Fuel Vehicle (AFV) Credit	313
Underground Storage Tanks Credit	314
Pollution Control Credit	315
Construction Materials Credit	316
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 Motor Vehicle to Wheels to Work Program	324
Agricultural Pollution Control Equipment Credit	325
Credit for Alternative Fuel Delivery Systems	326
Vehicle Refueling Apparatus Credit	327
Neighborhood Electric Vehicle (NEV) Credit	328

Line 14 - Arizona Tax Liability

Subtract the sum of lines 11 and 12 from line 10. Line 14 cannot be a negative amount.

Line 15 - Clean Elections Fund Tax Credit

A taxpayer MAY CLAIM a tax credit on the 2000 tax return for:

- A donation made directly to the Clean Elections Fund during the taxable year 2000; and/or
- A donation made to the Clean Elections Fund on the taxpayer's 1999 tax return.

The 2000 tax credit is equal to the amount of the donation(s), but cannot exceed twenty percent of the tax on line 14 or five hundred dollars, whichever is higher.

A taxpayer MAY NOT CLAIM a tax credit on the 2000 tax return for a donation to the fund made with the 2000 tax

return (on line 26). If a taxpayer makes a donation to the fund on the 2000 tax return (line 26), the taxpayer may only claim a tax credit for the donation on the taxpayer's 2001 tax return.

The tax credit is nonrefundable and the unused portion of the tax credit may not be carried forward.

Calculation of 2000 Clean Elections Fund Tax Credit			
1.	Enter the amount donated directly to the fund during the taxable year 2000 PLUS the amount donated to the fund with the 1999 Form 120A.	\$	00
2.	Enter tax from 2000 Form 120A, line 14.	\$	00
3.	Multiply amount on line 2 by 20 percent (.20).	\$	00
4.		\$	500 00
5.	Enter the larger of line 3 or line 4.	\$	00
6.	Enter the smaller of line 1, line 2, or line 5 here and on 2000 Form 120A, line 15.	\$	00

Tax Payments

Line 17 - Refundable Tax Credits

Enter the total of the amounts from Form 313, Part XV, line 113; Form 326, Part XI, line 48; Form 327, Part IX, line 26.

Line 18 - Credit Type

Indicate which refundable tax credits were claimed on line 17 by writing the applicable form number(s) in the space provided.

Refundable Income Tax Credit	Form
Alternative Fuel Vehicle (AFV) Credit	313
Credit for Alternative Fuel Delivery Systems	326
Vehicle Refueling Apparatus Credit	327

Line 19 - Extension Payment

Enter the amount of the extension payment made with Form 120EXT. A taxpayer may use a valid federal extension or an Arizona extension of time to file the return. If the taxpayer uses a FEDERAL extension, the taxpayer must check the federal extension box on page 1 of the return. If the taxpayer uses an ARIZONA extension, the taxpayer must attach a copy of the Arizona extension to the front of the return.

Line 20 - Estimated Tax Payments

Enter the total amount of estimated tax payments made during the taxable year (including the application of overpayment from 1999).

Line 21 - Total Payments

Add lines 17, 19, and 20. Enter the total.

NOTE FOR CLAIM OF RIGHT RESTORATION: *If the tax for the taxable year 2000 was computed under the provisions for a claim of right restoration, line 21 also includes the credit for the tax reduction for prior taxable year(s). Refer to Arizona Corporate Tax Procedure CTP 95-3 for further information. Write "ARS § 43-1130.01" and the total amount of the tax reduction for prior taxable year(s) in the space to the left of the total payment amount entered on line 21. The amount entered on line 21 is the total of lines 17, 19, and 20 and the tax reduction for prior taxable year(s). Attach a schedule computing the tax reduction for the prior taxable year(s).*

Computation of Total Due or Overpayment

Line 22 - Balance of Tax Due

If the amount on line 16 is **larger** than the amount on line 21, there is a balance of tax due. Subtract line 21 from line 16 and enter the difference.

Line 23 - Overpayment of Tax

If the amount on line 21 is **larger** than the amount on line 16, there is an overpayment of tax. Subtract line 21 from line 16 and enter the difference (as a positive number).

Line 24 - Penalty and Interest

Calculate any penalty and interest due as a result of late filing, late payment of tax or extension underpayment of tax. Calculate interest 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 on pages 3 and 4 of these instructions.

Do not include or enter the amount from Form 220.

Line 25 - Underpayment of Estimated Tax Penalty and Interest

The taxpayer DOES NOT HAVE TO COMPLETE Form 220, *Underpayment of Tax by Corporations*, if the taxpayer made its estimated tax payments based on either of the following methods:

- An amount equal to 90 percent of the current taxable year's tax liability (reduced by claim of right adjustments, if applicable), paid in four equal installments; or
- An amount equal to 100 percent of the taxpayer's tax liability (reduced by claim of right adjustments, if applicable) for the prior taxable year, paid in four equal installments.

The department will compute the estimated tax penalty and interest based on either of these methods and notify the taxpayer of any amount due. If the taxpayer elects to have the department compute the penalty and interest, do not check the box on line 25 or enter an amount on line 25.

The taxpayer MUST COMPLETE 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; or
- The adjusted seasonal installment method; or
- The taxpayer is a large corporation that computed its first required installment based on the taxpayer's tax liability for the prior taxable year.

Enter the total penalty and interest from Form 220, Part E, line 50. Attach the completed Form 220 to the return **and** check the box on line 25.

Line 26 - Donation to Citizens Clean Elections Fund

Enter the amount of the donation to the fund made with this return.

Line 27 - Total Due

If the taxpayer had a balance of tax due on line 22, add lines 22, 24, 25, and 26, and enter the total on line 27. This is the

total amount due. Pay this amount when the taxpayer files the return. Make the check payable to Arizona Department of Revenue and include the taxpayer's TIN on the check.

Line 28 - Overpayment

If the taxpayer had an overpayment of tax on line 23, subtract the total of lines 24, 25, and 26 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

The taxpayer may apply part or all of an overpayment reported on line 28 as a 2001 estimated tax payment. Enter the applicable amount on line 29.

Line 30 - Refund

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

Schedule A - Additions to Taxable Income

On lines A1 through A10 of Schedule A, enter all income taxable under Arizona law that is exempt for federal tax purposes. Also enter all deductions allowed under federal law that are not allowed under Arizona law.

Line A1 - Taxes Based on Income

Enter the amount of taxes based on income paid to states (INCLUDING ARIZONA), to foreign governments, or to their political subdivisions included in federal taxable income.

Line A2 - Interest on Obligations

Enter the amount of federally tax exempt interest income on obligations of any state or foreign government, or their political subdivisions (except Arizona).

All taxpayers, except financial institutions as defined in ARS § 6-101, must reduce the amount of interest income by certain expenses. Reduce the amount of interest income by the amount of any interest on indebtedness and other related expenses incurred or continued to purchase or carry those obligations, that were not otherwise deducted or subtracted in the computation of Arizona gross income.

Line A3 - Federal Special Deductions

Enter the special deductions claimed on the federal tax return for dividends received pursuant to IRC §§ 243, 244, and 245.

Line A4 - Federal Net Operating Loss

Enter the federal net operating loss deduction claimed on the federal tax return.

Line A5 - Federal Income Tax Refund

Enter the amount of any federal income tax refund for a prior taxable year that resulted in a tax benefit for Arizona income tax purposes. Include any federal Form 1139 refunds received that resulted in a tax benefit for Arizona tax purposes.

Line A6 - Domestic International Sales Corporations

Enter commissions, rentals, and other amounts paid or accrued to a Domestic International Sales Corporation (DISC) controlled by the payor corporation. Make this adjustment if the DISC does not have to report its taxable

income to Arizona because its income is not derived from or attributable to sources within Arizona. "Control" means direct or indirect ownership or control of 50 percent or more of the voting stock of the DISC by the payor corporation.

Line A7 - Capital Investment by Qualified Defense Contractor

- **Federal Depreciation or Deduction for Cost of Capital Investment**

Enter the amount of depreciation deducted pursuant to IRC § 167 or the amount of expense deducted pursuant to IRC § 179. Make this adjustment if the taxpayer made an election, pursuant to ARS § 43-1024, to amortize the cost of any new device, machinery, equipment, or other capital investment. The taxpayer must use the device, machinery, equipment, or other capital investment exclusively for private commercial activities in Arizona.

- **Gain on Sale of Capital Investment**

Enter the amount of gain from the sale or other disposition of a capital investment which a qualified defense contractor elected to amortize pursuant to ARS § 43-1024.

Line A8 - Claim of Right Adjustments

- **Amounts Repaid in Current Taxable Year**

Enter the amount of the deduction claimed under IRC § 1341(a)(4), for restoration of a substantial amount held under a claim of right, which was included in the computation of Arizona gross income.

- **Excess Federal Capital Loss Carryover Under a Claim of Right Restoration**

Enter the amount by which a capital loss carryover allowable pursuant to IRC § 1341(b)(5) exceeds the capital loss carryover allowable pursuant to ARS § 43-1130.01, subsection F.

Line A9 - Additions Related to Arizona Tax Credits

Enter on line A9 the following additions to federal taxable income that are related to Arizona tax credits. Attach a schedule detailing these additions.

A. Credit for Property Taxes Paid by a Qualified Defense Contractor

Enter the amount paid as taxes on property located in Arizona included in the federal taxable income of a qualified defense contractor. Make this adjustment if the taxpayer elected to claim a credit under ARS § 43-1166 for such taxes.

B. Environmental Technology Facility Credit

- **Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the facility over depreciation or amortization computed on the Arizona adjusted basis of the facility. Make this adjustment for the facility for which the taxpayer claimed a tax credit under ARS § 43-1169.

- **Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the facility exceeds the Arizona adjusted basis of the facility. Make this adjustment if the facility or any component of the facility for which the taxpayer claimed

a tax credit under ARS § 43-1169 was sold or otherwise disposed of during the taxable year.

C. Pollution Control Credit

• **Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the taxpayer claimed a tax credit under ARS § 43-1170.

• **Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the taxpayer claimed a tax credit under ARS § 43-1170 was sold or otherwise disposed of during the taxable year.

D. Agricultural Pollution Control Equipment Credit

• **Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the taxpayer claimed a tax credit under ARS § 43-1170.01.

• **Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the taxpayer claimed a tax credit under ARS § 43-1170.01 was sold or otherwise disposed of during the taxable year.

E. Credit for Employment of Temporary Assistance for Needy Families (TANF) Recipients

Enter the amount of wage expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed the TANF credit under ARS § 43-1175.

F. Credit for Solar Hot Water Heater Plumbing Stub Outs or Electric Vehicle Recharge Outlets

Enter the amount of expenses deducted in computing Arizona taxable income for the installation of solar hot water heater plumbing stub outs or electric vehicle recharge outlets for which the taxpayer claimed the credit under ARS § 43-1176.

G. Credit for Donation of Motor Vehicle to Wheels to Work Program

Enter the amount deducted pursuant to IRC § 170 for the donation of a motor vehicle to the wheels to work program for which the taxpayer claimed a tax credit under ARS § 43-1177.

H. Credit for Taxes Paid for Coal Consumed in Generating Electrical Power in Arizona

Enter the amount of expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed the credit for taxes paid for coal consumed in generating electrical power in Arizona under ARS § 43-1178. The addition is required for the amount of Arizona transaction privilege taxes and Arizona use

taxes included in the computation of federal taxable income for which the Arizona credit is claimed.

Line A10 - Other Additions to Federal Taxable Income

Enter on line A10 the following "other additions" to federal taxable income. Attach a schedule detailing these additions.

A. Excess of Partner's Share of Partnership Taxable Income or Loss

Enter the excess of a partner's share of partnership taxable income included under ARS §§ 43-1401 through 43-1413 over the partner's share of income reported under IRC § 702(a)(8). Enter the excess of a partner's share of partnership losses determined according to IRC § 702(a)(8) over the losses allowable under ARS §§ 43-1401 through 43-1413.

Wholly Arizona partnership - If the amount on Form 165 Schedule K-1(NR), Part II, line 12, column (c), is positive, enter that amount here.

Multistate partnership or partnership with business activity conducted entirely outside Arizona – THE CORPORATION MUST FILE FORM 120.

B. Federal Exploration Expenses

Enter the amount of IRC § 617 exploration expenses in excess of \$75,000 and the amount of such expenses deferred not in excess of \$75,000.

C. Contributions

Enter the amount of IRC § 170 contributions to an educational institution which denies admission, enrollment, or board and room accommodations on the basis of race, color, or ethnic background. Do not include contributions to institutions primarily established for the education of American Indians.

D. Federal Amortization or Depreciation for Facilities and Equipment Amortized Under Arizona Law

Enter the amount of amortization (for pollution control devices only) or depreciation deducted pursuant to the Internal Revenue Code for the following:

- **Child Care Facilities** - If the taxpayer made an election to amortize pursuant to ARS § 43-1130.
- **Pollution Control Devices** - If the taxpayer made an election to amortize pursuant to ARS § 43-1129.

E. Expenses and Interest Relating to Income Not Taxed by Arizona

Enter expenses and interest relating to income not taxed by Arizona. Refer to ARS § 43-961.5 or ARS § 43-1121.4.

F. Arizona Income Tax Refunds

Enter the amount of any Arizona income tax refunds received, to the extent that the refunds are not included in Arizona gross income, if a tax benefit was derived by the deduction of the taxes in a prior taxable year.

Schedule B - Subtractions From Taxable Income

On lines B1 through B11 of Schedule B, enter all income which is exempt from Arizona tax which is taxable under federal law. Also enter any deduction allowed under Arizona law which is not deductible for federal tax purposes.

Line B1 - Dividends, 50 Percent or More Business in Arizona

Enter dividends received from corporations subject to Arizona income tax which do 50 percent or more of their business in Arizona.

Line B2 - Dividends From Controlled Domestic Corporations

Enter dividend income received from a domestic corporation owned or controlled, directly or indirectly, by the recipient corporation. Do not include amounts here that were reported on line B1.

"Control" means direct or indirect ownership or control of 50 percent or more of the voting stock of the payor corporation by the recipient corporation. Dividends shall have the meaning provided in IRC § 316.

NOTE: Do not include IRC § 78 dividend income on line B2.

Line B3 - Foreign Dividend Gross-up

Enter IRC § 78 ("gross-up") dividends.

Line B4 - Dividends From Foreign Corporations

Enter the dividend income received from foreign corporations as defined in ARS § 43-1101.

Line B5 - Dividends From DISC

Enter any income from a Domestic International Sales Corporation (DISC) which federal law requires its shareholders to include in income. Refer to IRC § 995.

Line B6 - Interest on U.S. Obligations

Enter the interest on U.S. obligations not taxed by Arizona but subject to federal tax.

Line B7 - Agricultural Crops Contributed to Charitable Organizations

Arizona law allows a subtraction for qualified crop contributions made during the taxable year to one or more Arizona tax exempt charitable organizations for use in Arizona. Refer to Income Tax Procedure ITP 93-2 for information on how to determine if the contribution qualifies for the subtraction.

Line B8 - Alternative Fuel Vehicles and Equipment

Enter the amount from Form 313, Part I, line 3.

NOTE: The subtraction for the purchase or conversion of alternative fuel vehicles and for the purchase of refueling equipment was repealed. Therefore, the allowable subtraction is limited to the amount allocated to taxable year 2000 from a qualifying subtraction that accrued in taxable year 1998.

Line B9 - Capital Investment by Qualified Defense Contractor

- Arizona Amortization of Cost of Capital Investment**

Enter the amount allowed by ARS § 43-1024 for amortization by a qualified defense contractor of a capital investment for private commercial activities.

- Gain on Sale of Capital Investment**

Enter the amount of gain included in federal taxable income on the sale or other disposition of a capital investment. Make this adjustment if a qualified defense contractor elected to amortize the capital investment pursuant to ARS § 43-1024.

Line B10 - Claim of Right Adjustment

Enter the amount by which an Arizona capital loss carryover allowable pursuant to ARS § 43-1130.01, subsection F, exceeds the federal capital loss carryover allowable pursuant to IRC § 1341(b)(5).

Line B11 - Other Subtractions From Federal Taxable Income

Enter on line B11 the following "other subtractions" from federal taxable income. Attach a schedule detailing these subtractions.

A. Arizona Capital Losses

Enter net capital losses up to \$1,000 which are deductible for Arizona tax purposes but are not deductible for federal tax purposes. Arizona law allows this subtraction for an Arizona capital loss carryover only from taxable years beginning before January 1, 1988.

B. Refunds of Taxes Based on Income

Enter any refunds from states (INCLUDING ARIZONA) and from foreign governments or their political subdivisions included in federal taxable income.

C. Excess of Partner's Share of Partnership Income or Loss

Enter the excess of a partner's share of income included under IRC § 702(a)(8) over the income included under ARS §§ 43-1401 through 43-1413. Enter the excess of a partner's share of partnership losses determined according to ARS §§ 43-1401 through 43-1413, over the losses allowable under IRC § 702(a)(8).

Wholly Arizona partnership - If the amount on Form 165, Schedule K-1(NR), Part II, line 12, column (c), is negative, enter that amount here.

Multistate partnership or partnership with business activity conducted entirely outside Arizona - THE CORPORATION MUST FILE FORM 120.

D. Expense Recapture, Mine Explorations

Enter any expense recapture for mine exploration expenses included in income under federal law (see IRC § 617).

E. Deferred Exploration Expenses

Arizona law allows a subtraction for exploration expenses added to Arizona gross income on line A10, item B (refer to ARS § 43-1121, paragraph 8). The taxpayer claims the subtraction on a ratable basis as the units of produced ores or the minerals discovered or explored by reason of such expenditures are sold. Refer to Arizona Administrative Code rule AAC R15-2D-305 for detailed information regarding additional requirements.

Treat property sold in the same manner and on the same basis as other property held for the production of income. (Refer to ARS § 43-1021, paragraph 8 or to ARS § 43-1022, paragraph 11.)

F. Exploration Expenses; Oil, Gas or Geothermal Resources

Enter exploration expenses related to exploration of oil, gas, or geothermal resources. Compute the expenses in the same manner and on the same basis as a deduction for mine exploration under IRC § 617. The computation is subject to certain adjustments shown above for line A10, item B, and line B11, items D and E. Refer to Arizona Administrative Code rule AAC R15-2D-305 for detailed information regarding additional requirements.

G. Arizona Amortization of Facilities and Equipment

• **Pollution Control Devices**

Any taxpayer may choose to amortize the adjusted basis of any device, machinery, or equipment used for collection and control of the source of atmospheric and water pollutants and contaminants. The taxpayer may take the subtraction over a period of 60 months.

If a taxpayer chooses not to amortize pollution control devices over a period of 60 months, the taxpayer may take a deduction for depreciation computed under IRC § 167.

Refer to Arizona Administrative Code rule AAC R15-2-306 for detailed information regarding additional requirements.

• **Cost of Child Care Facilities**

Any taxpayer operating a child care facility for profit may elect to subtract any expenditure made to purchase, construct, renovate, or remodel the facilities or equipment. The taxpayer may take the subtraction ratably over 60 months beginning with the month in which the taxpayer places the property in service.

Any taxpayer operating a child care facility within Arizona, primarily for its employees' children, may elect to subtract expenditures made to acquire, construct, renovate, or remodel the facilities or equipment. The taxpayer may take the subtraction over a period of 24 months, beginning with the month in which the taxpayer places the property in service.

The amortization is in lieu of federal depreciation or amortization on the facilities.

Refer to Arizona Administrative Code rule AAC R15-2D-307 for detailed information regarding additional requirements.

H. Interest on Federally Taxable Arizona Obligations

Enter the amount of interest income received on obligations of the State of Arizona, or any of its political subdivisions, included in federal taxable income. Omit interest income received on obligations of the State of Arizona, or any of its political subdivisions, exempt from federal taxation and not included in Arizona gross income.

Corporations should not make this adjustment on the corporation's Arizona tax return for such income included in the corporate partner's share of partnership income (or loss). The partnership makes this adjustment on the Form 165. The

adjustment to Arizona basis from Form 165 Schedule K-1(NR), Part II, line 12, already includes this adjustment.

I. Expenses and Interest Relating to Tax Exempt Income

Enter expenses and interest relating to tax exempt income disallowed pursuant to IRC § 265 in the computation of Arizona gross income. Effective for taxable years beginning from and after December 31, 1996, this subtraction applies only to financial institutions as defined in ARS § 6-101.

J. Employer Contributions to Medical Savings Accounts

Enter the amount of contributions made by the taxpayer during the taxable year to medical savings accounts established on behalf of the taxpayer's employees as provided by ARS § 43-1028. The subtraction is allowed for such contributions to the extent that the contributions are not deductible by the taxpayer under the Internal Revenue Code.

K. Expenses Related to Certain Federal Tax Credits

Enter the amount of wages or salaries paid or incurred by the taxpayer for the taxable year not deducted in the computation of Arizona gross income if the taxpayer received certain federal tax credits. The specific federal tax credits are the work opportunity credit, the empowerment zone employment credit, the credit for employer-paid social security taxes on employee cash tips, and the Indian employment credit. This subtraction applies to taxable years beginning from and after December 31, 1996.

Schedule C - Other Information

Complete lines C1 through C6. Continue the answers on a separate sheet of paper if the answers are lengthy.

Question C3: List the name, title and telephone number of the individual who Department of Revenue employees may contact to answer questions regarding this return or to schedule an audit of this return. Confidential information may be disclosed to a principal officer of the corporation included in this return or to an individual designated as an authorized representative in a valid power of attorney. **IF THIS INDIVIDUAL IS NOT A PRINCIPAL OFFICER OF THE CORPORATION INCLUDED IN THIS RETURN, 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.**

Certification

One or more of the following officers (president, treasurer, or any other principal officer) must sign the return.

Paid preparers: Sign and date the return. Complete the firm name and address lines (the preparer's name and address if self-employed). Enter the preparer's TIN, which is the firm's FEIN or the individual preparer's social security number or preparer identification number.