

2004 S Corporation Income Tax Return

Obtain additional information or assistance, tax forms and instructions, and copies of tax rulings and tax procedures by contacting one of the numbers listed below:

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

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's Internet home page at:

www.azdor.gov

General Instructions

Who Must Use Form 120S

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

QSub treatment: *An S corporation and its qualified subchapter S subsidiaries must file a single return on Form 120S. A qualified subchapter S subsidiary is not treated as a separate corporation for federal tax purposes. Therefore, an S corporation and its qualified subchapter S subsidiaries are treated as a single S corporation for Arizona tax purposes.*

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 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 limited liability company that is disregarded as an entity is treated as a branch or division of the owner. A limited liability company classified as a partnership for federal tax purposes must file Form 165. A limited liability company classified as a corporation for federal tax purposes must file Form 120. A limited liability company 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 limited liability company 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.

Taxable Year Covered by Return

The S corporation must have the same taxable year for Arizona purposes as it has for federal purposes. 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 third 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. 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 Form 1120S 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.

Filing Amended Returns

Any taxpayer who files an amended return with the Internal Revenue Service must file an Arizona amended return within 90 days.

The taxpayer must report changes or corrections of the taxpayer's income by the Internal Revenue Service or as the result of renegotiation of a contract or subcontract with the United States to the department. The taxpayer must, within 90 days after the final determination of the change or correction, either:

- File a copy of the final determination with the department, concede the accuracy of the determination or state any errors, and request the department to recompute the tax owed to Arizona; or
- File an amended return as required by the department.

The taxpayer must include additional schedules that provide sufficient information for the department to recompute the taxpayer's net income subject to Arizona corporate income tax based on the Revenue Agent Report (RAR) changes. The department may require the taxpayer to file an amended return if the department does not have the necessary information to recompute the tax owed to Arizona.

NOTE: *File amended returns for prior taxable years on the Forms 120S for those taxable years. Use the 2004 Form 120S to amend only the taxable year 2004.*

Payment of Tax

If the S corporation itself is subject to tax, the entire amount of tax is due by the original due date of the return.

The S corporation is subject to tax only if it has income subject to tax at the corporate level on the federal Form 1120S. The income subject to tax at the corporate level is excess net passive income, capital gains income, or certain built-in gains income.

Estimated Tax Payments

S corporations that expect an Arizona corporate 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*.

The Arizona estimated tax payment calculation should include any tax from the recapture of tax credits. This requirement applies whether or not the S corporation itself is subject to tax at the corporate level. Reduce the tax liability by the amount of the refundable tax credits, if applicable, in the calculation.

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

An S 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 for an S corporation is the **smaller** of:

- (a) Ninety percent of the taxpayer's Arizona tax liability (reduced by refundable tax credits) for the current taxable year; OR
- (b) An amount (reduced by refundable tax credits) equal to the sum of:
 - Ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in gains income or certain capital gains income; **plus**
 - One hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

NOTE: *In order for the taxpayer to base its estimated tax payments on the tax liability described in (b) above, 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 2005 Form 120W, *Estimated Tax Worksheet for Corporations*, to compute the required installments. REFER TO THE 2005 FORM 120W AND ITS INSTRUCTIONS BEFORE COMPLETING THE 2005 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 electronic funds transfer. 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 (602) 542-2040 in Phoenix or at (800) 572-7037 (toll-free). The FAX line is (602) 716-7986.

Extension of Time to File a Return

The S corporation can apply for an Arizona extension by filing a completed Form 120EXT by the original due date of the return. The S corporation 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 S corporation 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.

The S corporation must pay at least 90 percent of the tax liability (including the \$50 minimum tax) 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 S corporation has a valid federal or Arizona extension. If the S corporation uses a federal extension, the S corporation must check the federal extension box on page 1 of the return. A return filed after its extended due date is also subject to the late filing penalty. The late filing penalty is 4½ percent (.045) of the amount of tax required to be shown on the return. "Amount of tax required to be shown on the return" is the amount of tax imposed less the amount of any part of the tax paid on or before the beginning of the month and the amount of any credit against the tax which may be claimed on the return. The penalty period is each month or fraction of a month between the due date of the return and the date the S corporation filed the return. The maximum penalty is 25 percent of the tax found to be remaining due.

B. Extension Underpayment Penalty. The S corporation must pay 90 percent of the tax liability disclosed by its 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 S corporation 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 any amount shown as tax on a return that is not paid by the date prescribed for its payment. The late payment penalty is one-half of one percent (.005) of the unpaid tax for each month or fraction of a month that the tax remains unpaid, not to exceed 10 percent of the unpaid tax. "Amount of tax shown on the return" is the amount of tax imposed shown on the return less the amount of any part of the tax paid on or before the beginning of the month and the amount of any credit against the tax which may be claimed on the return.

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 time 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

S 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. The taxpayer must furnish complete data. Answer all questions on the return. Complete all applicable schedules and attach all appropriate supplementary schedules.

Records

Every S 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.

IRC § 7519 Required Payments

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

Rounding Dollar Amounts

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

Specific Instructions

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

Information question F: Enter the total number of entity shareholders (exempt organizations, trusts, estates). **NOTE:** *The total of the amounts entered for information questions D, E, and F should equal the total number of shareholders.*

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. Indicate whether this return is an original or an amended return.

Enter the S corporation's employer identification number, which is the taxpayer identification number (TIN). Enter the Arizona withholding tax number and Arizona transaction privilege tax number for the S corporation. **QSub treatment:** Enter the parent S corporation's TIN.

All returns, statements, and other documents filed with the department require a 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 employer identification number of the business. Paid tax return preparers that fail to include their TIN may be subject to a penalty.

Line 1 - Total Distributive Income (Loss)

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

Income Subject to Federal and Arizona Corporate Income Taxes

Was the S corporation subject to the FEDERAL excess net passive income tax, capital gains tax, or built-in gains tax on its federal Form 1120S? If so, the S corporation is subject to Arizona corporate income tax on this income.

Line 2 - Excess Net Passive Income

Enter the amount of income which was subject to the federal excess net passive income tax from the federal worksheet included in the instructions for Form 1120S. (Refer to the instructions for the computation of the excess net passive income tax in the federal Form 1120S.)

Line 3 - Capital Gains/Built-in Gains Income

Enter the amount of capital gains income or certain built-in gains income which was subject to tax on federal Form 1120S. (Refer to the instructions for the computation of the tax from federal Form 1120S, Schedule D.)

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

Any S corporation that has income from business activity that is taxable both within and without Arizona must allocate and apportion its net income. The S corporation must allocate and apportion its net income according to the Uniform Division of Income for Tax Purposes Act (UDITPA), ARS §§ 43-1131 through 43-1150.

An S corporation that has income from business activity taxable in more than one state is a *multistate S corporation*. An S corporation that has income from business activity that is taxable entirely within Arizona is a *wholly Arizona S corporation*.

Wholly Arizona S corporations - do not complete lines 5 through 10. Go to line 11.

Multistate S corporations - refer to the instructions for Schedules ACA and B for more detailed information before completing these lines. Do not enter an amount on page 1, line 7, before reading the instructions for Schedules ACA and B. The taxpayer must carry out the decimal on line 7 to six places.

Line 5 - Nonapportionable or Allocable Income

The taxpayer must apportion all business income by the use of the apportionment formula. Nonbusiness income is nonapportionable and specifically allocable to a particular state.

The taxpayer should attach a schedule that details the amount of nonapportionable income subtracted on page 1, line 5.

"Business income" under the transactional test means income arising from transactions and activity in the regular course of the taxpayer's trade or business. Business income under the functional test includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. (ARS § 43-1131) "Nonbusiness income" means all income other than business income. (ARS § 43-1131)

Enter the total amount of all income (or loss) which is nonapportionable or specifically allocable to Arizona. Refer to ARS §§ 43-1134 through 43-1138 for the methods of allocating certain types of nonbusiness income.

Line 7 - Arizona Apportionment Ratio

Compute the apportionment factors according to the instructions for Schedule ACA or B. Enter the average ratio amount from Schedule ACA, line 3, or from Schedule B, line B5, column (c) on page 1, line 7. The taxpayer must carry out the decimal on line 7 to six places.

Line 9 - Other Income Allocated to Arizona

Enter the total amount of all income (or loss) which is specifically allocable to Arizona. ARS §§ 43-1134 through 43-1138 specify the methods for allocating certain types of income to Arizona. DO NOT include the amount of any nonbusiness income which

is allocable to another state on this line. Attach a schedule that details the amount of income that is allocable to Arizona.

Arizona Tax Liability Computation

Does the S corporation have income subject to federal and Arizona corporate income tax? Is the S corporation subject to Arizona corporate income tax from the recapture of the Arizona environmental technology facility credit, alternative fuel vehicle credit and/or the neighborhood electric vehicle credit? Is the S corporation claiming a refund based on the employer credit for technology training, or the credit for participation in agricultural district? If the answer is yes to ANY of these questions, the S corporation must complete lines 12 through 34.

Line 12 - Arizona Tax

The S corporation is subject to the tax computed on line 12 only if it has income subject to tax at the corporate level on the federal Form 1120S. The income subject to tax is excess net passive income, capital gains income, or certain built-in gains income. (These amounts are entered on page 1, lines 2 and 3.)

The amount of the tax is the greater of \$50 or 6.968 percent of the net income subject to Arizona corporate income tax (line 11). The S corporation is subject to the \$50 minimum tax if it has income subject to tax at the federal level, although line 11 may be zero or a negative amount.

Multiply the net income subject to Arizona corporate income tax (page 1, line 11) by 6.968 percent. If the computed amount of tax is less than \$50, enter the minimum tax of \$50.

QSub treatment: *An S corporation and its qualified subchapter S subsidiaries are considered a single taxpayer. The minimum tax is imposed on the single taxpayer rather than on the S corporation and each qualified subchapter S subsidiary.*

Line 13 - Tax from Recapture of Tax Credits

Enter the amount of tax due from the recapture of the environmental technology facility credit and/or the neighborhood electric vehicle credit from Form 300, Part II, line 25.

Line 14 - Subtotal

Add lines 12 and 13. 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 15 - Clean Elections Fund Tax Reduction

Check the box on line 15 to send five dollars to the Clean Elections Fund and reduce the tax amount on line 14 by five dollars. Enter the amount of the tax reduction (five dollars) on line 15.

Line 16 - Nonrefundable Tax Credits

Enter the allowable nonrefundable tax credit amount from Form 300, Part II, line 48. This amount cannot be larger than the amount on line 14 less the amount on line 15. Do not include refundable tax credits on this line. Attach the completed credit forms to the tax return with Form 300.

- **Defense Contracting Credits.** There are two tax credits for qualified defense contractors. One is a tax credit for net increases in employment positions under United States Department of Defense contracts and in private commercial employment positions. The other is a tax credit for property taxes paid by a qualified defense contractor. The Arizona Department of Commerce cannot certify any new qualified defense contractors after June 30, 2001. 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. Effective for taxable years beginning from and after December 31, 2000, taxpayers may not claim the credit for qualified employment positions at a business location where more than 10 per cent of the business conducted at the location consists of retail sales of tangible personal property, measured by either the number of employees assigned to retail or the square footage of the facility used for retail transactions at the location in the enterprise zone. 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. The Arizona Department of Commerce cannot certify any new qualified environmental technology manufacturers, producers or processors after June 30, 1996. 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.
- **Credit for Increased Research Activities.** This tax credit is for taxpayers who incur qualified research expenses for research conducted in Arizona. The credit applies to taxable years beginning from and after December 31, 2000. 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.** Taxpayers may claim a carryover of the unused nonrefundable tax credit from taxable year 1999 on this line. 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. There is no carryforward for this credit. Complete Form 314 to claim this tax credit. Note: this credit has been repealed effective August 25, 2004.
- **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. 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.
- **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.** Taxpayers may claim a carryover of the unused nonrefundable tax credit from tax year 1999 on this line. Complete Form 326 to claim this tax credit.
- **Vehicle Refueling Apparatus Credit.** Taxpayers may claim carryover of the unused nonrefundable tax credit from taxable year 1999 on this line. Complete Form 327 to claim this tax credit.
- **Neighborhood Electric Vehicle (NEV) Credit.** Taxpayers may claim carryovers of unused tax credits from taxable years 1999 through 2001 on this line. Complete Form 328 to claim this tax credit.
- **Credit for Donation of School Site.** This tax credit is for the donation of real property and improvements to an Arizona school district or Arizona charter school for use as a school or as a site for the construction of a school. The credit applies to taxable years beginning from and after December 31, 2000. Complete Form 331 to claim this tax credit.

Line 17 - Credit Type

Indicate which nonrefundable tax credits were claimed on line 16 by writing the applicable form number(s) in the space provided.

Nonrefundable 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
Credit for Increased Research Activities	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
Agricultural Pollution Control Equipment Credit	325
Credit for Alternative Fuel Delivery Systems	326
Vehicle Refueling Apparatus Credit	327
Neighborhood Electric Vehicle (NEV) Credit	328
Credit for Donation of School Site	331

Line 18 - Arizona Tax Liability

Subtract the sum of lines 15 and 16 from line 14. Line 18 cannot be a negative amount.

Line 19 - Clean Elections Fund Tax Credit

A taxpayer MAY CLAIM a tax credit on the 2004 tax return for:

- A donation made directly to the Clean Elections Fund during the taxable year 2004; and/or

- A donation made to the Clean Elections Fund on the taxpayer's 2003 tax return.

The 2004 tax credit is equal to the amount of the donation(s), but cannot exceed twenty percent of the tax on line 18 or five hundred fifty dollars, whichever is higher.

A taxpayer MAY NOT CLAIM a tax credit on the 2004 tax return for a donation to the fund made with the original 2004 tax return (on line 30). If a taxpayer makes a donation to the fund on the original 2004 tax return (line 30), the taxpayer may only claim a tax credit for the donation on the taxpayer's 2005 tax return.

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

Calculation of 2004 Clean Elections Fund Tax Credit			
1.	Enter the amount donated directly to the fund during the taxable year 2004 PLUS the amount donated to the fund with the 2003 Form 120S.	\$	00
2.	Enter tax from 2004 Form 120S, line 18.	\$	00
3.	Multiply amount on line 2 by 20 percent (.20).	\$	00
4.		\$	550 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 2004 Form 120S, line 19.	\$	00

Tax Payments

Line 21 - Refundable Tax Credits

Enter the total of the amounts from Form 329, Part IV, line 9; and Form 330, Part IV, line 9.

- **Employer Credit for Technology Training.** This tax credit is for expenses incurred by the taxpayer for providing qualified technology training to a maximum of twenty of its employees. The credit applies to taxable years beginning from and after December 31, 2000. Complete Form 329 to claim this tax credit.
- **Credit for Participation in Agricultural Preservation District.** This tax credit is for the conveyance of ownership or development rights of class two property owned by the taxpayer to an agricultural preservation district. The credit applies to taxable years beginning from and after December 31, 2000. Complete Form 330 to claim this tax credit.

Line 22 - Credit Type

Indicate which refundable tax credits were claimed on line 21 by writing the applicable form number(s) in the space provided.

Refundable Income Tax Credit	Form
Employer Credit for Technology Training	329
Credit for Taxpayers Participating in Agricultural Preservation District	330

Line 23 - Extension Payments

Original Returns: Enter any payment made with the request for extension of time to file the income tax return. If the taxpayer uses a federal extension, the taxpayer must check the federal extension box on page 1 of the return.

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

Line 24 - Estimated Payments

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

Amended Returns: Enter the total amount of estimated tax payments made by the S corporation for the taxable year. **DO NOT** include or enter the amount of any penalties paid. **DO NOT** reduce the total by the amount of an overpayment (on line 32 of a prior return) that was designated as an estimated tax payment for 2005 (on line 33) of a prior return.

Line 25 - Total Payments

Original Returns: Add lines 21, 23, and 24. Enter the total.

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

- Add the amounts entered on lines 21, 23, and 24;
- Add the amount of a payment sent with the original return (if any);
- Add the amount of any payments made after the original return was filed; and
- Subtract the amount of the overpayment of tax, if any, (from line 27 of the original return) and the total amount of any overpayments from a Department of Revenue correction notice, an amended return (line 27), or an audit.
- Do not include or enter the amount of any penalties or interest paid.

Computation of Total Due or Overpayment

Line 26 - Balance of Tax Due

If the amount on line 20 is **larger** than the amount on line 25, there is a balance of tax due. Subtract line 25 from line 20, and enter the difference.

Line 27 - Overpayment of Tax

If the amount on line 25 is **larger** than the amount on line 20, there is an overpayment of tax. Subtract line 25 from line 20, and enter the difference (as a positive number).

Line 28 - Penalty and Interest

Calculate any penalty and interest due as a result of late filing or late payment of tax. Calculate interest on the amount shown on line 26 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 2 and 3 of these instructions. Do not include or enter the amount from Form 220.

Line 29 - Underpayment of Estimated Tax Penalty

Original returns: The S corporation **DOES NOT HAVE TO COMPLETE** Form 220, *Underpayment of Tax by Corporations*, if the S corporation made estimated tax payments equal to 90 percent of the current taxable year's tax

liability (reduced by refundable tax credits), paid in four equal installments. The department will compute the estimated tax penalty based on this method and notify the S corporation of any amount due. If the S corporation elects to have the department compute the penalty, do not check the box on line 29 or enter an amount on line 29.

The S corporation **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;
- The adjusted seasonal installment method; or
- An amount, paid in four equal installments, that is equal to the sum of:

Ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in gains income or certain capital gains income; **plus**

One hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

Enter the total penalty from Form 220, Part C, line 37. Attach the completed Form 220 to the return **and** check the box on line 29.

Amended returns: Do not recompute the estimated tax penalty. Enter the amount from line 29 of the original return or the amount from a DOR correction notice.

Line 30 - Donation to Citizens Clean Elections Fund

Original Returns: Enter the amount of the donation to the fund made on this return.

Amended Returns: Enter the amount of the donation to the fund made on the original return. The amount of the donation cannot be adjusted on an amended return.

Line 31 - Total Due

If the taxpayer had a balance of tax due on line 26, add lines 26, 28, 29, and 30. Enter the total on line 31. This is the total amount due. Pay this amount when the taxpayer files the return. Make the check payable to the Arizona Department of Revenue and include the taxpayer's TIN on the check.

Line 32 - Overpayment

If the taxpayer had an overpayment of tax on line 27, subtract the total of lines 28, 29, and 30 from line 27. Enter a positive difference on line 32. This is the total overpayment. If the difference is negative, enter the difference as a positive number on line 31.

Line 33 - Overpayment Applied to Estimated Tax

Original Returns: The taxpayer may apply part or all of an overpayment reported on line 32 as a 2005 estimated tax payment. Enter the applicable amount on line 33.

Amended Returns: The taxpayer may apply part or all of an overpayment reported on line 32 as a 2005 estimated tax payment, if this amended return is filed during the taxpayer's taxable year 2005. Enter the applicable amount on line 33.

Line 34 - Refund

Subtract line 33 from line 32. Enter the difference. This is the net refund amount.

Schedule A - Other Information

Answer all questions (A1 through A6) as accurately and completely as possible.

Question A3: List the name, title and telephone number of the individual who Department of Revenue employees may contact to schedule an audit of this return. Confidential information may be disclosed to a principal officer, any person designated by a principal officer, any person designated in a resolution by the corporate board of directors or other similar governing body, or to an individual designated as an authorized representative in a valid power of attorney. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary. IF THIS INDIVIDUAL IS NOT A PRINCIPAL OFFICER, OR IS NOT DESIGNATED AS AN AUTHORIZED REPRESENTATIVE IN A VALID POWER OF ATTORNEY, THE TAXPAYER UNDERSTANDS AND AGREES THAT CONFIDENTIAL INFORMATION MAY BE DISCLOSED TO THIS INDIVIDUAL.

Schedule ACA – Air Carrier Apportionment Formula (Multistate Air Carriers Only)
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ARS §§ 43-1131 through 43-1150 govern the apportionment of income. An S corporation that engages in activities both within and without Arizona must apportion its business income.

Effective for taxable years beginning from and after December 31, 2000, ARS § 43-1139 requires a taxpayer that is a qualifying air carrier to use an alternate apportionment method to apportion its business income to Arizona. The taxpayer must complete Schedule ACA. Do not complete Schedule B.

The taxpayer must be engaged in air commerce. "Air commerce" means transporting persons or property for hire by aircraft in interstate, intrastate or international transportation.

Schedule B - Apportionment Formula (Non-Air Carrier Multistate S Corporations Only)
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ARS §§ 43-1131 through 43-1150 govern the apportionment of income. An S corporation that engages in activities both within and without Arizona must apportion its business income. The S corporation (other than a multistate air carrier) must base the apportionment on property, payroll, and sales in Arizona as compared with everywhere. "Everywhere" means the property, payroll, and sales factors related to the whole unitary business. Refer to Arizona Administrative Code rules AAC R15-2D-101 through AAC R15-2D-903.

QSub treatment: *An S corporation and its qualified subchapter S subsidiaries are treated as a single S corporation. Therefore, the S corporation and its qualified subchapter S subsidiaries must apportion business income using a single apportionment formula.*

NOTE: ARS § 43-1139 (Allocation of business income) provides that the apportionment ratio is a fraction. The numerator of the fraction is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four.

When the taxpayer uses the apportionment method, complete page 1, lines 5 through 10.

ADMINISTRATIVE RELIEF REQUESTS

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

- Separate accounting.
- The exclusion of any one or more of the factors.
- The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state.
- The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

This section permits a departure from the allocation and apportionment provisions only in limited cases. ARS § 43-1148 may be invoked only in specific cases where unusual fact situations produce incongruous results under the apportionment and allocation provisions.

Taxpayers seeking such relief should submit a letter to the Corporate Income Tax Audit Section 60 days prior to the filing of the return setting forth the relief that is requested and the justification for the relief.

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

Line B1 - Property Factor

Refer to AAC R15-2D-601 through R15-2D-607 and R15-2D-902. The value of tangible personal property and real property owned by the taxpayer is its original cost. The taxpayer normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period. Refer to Arizona Corporate Tax Ruling CTR 01-2 regarding the treatment of computer software in the property factor (whether to include it and attribution to particular state(s) in the numerator).

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

Report real property situated and tangible personal property permanently located in Arizona, if connected with the business, as property within Arizona. Allocate the value of mobile property to Arizona based on the total time that the property was within Arizona.

Line B2 - Payroll Factor

Refer to AAC R15-2D-701 through R15-2D-705. Report salaries, wages, or other compensation of officers, employees, etc., as within Arizona, if performance of the services occurs here. This rule applies regardless of where payment is made or control exercised. This rule also applies regardless of whether the performance of the services is partly or wholly in connection with the apportionable business carried on outside the state or in interstate or foreign commerce.

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

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

Line B3 - Sales Factor

Refer to AAC R15-2D-801 through R15-2D-807 and R15-2D-903. The term "sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income.

Determine sales within Arizona on a destination sales basis.

NOTE: Multiply the amount entered on line B3(c), column A of the Schedule B (the total Arizona sales) by 2 (double weighted sales factor) on line B3(d), column A. Enter the amount on line B3(e), column A. Do not double the amount on line B3(e), column B of the Schedule B (the everywhere sales of the taxpayer).

EXAMPLE: The S corporation has total Arizona sales of \$100,000 and total everywhere sales of \$1,000,000. On line B3(e), column A, enter \$200,000 of Arizona sales. On line B3(e), column B, enter \$1,000,000 of everywhere sales for the S corporation.

The sales factor ratio on line B3(e), column C, may, in certain circumstances, exceed 100 percent. However, since the total ratio (line B4, column C) is divided by four, the average ratio (line B5, column C) will not exceed 100 percent.

Line B5 - Average Ratio

Divide the total ratio, line B4, column C by four. Enter the average ratio here and on page 1, line 7. Express the ratio as a decimal carried out to six places.

NOTE: Do not exclude a factor from the total ratio (line B4, column C) if the numerator of a factor is zero and the denominator of a factor is greater than zero. However, the taxpayer must exclude a factor if both the numerator and the denominator of a factor are zero. If the property or payroll factor is excluded, determine the average ratio (line B5, column C) by dividing the total ratio by three. If the sales factor is excluded, determine the average ratio by dividing the total ratio by two.

Schedule C - Shareholder Information

Prepare a schedule that lists each shareholder's name and address, the shareholder's TIN, and the shareholder's pro rata share of income or loss. Label the listing "Schedule C – Shareholder Information" and attach Schedule C immediately after page 2 of Form 120S.

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 EIN or the individual preparer's social security number or preparer identification number.

Schedule K-1(NR) - S Corporation Instructions

Use this schedule for nonresident individual shareholders, nonresident estate shareholders, and nonresident trust shareholders.

Any S corporation that has income from business activity that is taxable both within and without Arizona must allocate and apportion its net income. The S corporation must allocate and apportion its income according to the Uniform Division of Income for Tax Purposes Act (UDITPA), ARS §§ 43-1131 through 43-1150.

An S corporation that has income from business activity taxable in more than one state is a *multistate S corporation*.

An S corporation that has income from business activity that is taxable entirely within Arizona is a *wholly Arizona S corporation*.

Column (a) - Distributive Share Amount

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

Multistate S corporations - Apportion all business income of an S corporation by use of the apportionment formula. Nonbusiness income of a multistate S corporation is nonapportionable and specifically allocable to a particular state.

"Business income" under the transactional test means income arising from transactions and activity in the regular course of the taxpayer's trade or business. Business income under the functional test includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade

or business operations. (ARS § 43-1131) "Nonbusiness income" means all income other than business income. (ARS § 43-1131)

In column (a), enter the nonresident shareholder's distributive share of the multistate S corporation's income (or loss) that is subject to apportionment.

The multistate S corporation must compute the nonresident shareholder's distributive share of the S corporation's income that is subject to apportionment. Make this computation by subtracting the shareholder's distributive share of the multistate S corporation's nonbusiness income from the shareholder's total distributive share amount of the S corporation's income.

The multistate S corporation must attach a computation schedule that details (for each line item):

- The shareholder's distributive share amount from the federal Form 1120S, Schedule K-1.
- The shareholder's distributive share amount of the S corporation's nonapportionable or allocable income.
- The shareholder's distributive share of the S corporation's income that is subject to apportionment. Refer to ARS §§ 43-1134 through 43-1138 for the methods of allocating certain types of nonbusiness income.

Column (b) - Arizona Apportionment Ratio

Wholly Arizona S corporations - Enter 100 percent.

Multistate S corporations - Enter the average ratio amount from Form 120S, Schedule B, line B5, column C or Schedule ACA, line 3. (Refer to Schedule ACA or Schedule B instructions.)

Column (c) - Arizona Source Income

Wholly Arizona S corporations - Multiply column (a) by column (b). Enter the result in column (c).

Multistate S corporations - Attach a schedule that details (for each line item) the following computation:

- Step 1. The shareholder's distributive share of the S corporation's income subject to apportionment multiplied by the average ratio in column (b).
- Step 2. The shareholder's distributive share of the S corporation's income (or loss) which is specifically allocable to Arizona.
- Step 3. The total of the amounts computed in steps 1 and 2 that is to be entered in column (c).

NOTE: ARS §§ 43-1134 through 43-1138 specify the methods for allocating certain types of income to Arizona. Do not include the amount of any nonbusiness income allocable to another state in the total entered in column (c).

All S corporations - Column (c) is the shareholder's Arizona

source income from the S corporation. Shareholders should refer to the Form 120S Schedule K-1(NR) instructions for information on completing their Arizona tax returns.

Shareholder Reporting Requirements

Exempt Organization Shareholders

Exempt organization shareholders must file Form 99T, *Exempt Organization Business Income Tax Return*, to report the income (loss) from the S corporation. The income (loss) from the S corporation is included in the organization's unrelated business taxable income from the federal Form 990T.

Resident Individual Shareholders

Resident shareholders are taxable on their entire distributive share of income from the S corporation. The distributive share of S corporation income reported on the federal return will flow through to Form 140, *Resident Personal Income Tax Return*.

Nonresident Individual Shareholders

Nonresident shareholders of S corporations operating in Arizona are subject to Arizona income tax on their distributive share of the income (loss) earned by the S corporation in Arizona. Refer to the Form 120S Schedule K-1(NR). Nonresident shareholders must file Form 140NR, *Nonresident Personal Tax Return*, to report this income (loss).

Estate and Trust Shareholders

Shareholders that are resident trusts or resident estates are taxable on their entire distributive share of income from the S corporation. The distributive share of the S corporation income reported on the federal return will flow through to Form 141AZ, *Fiduciary Income Tax Return*.

Shareholders that are nonresident trusts or nonresident estates are taxable on their entire distributive share of income from the S corporation. The distributive share of the S corporation income should be reported on Schedule A of Form 141AZ, *Fiduciary Income Tax Return*.

Information on Filing Composite Returns on Form 140NR for Qualifying Nonresident Shareholders

Arizona law requires an individual resident or nonresident to file his or her own income tax return. The Arizona Department of Revenue will accept a composite return on Form 140NR for qualifying nonresident individual shareholders of an S corporation.

However, a composite return cannot be filed with fewer than ten participating members.

Refer to Arizona Individual Income Tax Ruling ITR 97-1 for information regarding the requirements for filing a composite return on Form 140NR.