

**For information or help, call one of the numbers listed:**

Phoenix (602) 255-3381  
From area codes 520 and 928, toll-free (800) 352-4090

**Tax forms, instructions, and other tax information**

If you need tax forms, instructions, and other tax information, go to the department's website at [www.azdor.gov](http://www.azdor.gov).

**Income Tax Procedures and Rulings**

These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our website and click on *Legal Research* then click on *Procedures* or *Rulings* and select a tax type from the drop down menu.

**Publications**

To view or print the department's publications, go to our website and click on *Publications*.

**General Instructions**

*Arizona Revised Statutes § 43-1178* provides a nonrefundable corporate income tax credit equal to 30% 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 (TPT) 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 tax credit is in lieu of a deduction for the taxes for which the credit is claimed. An addition to Arizona gross income is required for the amount of Arizona TPT and Arizona use taxes included in the computation of federal taxable income for which the Arizona tax credit is claimed.

For example, a taxpayer that paid \$50,000 in TPT for coal consumed in the generation of electrical power in Arizona would receive a credit of \$15,000 ( $\$50,000 \times 30\% = \$15,000$ ). The addition to Arizona gross income would be \$50,000.

The tax credit is available only to corporate taxpayers. A partnership may pass this credit through only to its corporate partners. An S corporation may claim this credit, or the S corporation may elect to pass this credit through to only its exempt organization shareholders.

The credit is available to an exempt organization that is subject to corporate income tax on unrelated business taxable income (UBTI). The credit must result from the activities that generate UBTI.

Co-owners of a business, including corporate partners of a partnership or exempt organization shareholders of an S corporation, may each claim only the pro rata share of the credit allowed based on the ownership interest. The pro rata share that would be distributed to non-eligible partners or shareholders is lost. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

If the allowable tax credit exceeds the taxes otherwise due, or if there are no taxes due, the amount of the credit not used to offset taxes may be carried forward for not more than five consecutive taxable years as a credit against subsequent years' income tax liability.

**Specific Instructions**

Complete the name and employer identification number section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, an exempt organization with UBTI, an S corporation or a partnership is the taxpayer's employer identification number. Taxpayers that fail to include their TIN may be subject to a penalty.

**Part 1 - Current Taxable Year's Credit Calculation**

**Form 318-1 and Line 1 -**

Complete Form 318-1 before completing Part 1, line 1, of Form 318. Complete Form 318-1 to list the qualifying coal purchases for the taxable year.

**FORM 318-1**

The design of Form 318-1 allows the taxpayer to list qualifying coal purchases for the taxable year in two situations:

1. Purchases from vendors that passed the Arizona TPT through to the taxpayer as an added charge or purchases from vendors that collected the Arizona use tax from the taxpayer; and
2. Purchases from vendors for which the taxpayer paid the Arizona use tax to the department.

**Situation 1:** List the qualifying coal purchases *by vendor* for situation 1 above. If the taxpayer has purchased coal from more than two vendors, additional Form(s) 318-1 must be completed to list the qualifying coal purchases for the taxable year. Complete section A to list the vendor name and the vendor's Arizona TPT or use tax number. Do not complete section B.

**NOTE:** *The Arizona TPT must be shown as an added charge on the vendor's invoice. If the vendor collects the Arizona use tax from the taxpayer, the tax must be shown as a separate charge on the vendor's invoice. If the amount is not shown as a separate charge, you cannot claim that amount.*

**Situation 2:** List the qualifying coal purchases *from all vendors* for situation 2 above. Complete section B to list the taxpayer's Arizona TPT or use tax number. Do not complete section A.

**NOTE:** *If the taxpayer pays the Arizona use tax directly to the department, the taxpayer must document the amount of tax paid for each invoice.*

**Column (a):** On lines 1 through 12, enter the applicable month of the taxable year.

**Column (b):** On lines 1 through 12, indicate the type of tax, TPT or use.

**Column (c):** On lines 1 through 12, enter the total amount of qualifying coal purchases for that month. Do not include the amount of tax paid in the total.

**Column (d):** On lines 1 through 12, enter the total amount of tax paid for that month.

**Column (e):** On lines 1 through 12, enter the total of columns (c) and (d).

Now go to Form 318, Part 1, line 1.

## FORM 318

### Line 1 -

Enter the aggregate total from the completed Form(s) 318-1, line 13, column (d), on Form 318, Part 1 line 1.

### Line 2 -

Multiply line 1 by 30 percent (.30). Enter the result. This is the current taxable year's credit.

## Part 2 - Corporate Partner's Share of Credit

### Lines 3 through 5 -

The partnership must complete Form(s) 318-1 and Part 1 of Form 318. Then, complete Part 2, lines 3 through 5, separately for each corporate partner. The partnership may pass the credit through **only** to its corporate partners.

Each corporate partner is entitled to only a pro rata share of the credit based on the corporate partner's ownership interest in the partnership. The total of the credit allowed to all corporate partners may not exceed the amount that would have been allowed for a sole owner.

The partnership must furnish each corporate partner with a copy of Form 318. Each corporate partner must complete Part 3, if applicable, and Part 4.

**NOTE:** An S corporation that elects to pass the credit through to its exempt organization shareholders should complete Part 2 separately for each exempt organization shareholder and include a statement with Form 318, signed by a signatory to Arizona Form 120S, that states: *The S corporation has made an irrevocable election for the taxable year ending (MM/DD/YYYY) to pass the credit for taxes paid for coal consumed in generating electrical power as shown on Form 318, Part 1, line 2 through to its exempt organization shareholders. Each exempt organization shareholder would then complete Part 3, if applicable, and Part 4 of Form 318.*

## Part 3 - Available Credit Carryover

Complete Part 3 only if the allowable credit for prior taxable years exceeded the Arizona income tax liability for those taxable years. Calculate the total available carryover of the credit on Part 3, lines 6 through 11.

Enter the applicable taxable year(s) in column (a) on lines 6 through 10. Enter the amount of the original tax credit for each taxable year in column (b). Enter the amount of the credit for each taxable year that has been taken in previous taxable years in column (c). Subtract column (c) from column (b) and enter the difference in column (d). Add the amounts entered on lines 6 through 10, column (d). Enter the total on line 11, column (d). This is the total available credit carryover available for the current taxable year.

## Part 4 - Total Available Credit

**NOTE:** *If you are claiming this credit as a credit you earned, AND are claiming this credit as a pass through credit from a partnership or S corporation, add the amount you earned to the amount passed through to you. Enter the total credit on line 12.*

### Line 12 -

*Corporations (including S corporations electing to claim the credit at the corporate level), and exempt organizations with UBTI - enter the current taxable year's credit from Part 1, line 2.*

*Corporate partners of a partnership and exempt organizations that are shareholders of an S corporation - enter the amount from Part 2, line 5.*

Also enter this amount on Form 300, Part 1, line 6, column (a).

### Line 13 -

*Corporations (including S corporations electing to claim the credit at the corporate level), and exempt organizations with UBTI - enter the amount from Part 3, line 11, column (d). This is the total available credit carryover.*

Also enter this amount on Form 300, Part 1, line 6, column (b).

### Line 14 -

*Corporations (including S corporations electing to claim the credit at the corporate level), and exempt organizations with UBTI - add line 12 and line 13. Enter the total. This is the total available credit that may be applied to the current taxable year's tax liability.*

Also enter this amount on Form 300, Part 1, line 6, column (c).