

2010 Fiduciary Income Tax

Phone Numbers

If you have questions, please call one of the following numbers:

Phoenix	(602) 255-3381
From area codes 520 & 928 toll-free	(800) 352-4090
Hearing impaired TDD user	
Phoenix	(602) 542-4021
From area codes 520 & 928 toll-free	(800) 397-0256

You may also visit our web site at: www.azdor.gov.

Special Notice for 2009 Returns

Arizona did not fully conform to federal tax law changes for 2009. This means that an estate or trust may have to file an amended return for 2009. Look at items 1 through 3 below. See if any of those items apply to the estate or trust. If any of those items apply to the estate or trust, this will affect the estate's or trust's 2009 return. If the estate or trust has already filed its 2009 return, the estate or trust must file an amended return to properly report those items. If the estate or trust amends 2009 for the following purposes and pays the entire tax due by October 17, 2011, the fiduciary can apply for relief from any penalty or interest on that tax.

The following is the list of items that could affect the 2009 estate or trust return.

1. The estate or trust made a cash gift during 2010 to aid Haiti earthquake victims. It claimed a charitable deduction for that gift on its 2009 federal return.
2. The estate or trust elected to exclude discharge of indebtedness (DOI) income from the reacquisition of a business debt instrument on its 2009 federal return.
3. The estate or trust excluded original issue discount (OID) on a debt instrument described in number 2 above from income on your 2009 federal return.

If any of items 1 through 3 above apply, the estate or trust must correct its 2009 Arizona return.

To get more news on this topic, visit our web site at www.azdor.gov.

General Information

Estates

An Arizona resident estate is the estate of a decedent who was a resident of Arizona at the time of death. The starting point for the Arizona income tax computation for a resident estate is the estate's federal taxable income.

A nonresident estate is an estate that is not a resident estate. The starting point for a nonresident estate is that portion of the estate's federal taxable income derived from Arizona sources.

Trusts

An Arizona resident trust is a trust of which the fiduciary is a resident of Arizona. If the trust has more than one fiduciary, the trust is a resident trust if at least one of the fiduciaries is a resident of Arizona. If a corporate fiduciary engaged in interstate trust administration is the sole fiduciary of a trust, or is a cofiduciary with a nonresident, the trust is a resident trust only if the corporate fiduciary conducts the administration of the trust in Arizona. The starting point for the Arizona income tax computation for a resident trust is the trust's federal taxable income.

A nonresident trust is a trust that is not a resident trust. The starting point for a nonresident trust is that portion of the trust's federal taxable income derived from Arizona sources.

Who Must File

The fiduciary, or fiduciaries, must file a return for an estate or trust if either of the following apply:

1. The estate or trust has any Arizona taxable income for the tax year.
2. The estate's or trust's gross income for the tax year is \$5,000 or more, regardless of the amount of the Arizona taxable income.

The above also applies to bankruptcy estates.

The fiduciary does not have to file a return if the income does not exceed the amounts shown in items 1 or 2 above.

NOTE: *The fiduciary must file a final return for an estate when the fiduciary is requesting a tax certificate required by the probate court. In this case, the fiduciary must file a final return regardless of the estate's income. See instructions for requesting a certificate on page 3.*

Fiduciary Filing Return on Form 140

A personal representative must file a return on Form 140 if any of the following apply:

- The Arizona adjusted gross income of a single decedent was \$5,500 or more.
- The gross income of a single decedent was \$15,000 or more.
- The Arizona adjusted gross income of a married decedent for which the representative will file a separate return was \$5,500 or more.
- The gross income of a married decedent for which the representative will file a separate return was \$15,000 or more.
- The Arizona adjusted gross income of a married decedent and his or her surviving spouse for which a joint return will be filed was \$11,000 or more.
- The gross income of a married decedent and his or her surviving spouse for which a joint return will be filed was \$15,000 or more.

For individual filing purposes, gross income is gross income as defined under the Internal Revenue Code less income included in gross income that is excluded from Arizona taxation.

Example:

A taxpayer died on June 29, 2010. The decedent had wages of \$9,700 and interest income of \$920 received through the date of death. The personal representative files a final Form 140 for the period January 1, 2010, through June 29, 2010. The personal representative notes on the Form 140 that the taxpayer is deceased as of June 29, 2010. The personal representative reports the wage and interest income of \$10,620 on the Form 140. The personal representative reports all income that the estate receives from June 30, 2010, forward on the Form 141AZ.

A fiduciary who has charge of the income of an individual must file a return of income on Form 140 if that individual's income meets the filing requirements. Such fiduciaries include guardians of minors and guardians or committees of legally incompetent persons.

Where several fiduciaries exist, a return filed by one of two or more joint fiduciaries is sufficient.

Filing for a Charitable Remainder Trust

Charitable remainder trusts should file on Arizona Form 141AZ. The fiduciary should indicate that the return is for a charitable remainder trust by checking the appropriate box on line 6.

The trustee should not enter any numerical figures on the face of the return.

The trustee should not complete an Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR) for any of its beneficiaries.

Grantor Trusts

Grantor trusts file only an information return since the income reverts to the grantor. The grantor reports this income on the individual income tax return (Form 140). Do not enter any numerical figures on the face of the return. Go directly to the signature line. The fiduciary should indicate that the return is for a grantor trust by checking the appropriate box on line 6.

Where Should You Mail The Return?

If you are expecting a refund, or owe no tax, or owe tax but are not sending a payment, send the return to: Arizona Department of Revenue, PO Box 52138, Phoenix AZ 85072-2138.

If you are sending a payment with this return, send the return to: Arizona Department of Revenue, PO Box 52016, Phoenix AZ 85072-2016.

When Should You File?

Your 2010 calendar year tax return is due no later than midnight, April 18, 2011. You have extra time to file and pay for 2010 because April 15, 2011 is a legal holiday in Washington DC. You must file a return made on a fiscal year basis by the 15th day of the fourth month following the close of the fiscal year. Your original filing date must be the same for Arizona as it is for federal purposes.

You may request an extension if you know you will not be able to file on time. *An extension does not extend the time to pay the income tax. Failure to pay at least 90 percent of the tax due by the original due date will result in a penalty.* Beginning April 19, Arizona charges interest on any unpaid tax. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. The extension underpayment penalty cannot exceed 25 percent of the unpaid tax.

NOTE: *Arizona will grant a five month extension. For more information see Fiduciary Tax Ruling FTR 09-1.*

To Get a Filing Extension, You Can Either:

1. Apply for a state extension (Form 141AZ EXT). To apply for an automatic 5-month state extension, file Arizona Form 141AZ EXT by April 18. See Form 141AZ EXT for details. You do not have to attach a copy of the extension to your return when you file, but make sure that you check extension box 82E on page 1 of the return. If you must make a payment, use Arizona Form 141AZ EXT.
2. Use your federal extension - File your Arizona return by the same due date. You do not have to attach a copy of the extension to your return, but make sure that you check extension box 82E on page 1 of the return.

Does an Estate or Trust Have to Make Estimated Payments?

An estate or trust does not have to make estimated payments. An estate or trust may elect to make Arizona estimated tax payments on Arizona Form 141AZ ES.

What if You File or Pay Late?

If you file or pay late, we will charge you interest and penalties on the amount you owe. If the U.S. Post Office

postmarks your 2010 calendar return by April 18, 2011, your return will not be late. You may also use certain private delivery services designated by the IRS to meet the "timely mailing as timely filed" rule.

Late Filing Penalty

If you file late, we will charge you a late filing penalty. This penalty is $4\frac{1}{2}\%$ of the tax required to be shown on the return for each month or fraction of a month the return is late. This penalty cannot exceed 25% of the tax found to be remaining due.

Late Payment Penalty

If you pay your tax late, we will charge you a late payment penalty. This penalty is $\frac{1}{2}$ of 1% (.005) of the amount shown as tax for each month or fraction of a month for which the failure continues. We charge this penalty from the original due date of the return until the date you pay the tax. This penalty cannot exceed a total of 10%.

Extension Underpayment Penalty

If you file your return under an extension, you must pay 90% of the tax shown on your return by the return's original due date. If you do not pay this amount, we will charge you a penalty. This penalty is $\frac{1}{2}$ of 1% (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. We charge this penalty from the original due date of the return until the date you pay the tax. This penalty cannot exceed 25% of the unpaid tax. If we charge you the extension underpayment penalty, we will not charge you the late payment penalty under A.R.S. § 42-1125(D).

NOTE: *If you are subject to two or more of the above penalties, the total cannot exceed 25%.*

Interest

We charge interest on any tax not paid by the due date. We will charge you interest even if you have an extension. If you have an extension, we will charge you interest from the original due date until the date you pay the tax. The Arizona interest rate is the same as the federal rate.

Amended Returns

If you are filing an amended Form 141AZ, check the amended return box on line 6. Complete the entire return, correct the appropriate line(s) with the new information, and recompute your tax liability. On an attached schedule, explain the reason(s) for the amendment(s) and identify the line(s) and amount(s) being changed on the amended return. Also attach a copy of the amended federal Form 1041.

NOTE: *You must plainly mark an amended return "Amended" by checking the appropriate box on line 6. The period covered by this return must be the same accounting period as covered by the original return. If you are amending a prior year return, use the form for that taxable year.*

Copy of Will or Trust Instrument

Upon the department's request, the fiduciary must submit a copy of the will or trust instrument when the estate's or trust's gross income is \$5,000 or more. The fiduciary must swear that the will or trust instrument is a true and complete copy.

Reporting Payments Made by a Trust or Estate

An estate or trust that paid salaries or wages may have to report those payments to the department.

Request for Certificate of Payment of Taxes

IMPORTANT: *Make requests for this income tax certificate separately. Do not attach requests for the income tax certificate to Form 141AZ. The department can issue certificates only if required by the probate court.*

Address requests to: Arizona Department of Revenue, Fiduciary Certificate Request, Box B-06, 1600 W. Monroe, Phoenix AZ 85007.

If an estate is being probated, the fiduciary may have to obtain a certificate from the department that shows no income tax is due. The probate court may require this certificate before approving the fiduciary's final account.

Arizona law requires a certificate only when all of the following apply.

1. The estate is subject to probate.
2. The value of the assets of the estate at the decedent's date of death exceeds \$20,000.
3. The estate has a beneficiary that is not an Arizona resident.

In order for the department to issue a certificate, all of the following must be met.

1. The fiduciary has filed Arizona Form 210.
2. A return was filed by or on behalf of the decedent and for the estate for each taxable year in which the respective incomes of the decedent or estate exceeded the requirements for filing returns.
3. A final Arizona fiduciary return is filed when the certificate is requested. This return must be filed regardless of the gross or net income for the year. If there is no income, submit a return with "zero" on all lines.

If filing a final return and you are expecting a refund, or owe no tax, or owe tax but are not sending a payment, send the return to: Arizona Department of Revenue, PO Box 52138, Phoenix AZ 85072-2138.

If filing a final return and you are sending a payment with this return, send the return to: Arizona Department of Revenue, PO Box 52016, Phoenix AZ 85072-2016.

4. The request must contain a statement regarding the status of returns filed by or on behalf of the decedent or for the estate for the four taxable years immediately preceding the date of the request. The fiduciary must make the statement under declaration of perjury. The statement must indicate:
 - The years for which returns were filed.
 - The years for which the gross and Arizona taxable incomes were less than the amount necessary to require the filing of returns.

Call (602) 716-7809 in Phoenix for further assistance.

Additional Returns or Forms You May Have to File

Form 140, 140PY, or 140NR - to report a decedent's income for the period to the date of death.

Form 210 - Notice of Assumption of Duties in a Fiduciary Capacity - Filed on all estates

Form 141AZ EXT – Extension of Time to File

Form 141AZ ES – Estate or Trust Estimated Tax Payment

Line-by-Line Instructions

Period Covered

The fiduciary must file this return for a calendar year or for a fiscal year ending on the last day of any month other than December (not to exceed 12 months). Your accounting period must be the same for Arizona as it is for federal purposes.

You must adhere to the accounting period established for subsequent years unless you receive written permission to change from the department.

If filing for a fiscal year, enter the beginning and ending month and year.

Lines 1 through 4 -

Enter the name of the estate or trust. Also enter the name, title, address, and zip code of the fiduciary. Enter the estate's or the trust's employer identification number.

Lines 5a through 5d -

If you are filing this return for a resident estate check box 5a. If you are filing this return for a nonresident estate check box 5b. If you are filing this return for a resident trust check box 5c. If you are filing this return for a nonresident trust check box 5d.

Line 6 -

Check the box(es) that identify the type of return you are filing.

Line 7 - Federal Taxable Income of Fiduciary

An Arizona resident estate or trust should enter the federal taxable income shown on page 1 of the federal fiduciary return, Form 1041.

A nonresident estate or trust must complete Form 141AZ, Schedule A, before entering an amount on line 7. For a nonresident estate or trust, the fiduciary should enter the amount from Form 141AZ, Schedule A, line A6 on line 7.

NOTE: *Before completing the rest of page 1 of Form 141AZ, complete Schedules A, B, C, D and E, as necessary.*

Schedule A - Nonresident Estate or Trust Source Income Schedule

Schedule A is used to compute the federal taxable income of the estate or trust from Arizona sources. All nonresident estates and nonresident trusts must complete Schedule A.

Resident estates and resident trusts should skip Schedule A.

Federal Column

Enter all items of income and modifications that correspond to those items listed on the federal fiduciary return. Line A5 should equal the federal taxable income reported on the federal fiduciary return.

Arizona Column

Enter that part of each item of income reported in the federal column that is derived from Arizona sources. Intangible income will not be considered to be from Arizona sources except where it is part of a business, trade, or occupation carried on in Arizona.

Schedule B - Fiduciary Adjustment

Fiduciary adjustment increasing federal taxable income

Use lines B1 through B4 to figure the amount of fiduciary adjustment that increases federal taxable income.

Line B1 - Positive Arizona Fiduciary Adjustment From Another Trust or Estate

Use this adjustment only if your Arizona Form 141AZ, Schedule K-1, indicates a difference between federal and state distributable income. If the amount shown on the Arizona Form 141AZ, Schedule K-1, is a positive number, enter that amount here.

Line B2 - Non-Arizona Municipal Bond Interest

Enter any interest income taxable by Arizona from non-Arizona municipal bonds that you did not include as income on the federal return.

You may exclude any expenses incurred to purchase or carry the obligation. Reduce the interest income by the amount of those expenses that you could not deduct on your federal return.

A nonresident estate or trust should enter non-Arizona municipal bond interest only if such interest was earned on accounts pledged as collateral.

Line B3 - Other Additions to Federal Taxable Income

Enter any other additions, including those shown below, to federal taxable income. Attach your own schedule.

A. Total Depreciation Included in Arizona Gross Income

Enter the amount of depreciation deducted on the federal return that is included in Arizona gross income. If you make an entry here, also see the instructions for line B8, "Other Subtractions From Federal Taxable Income".

B. Net Operating Losses

Arizona does not have specific provisions for calculating the net operating loss of estates or trusts. Generally, the net operating loss deduction included in the federal taxable income is the amount allowable for Arizona purposes. There are, however, instances when the amount allowable for Arizona may be different.

You must adjust the net operating loss deduction included in the federal taxable income if the estate or trust has already deducted any amount of the net operating loss included in federal taxable income for Arizona purposes. Enter on line B3, the amount of net operating loss included in federal taxable income that was previously deducted for Arizona purposes.

Usually, Arizona conforms to the federal net operating loss and the carryback provisions. Arizona, however, did not conform to the special federal net operating loss rules for 2008 and 2009. Under the special rules for 2008 and 2009, a taxpayer could have elected to carry the net operating loss back for 3, 4 or 5 years, instead of the normal 2 years. This election would have been allowed under I.R.C. § 172(b)(1)(h) as amended by the American Recovery and Reinvestment Act of 2009 or the Worker, Homeownership, and Business Assistance Act of 2009. If a taxpayer deducted a federal net operating loss carryback under the federal American Recovery and Reinvestment Act of 2009 or the federal Worker, Homeownership, and Business Assistance Act of 2009, see the instructions for line B8.

For information on deducting a net operating loss carryback in cases where a taxpayer did not make an election under I.R.C. § 172(b)(1)(h), see Arizona Department of Revenue Income Tax Procedure *ITP 99-1*.

C. Annuity Income in Excess of Contributions

Enter any annuity income received during the tax year to the extent that the sum of the proceeds received from the annuity in all taxable years prior to and including the current tax year exceeds the total consideration premiums paid by you. This applies only to those annuities for which the first payment was received before December 31, 1978.

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

Use this adjustment if your Arizona Form 165, Schedule K-1, shows a difference between federal and state distributable income.

If the difference reported on your Arizona Form 165, Schedule K-1, is a positive number, enter that difference as an addition. Enter the addition on line B3.

If the difference reported on your Arizona Form 165, Schedule K-1, is a negative number, enter that difference as a subtraction. Enter the subtraction on line B8.

E. Claim of Right Adjustment for Amounts Repaid in 2010

You must make an entry here if all of the following apply:

1. During 2010, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid was subject to Arizona income tax in the year included in income.
3. The amount required to be repaid during 2010 was more than \$3,000.
4. You took a deduction for the amount repaid on your 2010 federal income tax return.
5. The deduction taken on your federal income tax return is reflected in your Arizona taxable income.

If the above apply, enter the amount deducted on your federal income tax return which is reflected in your Arizona taxable income.

For more information on the Arizona claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure *ITP 95-1*.

F. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if all of the following apply:

1. During a year prior to 2010 you were required to repay amounts held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 2010 Arizona taxable income.
5. The amount of the loss carryover included in your federal income is more than the amount allowed to be taken into account for Arizona purposes.

Enter the amount by which the loss carryover included in your federal income is more than the amount allowed for the taxable year under Arizona law.

G. Nonqualified Withdrawals from 529 College Savings Plans

The fiduciary must make an addition to income if the estate or trust received a nonqualified withdrawal from a 529 college savings plan. The fiduciary must make an addition if

the withdrawal was not included in federal taxable income. The amount that the fiduciary must add is the amount withdrawn, but no more than the difference between the amount of contributions subtracted in prior years and the amount added in any prior years.

A nonqualified withdrawal is a withdrawal other than any of the following:

1. A qualified withdrawal. A qualified withdrawal is a withdrawal from an account to pay the qualified higher education expenses of the designated beneficiary of the account.
2. A withdrawal made as the result of the death or disability of the designated beneficiary of an account.
3. A withdrawal that is made on the account of a scholarship, or the allowance or payment described in section 135(d)(1)(B) or (C) of the internal revenue code, and that is received by the designated beneficiary, but only to the extent of the amount of this scholarship, allowance or payment.
4. A rollover or change of designated beneficiary.

H. 2010 Discharge of Indebtedness (DOI) Income

Generally, when a loan is settled for less than the amount owed, DOI income is realized by the debtor and usually must be included in the debtor's gross income. The amount of DOI income is generally equal to the amount of loan forgiveness. DOI income also occurs when a debtor repurchases its own debt at a discount (a price lower than the adjusted basis issue price of the debt instrument). In debt repurchase transactions, the amount of DOI income is generally equal to the difference between the adjusted issue price and the price paid for the debt instrument.

For federal purposes, an estate or trust may have made a special election for taxable years 2009 or 2010 to include DOI income in connection with the reacquisition of a business debt instrument, ratably over a 5 year period. An estate or trust that made this election will generally include this income in federal taxable income beginning with the 2014 taxable year. An estate or trust would have made the federal election under I.R.C. § 108(i) as added by the American Recovery and Reinvestment Act of 2009.

Arizona did not adopt the special federal DOI income deferral provisions for the 2009 or 2010 taxable year. For Arizona purposes, if the estate or trust made the federal election to defer the inclusion of DOI income under I.R.C. § 108(i), make an entry here. On line B3, enter the amount of DOI income that the estate or trust deferred and excluded from the computation of its 2010 federal taxable income under I.R.C. § 108(i). Even though a taxpayer must include that DOI income on the 2010 Arizona return, Arizona will not tax that income again in the future years when the estate or trust includes the income in its federal taxable income. If you make an entry here, also see the instructions for "Other Subtractions from federal taxable income" even though this subtraction will not apply until the year in which an estate or trust includes the income.

I. Original Issue Discount (OID) on Reacquisition of Debt Instrument

For federal purposes, when an estate or trust made the special election to defer DOI income under I.R.C. § 108(i) (see letter "H" above), the estate or trust was not allowed to take a deduction with respect to the portion of any OID that accrued with respect to that DOI income, during the income deferral period. In this case, the estate or trust had to deduct the aggregate amount of the OID deductions disallowed ratably

over a 5 year period, beginning with the period in which the income was includible in federal adjusted gross income.

Arizona did not adopt the federal provisions requiring an estate or trust to defer the OID deduction in cases where the estate or trust federally deferred the DOI income. For Arizona purposes, the estate or trust had to report the DOI income from a debt reacquisition in the year in which it reacquired the debt, and it was allowed to subtract any OID related to that DOI income in the year the OID accrued. (See the instructions for "Other Subtractions from Federal Taxable Income.") If the estate's or trust's federal taxable income includes a deduction for any accrued OID already subtracted for Arizona purposes, make an addition to Arizona income for the amount of deferred OID deducted on the federal return. Generally, this addition will not apply until taxable year 2014 through 2018. However, if the estate or trust was required to accelerate reporting of the DOI income for federal purposes and was allowed to deduct accrued OID attributable to that income on a return filed for a year prior to 2014, this addition may apply to an earlier year. On line B3, enter the amount of any previously deferred OID deducted in computing the estate's or trust's 2010 federal taxable income, to the extent that the amount was previously subtracted from Arizona taxable income.

J. Other Adjustments

Other special adjustments may be necessary. You may need to make an addition for depreciation or amortization. Call one of the numbers listed on page 1 of these instructions if any of the following apply.

- You sold or disposed of property that was held for the production of income and your basis was computed under the Arizona Income Tax Act of 1954.
- You elected to amortize the basis of a pollution control device or the cost of a child care facility under Arizona law in effect before 1990. You are still deducting amortization or depreciation for that device or facility on your federal income tax return.

Line B4 - Total Adjustments Increasing Federal Taxable Income

Add lines B1 through B3. Enter the total.

Fiduciary Adjustment Decreasing Federal Taxable Income

Use lines B5 through B9 to figure the amount of fiduciary adjustment that decreases federal taxable income.

You may only subtract those items for which statutory authority exists. Without such authority you cannot take a subtraction. If you have any questions concerning subtractions from income, call one of the numbers listed on page 1 of these instructions.

NOTE: *You cannot subtract any amount that is allocable to income excluded from Arizona taxable income.*

Enter the following other subtractions from federal taxable income. Attach your own schedule.

Line B5 - Negative Arizona Fiduciary Adjustment From Another Estate or Trust

Use this adjustment only if your Arizona Form 141AZ, Schedule K-1, indicates a difference between federal and state distributable income. If the amount shown on the Arizona Form 141AZ, Schedule K-1, is a negative number, enter that amount here.

Line B6 - Interest Received on U.S. Obligations

Enter the amount of interest income from U.S. Government obligations included on page 1, line 7. U.S. Government obligations include obligations such as U.S. savings bonds and treasury bills. You cannot deduct any interest or other related expenses incurred to purchase or carry the obligations. If such expenses are included in Arizona gross income, you must reduce the subtraction by such expenses. Reduce the subtraction only by the amount of such expenses included in your Arizona gross income.

NOTE: Do not subtract interest earned on FNMA or GNMA bonds since this interest is taxable by Arizona. For details, see the Income Tax Ruling, ITR 06-1.

Do not subtract any amount received from a qualified pension plan that invests in U.S. Government obligations. Do not subtract any amount received from an IRA that invests in U.S. Government obligations. These amounts are not interest income. For more information, see Income Tax Rulings ITR 96-2 and ITR 96-3.

Line B7 - Construction of an Energy Efficient Residence

For taxable years beginning from and after December 31, 2001, through December 31, 2010, Arizona law allows a subtraction for an energy efficient residence. The subtraction is allowed for selling one or more new energy efficient residences located in Arizona. The subtraction is equal to 5% of the sales price excluding commissions, taxes, interest, points, and other brokerage, finance and escrow charges. The subtraction cannot exceed \$5,000 for each new qualifying residence.

The taxpayer that builds the new residence may claim the subtraction when the taxpayer first sells the residence. However, the seller may elect to transfer the subtraction to the buyer.

For more information, see Arizona Department of Revenue Income Tax Procedure ITP 02-1.

On line B7, enter the following:

1. The allowable subtraction for the sale of new energy efficient residences by the estate or trust during the taxable year; plus
2. The allowable subtraction for new energy efficient residences purchased by the estate or trust during the taxable year for which the subtraction was transferred by the seller to the purchasing estate or trust.

If the estate or trust claims the subtraction for the sale of new energy efficient residences, it must complete Schedule 141AZ EER. Do not mail the Schedule 141AZ EER with Form 141AZ. Separately mail the completed Schedule 141AZ EER to the address listed on the form. If the estate or trust claims a subtraction for new energy efficient residences for which the seller transferred the subtraction to the estate or trust, it must attach a copy of the statement provided by the seller for each residence.

Line B8 - Other Subtractions From Federal Taxable Income

Enter any other subtractions, including those shown below, to federal taxable income. Attach your own schedule.

A. Exclusion for U.S. Government, Arizona State, or Local Government Pensions

If the estate or trust received pension income from any of the sources listed below, subtract the amount received or \$2,500, whichever is less. Only include amounts which the estate or trust reported as income on the federal return.

Public pensions from the following sources qualify for this subtraction:

- The United States Government Service Retirement and Disability Fund
- The United States Foreign Service Retirement and Disability System
- Retired or retainer pay of the uniformed services of the United States
- Any other retirement system or plan established by federal law

NOTE: This applies only to those retirement plans authorized and enacted into the U.S. Code. This does not apply to a retirement plan that is only regulated by federal law (i.e., plans which must meet certain federal criteria to be qualified plans).

- The Arizona State Retirement System
- The Arizona State Retirement Plan
- The Corrections Officer Retirement Plan
- The Public Safety Personnel Retirement Plan
- The Elected Officials' Retirement Plan
- A retirement plan established for employees of a county, city, or town in Arizona
- An optional retirement program established by the Arizona Board of Regents under Arizona Revised Statutes
- An optional retirement program established by an Arizona community college district

NOTE: Public retirement pensions from states other than Arizona do not qualify for this subtraction.

This subtraction does not apply to nonresident estates or trusts.

B. Refunds From Other States

Enter any state income tax refunds received from states other than Arizona. Enter this amount only to the extent it is included on page 1, line 7 of Arizona Form 141AZ.

C. Annuity Income, First Payment Received Prior to December 31, 1978

Arizona allows an estate or trust to subtract the amount of annuity income included in the estate's or trust's federal income pursuant to IRC § 72 if the first payment with respect to such annuity was received prior to December 31, 1978.

This subtraction does not apply to nonresident estates or trusts.

D. Qualified Wood Stove, Wood Fireplace, or Gas Fired Fireplace

Arizona law provides a subtraction for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 for converting an existing fireplace on property located in Arizona to a qualified wood stove, qualified wood fireplace, or gas fired fireplace.

E. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if all of the following apply:

1. During a year prior to 2010 you were required to repay amounts held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.

4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 2010 Arizona taxable income.
5. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the amount included in your federal income.

Enter the amount by which the loss carryover allowed for the taxable year under Arizona law is more than the amount included in your federal income.

F. Certain Expenses Not Allowed For Federal Purposes

You may subtract some expenses that you cannot deduct on your federal return when you claim certain federal tax credits. These federal tax credits are:

- The federal work opportunity credit
- The empowerment zone employment credit
- The credit for employer-paid social security taxes on employee cash tips
- The Indian employment credit

If you received any of the above federal tax credits for 2010, enter the portion of wages or salaries you paid or incurred during the taxable year equal to the amount of those federal tax credits you received.

A nonresident estate or trust should enter the portion of wages or salaries attributable to Arizona source income that it paid or incurred during the taxable year that is equal to the amount of those federal tax credits it received.

G. Employer Contributions Made to Employee Medical Savings Accounts

If you are an employer, you may subtract the amount contributed to your employees' medical savings accounts that are established under Arizona law. You can subtract these contributions only to the extent not deductible for federal income tax purposes. You can subtract these contributions only to the extent included in your Arizona gross income.

H. Agricultural Crops Given to Charitable Organizations

Arizona law allows a subtraction for qualified crop gifts made during 2010 to one or more charitable organizations. To take this subtraction, the estate or trust must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. The gift must be made to a charitable organization located in Arizona that is exempt from Arizona tax.

The subtraction is the greater of 80 percent of the wholesale market price or 80 percent of the most recent sale price for the crop given.

To determine if your crop gift qualifies for this subtraction, see Arizona Department of Revenue Procedure, ITP 93-2.

I. Installment Sale Income From Another State Taxed by the Other State in a Prior Taxable Year

You may subtract any income from an installment sale that has been properly subjected to income tax in another state in a prior tax year. Enter the amount of such income included in Arizona gross income in the current taxable year.

This subtraction does not apply to nonresident estates or trusts.

J. Subtraction for World War II Victims

You may subtract distributions made to the trust or estate for the decedent's or settlor's persecution or the persecution of

the decedent's or settlor's ancestors by Nazi Germany or any other Axis regime for racial, religious or political reasons. If the estate or trust is the first recipient of such distributions, enter the amount of the distributions that you had to include in the estate's or trust's federal taxable income.

You may also subtract items of income that are attributable to, derived from, or related to assets that were stolen or hidden from or lost to the decedent or settlor if the decedent or settlor was persecuted by Nazi Germany or any other Axis regime for racial, religious or political reasons before, during or immediately after World War II. If the estate or trust is the first recipient of such income, enter the amount of income that you had to include in the estate's or trust's federal taxable income.

A nonresident estate or trust should enter such payments only to the extent included in Arizona taxable income.

K. Recalculated Arizona Depreciation

Resident estate or trust

Enter the total amount of depreciation allowable pursuant to IRC § 167(a) for the taxable year calculated as if the taxpayer had elected not to claim bonus depreciation for eligible properties for federal purposes.

Nonresident estate or trust

Enter the total amount of depreciation attributable to assets used in an Arizona business allowable pursuant to IRC § 167(a) for the taxable year calculated as if the taxpayer had elected not to claim bonus depreciation for eligible properties for federal purposes.

L. Basis Adjustment for Property Sold or Otherwise Disposed of During the Taxable Year

With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer who has complied with the requirement to add back all depreciation with respect to that property on tax returns for all taxable years beginning from and after December 31, 1999, enter the amount of depreciation that has been allowed pursuant to IRC § 167(a) to the extent that the amount has not already reduced Arizona taxable income in the current or prior years. (Note: The practical effect of this is to allow a subtraction for the difference in basis for any asset for which bonus depreciation has been claimed on the federal return.) A nonresident estate or trust may make this adjustment for only property that was used in an Arizona business.

M. Federal Estate Taxes Paid by an Estate

An estate may subtract on Arizona Form 141AZ the amount of federal estate tax paid by the estate in the current taxable year. Enter the amount of federal estate taxes paid in 2010.

N. Contributions to 529 college savings plans

For taxable years 2008 through 2012, an estate or trust may subtract amounts it contributes to 529 college savings plans during the taxable year. The estate or trust may subtract the amount contributed during the year up to a total of \$750.

O. Net Operating Loss Adjustment

NOTE: *This subtraction applies to only those taxpayers who made an election under the special federal net operating loss rules for 2008 and 2009. Under the special rules for 2008 and 2009, a taxpayer could have elected to carry the net operating loss back for 3, 4 or 5 years, instead of the normal 2 years. This election would have been allowed under I.R.C. § 172(b)(1)(h) as amended by the American Recovery and Reinvestment Act of 2009 or the Worker, Homeownership, and Business Assistance Act of 2009.*

Arizona did not adopt the special federal net operating loss rules for losses incurred during 2008 or 2009. For Arizona purposes, estates or trusts must deduct a net operating loss as if the loss was computed under I.R.C. § 172 in effect prior to the enactment of those special rules.

Resident estate or trust

If the estate or trust made an election to deduct a 2008 or 2009 federal net operating loss under I.R.C. § 172(b)(1)(h), the estate or trust may have to enter an amount here. Figure how much of the net operating loss carry forward would have been allowed as a deduction on the estate's or trust's 2010 federal income tax return, if the election described in I.R.C. § 172(b)(1)(h) had not been made in the year of the loss. On line B8, enter the amount that exceeds the actual net operating loss carry forward that was deducted in arriving at federal taxable income.

Nonresident estate or trust

Figure how much of the net operating loss carry forward would have been allowed as a deduction on the estate's or trust's 2010 federal income tax return, if the election described in I.R.C. § 172(b)(1)(h) had not been made in the year of the loss. Then figure how much of the carry forward computed under that method was derived from Arizona source losses. The amount the estate or trust may take as a subtraction is the difference between the amount of Arizona source net operating loss carryover allowable as a deduction for federal purposes under the as if calculation and the amount of the Arizona source net operating loss deduction actually taken for federal purposes that the estate or trust included in its Arizona gross income. On line B8, enter the amount of allowable Arizona source loss carry forward deduction that exceeds the actual amount of Arizona source net operating loss carry forward deduction that was deducted in arriving at Arizona gross income.

NOTE: As an Arizona nonresident estate or trust, the estate or trust may have had a loss from prior year Arizona business operations. However, the loss cannot offset this year's income unless the as if calculation results in an Arizona source net operating loss deduction for federal purposes. The estate or trust can only take this subtraction if the as if federal net operating loss deduction for 2010 includes Arizona source losses that have not been absorbed by non-Arizona income in any intervening years. The estate or trust cannot subtract any amount of that net operating loss that has been absorbed by non-Arizona income in any intervening years. The estate or trust also cannot take a subtraction for any amount that has already been deducted for Arizona purposes.

P. Previously Deferred Discharge of Indebtedness (DOI) Income Adjustment

Generally, when a loan is settled for less than the amount owed, DOI income is realized by the debtor and usually must be included in the debtor's gross income. The amount of DOI income is generally equal to the amount of loan forgiveness. DOI income also occurs when a debtor repurchases its own debt at a discount (a price lower than the adjusted basis issue price of the debt instrument). In debt repurchase transactions, the amount of DOI income is generally equal to the difference between the adjusted issue price and the price paid for the debt instrument.

For federal purposes, an estate or trust may have made a special election for taxable years 2009 or 2010 to include DOI income in connection with the reacquisition of a

business debt instrument, ratably over a 5 year period. An estate or trust that made this election will generally include this income in federal taxable income beginning with the 2014 taxable year. An estate or trust would have made the federal election under I.R.C. § 108(i) as added by the American Recovery and Reinvestment Act of 2009. Arizona did not adopt the special federal DOI income deferral provisions for the 2009 or 2010 taxable year.

For Arizona purposes, if a taxpayer made the federal election to defer the inclusion of DOI income under I.R.C. § 108(i), the estate or trust was required to add the amount of deferred DOI income to Arizona income for the year for which the estate or trust made the election. (See the instructions for "Other Additions to Federal Taxable Income.") If the estate or trust made the required addition to Arizona income on the Arizona return filed for the year in which the estate or trust reacquired the debt instrument (2009 or 2010), Arizona will not tax that DOI income twice. In the year in which the estate or trust includes that deferred DOI income in federal taxable income, the estate or trust may take a subtraction for the amount included for that year. Usually this subtraction will apply to taxable years 2014 through 2018. However, if the estate or trust had to accelerate the deferral for federal purposes, this subtraction may apply to a taxable year prior to 2014.

Resident estate or trust

On line B8, enter the amount of previously deferred DOI income included in federal taxable income for the current taxable year to the extent that the amount was previously added to the Arizona income.

Nonresident estate or trust

On line B8, enter the amount of previously deferred Arizona source DOI that the estate or trust included in its Arizona gross income for the current taxable year to the extent that the amount was previously added to the estate's or trust's Arizona income.

Q. Original Issue Discount (OID) on Reacquisition of Debt Instrument

For federal purposes, when an estate or trust made the special election to defer DOI income under I.R.C. § 108(i) (see letter "P" above), the taxpayer was not allowed to take a deduction with respect to the portion of any OID that accrued with respect to that DOI income, during the income deferral period. Arizona did not adopt the federal provisions requiring an estate or trust to defer the OID deduction in cases where the estate or trust federally deferred the DOI income under I.R.C. § 108(i). In this case, the estate or trust must deduct the aggregate amount of the OID deductions disallowed ratably over a 5 year period, beginning with the period in which the income is includible in an estate's or trust's federal taxable income.

For Arizona purposes, an estate or trust was required to add the amount of deferred DOI income to its Arizona income on the return filed for the year in which it reacquired the debt instrument. Since Arizona is taxing the federally deferred DOI income for 2009 or 2010 on the 2009 or 2010 Arizona return, the estate or trust may subtract the amount of OID that accrued during the taxable year with respect to that DOI income.

Resident estate or trust

On line B8, enter the amount of any OID that was deferred and not allowed to be deducted in computing federal taxable income for 2010 under I.R.C. § 108(i).

Nonresident estate or trust

On line B8, enter the amount of any OID related to that Arizona source income that was deferred and not allowed to be deducted in computing federal taxable income for 2010 under I.R.C. § 108(i).

R. Contributions for Haiti Charitable Relief

If an estate or trust made a cash gift to help Haiti earthquake victims after January 11, 2010, but before March 1, 2010, it may have to enter an amount here. For federal purposes, an estate or trust was allowed to treat that gift as if it made it in 2009 rather than 2010. In this case, the estate or trust would have deducted that gift as a charitable deduction on its 2009 federal income tax return and not its 2010 return.

For Arizona purposes, an estate or trust should not have deducted that gift on its 2009 return. That gift should be deducted on its 2010 Arizona income tax return. If an estate or trust included that amount as a deduction on its 2009 federal income tax return, it should have reduced the 2009 Arizona charitable deduction by that amount. If an estate or trust reduced its 2009 Arizona charitable contribution by the amount of that gift, enter that amount here.

S. Other Adjustments

Other special adjustments may be necessary. Call one of the numbers listed on page 1 of these instructions if any of the following apply.

- You sold or disposed of property that was held for the production of income and your basis was computed under the Arizona Income Tax Act of 1954.
- You deferred exploration expenses determined under Internal Revenue Code section 617 in a taxable year ending before January 1, 1990, and you have not previously taken a subtraction for those expenses.

Line B9 - Total Adjustments Decreasing Federal Taxable Income

Add lines B5 through B8. Enter the total.

Line B10 - Net Fiduciary Adjustment

Subtract the amount on line B9 from the amount on line B4. If the result is a negative number, enter the result in brackets. Also enter the result on Form 141AZ, page 1, line 8.

Schedule C - Fiduciary Adjustment Allocation

Schedule C is used to determine the allocation of the shares of the Arizona fiduciary adjustment. The Arizona fiduciary adjustment is divided among the beneficiaries and the fiduciary in proportion to their share of the federal distributable net income.

If there is no federal distributable net income, each beneficiary's share of the Arizona fiduciary adjustment shall be in proportion to each share of the estate or trust income distributed. Any balance of the Arizona fiduciary adjustment not allocated to the beneficiaries is allocable to the fiduciary.

Lines C1 through C12

In column (a), enter the name of each beneficiary. In column (b), enter each beneficiary's share of the federal distributable net income. In column (c), enter the percentage of the estate or trust to be distributed to each beneficiary in accordance with the documents or laws controlling distribution of the estate or trust.

If the estate or trust has more than 12 beneficiaries, complete an additional schedule. The schedule should show the same information required on lines C1 through C12.

Line C13 -

Add the amounts on lines C1 through C12 in column (b). Add the percents on lines C1 through C12 in column (c). If the fiduciary completed an additional schedule because there are more than 12 beneficiaries, include the amounts from the additional schedule on line C13.

Line C14 -

In column (b), enter the fiduciary's share of the federal distributable net income. In column (c), enter the percentage of the fiduciary's share of federal distributable net income computed in accordance with the documents or laws controlling distribution of the estate or trust.

Lines C15 through C18 -

Complete lines C15 through C18 as instructed on the form.

Schedule D - Federal Distributable Net Income From Arizona Sources

Schedule D is used to determine the net estate or trust income reportable to Arizona by nonresident beneficiaries. Use the information in Schedule D to complete Forms 141AZ, Schedule K-1(NR) for nonresident beneficiaries.

The fiduciary should complete Schedule D only if the trust or estate has Arizona nonresident beneficiaries. If the trust or estate does not have any nonresident beneficiaries, the fiduciary should skip Schedule D.

Lines D1 through D9 -

In column (b), enter an amount for each item from which federal distributable net income is comprised. The total entered on line D9, column (b), should equal the federal distributable net income.

In column (c), enter that portion of federal distributable net income derived from Arizona sources. Such income includes Arizona rental and business income, and gains on the sale of Arizona property.

Schedule E - Questions

Answer the questions on lines E1 through E7.

Tax Computation**Line 12 - Electing Small Business Trust (ESBT) Income**

Enter the federal taxable income of Electing Small Business Trusts (ESBT) from the IRC § 641(c) worksheet attached to your Federal Form 1041. Attach a copy of the worksheet to the Arizona return. A nonresident trust should enter the amount of ESBT income received from the S corporation that was derived from sources within Arizona.

Line 14 - Income of a Trust Established as a Medical Savings Account

Arizona law provides a subtraction of income earned during the taxable year by a trust established as a medical savings account. Subtract such amounts only to the extent the trust included the income in Arizona gross income.

Line 16 - Tax Amount

Compute the tax on the amount on line 15 from the tax table on page 12 of these instructions.

Lines 17 and 18 - Clean Elections Fund Tax Reduction

You may designate \$5 of the tax go to the Clean Elections Fund and may also reduce the tax on line 16 by up to \$5.

To make this designation, check box 17.

If you checked box 17 and the amount on Form 141AZ, page 1, line 16 is \$10 or more, enter \$5 on line 18. If the amount on line 16 is less than \$10, complete the following worksheet.

Clean Elections Fund Tax Reduction Worksheet	
1. Enter the amount of tax from Form 141AZ, page 1, line 16.	
2. If you checked box 17, enter \$5.	
3. Balance of tax eligible for tax reduction. Subtract line 2 from line 1. If less than zero, enter zero "0".	
4. Tax reduction. Enter the smaller of line 3 or \$5. Also enter this amount on Form 141AZ, page 1, line 18.	

Line 20 - Credit for Taxes Paid to Other States or Countries

If both Arizona and another state or country consider an estate or trust to be a resident, Arizona will allow the estate or trust a tax credit against the Arizona income tax liability for taxes paid to the other state or country.

For the purpose of this credit, Arizona considers an estate or trust to be a resident of the state or country legally entitled to tax the income of the estate or trust regardless of whether the estate or trust derives income from sources in that state or country.

The credit allowed on the Arizona fiduciary return is subject to the following conditions:

1. The credit is allowed only for the proportion of the taxes paid to the other state or country that the income taxable to Arizona and also subject to tax in the other state or country bears to the entire income on which the taxes paid to the other state or country are imposed.
2. The credit cannot exceed the proportion of the tax payable to Arizona that the income subject to tax in the other state or country and also taxable to Arizona bears to the entire income that is taxable to Arizona.
3. The credit is not allowed for taxes paid to the other state or country on income from sources within Arizona.

If claiming this tax credit, you must attach the following items to the Arizona Form 141AZ:

1. A copy of the other state or country's income tax return.
2. A schedule showing how the credit was calculated.

Line 22 - Clean Elections Fund Tax Credit

NOTE: Amounts designated to the Clean Elections Fund on page 1, line 18 do not qualify for the credit. Do not include those amounts here.

If the estate or trust made a contribution to the Citizens Clean Elections Fund, the estate or trust may claim a credit for those contributions.

For 2010, the estate or trust may claim a credit for:

- Donations the estate or trust made directly to the fund during 2010.
- A donation the estate or trust made to the fund on its 2009 income tax return filed in 2010.

The estate or trust may not claim a credit on its 2010 return for a donation made to the fund on its 2010 return. If the estate or trust makes a donation to the fund with its 2010 return, the estate or trust may claim a credit for that donation on its 2011 return.

Complete the following worksheet to figure the credit.

Worksheet for Calculating the 2010 Clean Elections Fund Tax Credit	
1. Enter the amount the trust or estate donated directly to the fund during 2010.	
2. Enter the amount the trust or estate donated to the fund with its 2009 tax return.	
3. Add line 1 and line 2. Enter the total.	
4. Enter the amount from Form 141AZ, line 21.	
5. Multiply line 4 by 20% (.20).	
6. Enter \$640.	\$640
7. Enter the larger of line 5 or line 6.	
8. Enter the smaller of line 3, line 4, or line 7 here and also on Form 141AZ, line 22.	

Payments

Line 24 - Arizona Estimated Tax Payments

If you made any estimated tax payments to the State of Arizona for 2010, enter that amount.

Line 25 - Payment With Extension

Enter the amount of payment made with an extension request (Form 141AZ EXT).

Line 26 - Arizona Income Tax Withheld

Use line 26 to claim a credit for any Arizona income tax withheld (and not repaid) by; (a) an employer on wages and salaries of a decedent received by the decedent's estate; (b) a payer of certain gambling winnings (e.g., state lottery winnings); or (c) a payer of distributions from pensions, annuities, retirement or profit-sharing plans received by a decedent's estate or trust. Attach a copy of Form W-2 or Form W-2G, or Form 1099-R to the back of the return.

Line 27 - Payment With Original Return (if amending)

Enter the payment sent with the original Form 141AZ return. Also include any additional tax payments made after the return was filed.

Line 28 - Total Payments

Add lines 24 through 27. Enter the total.

Also, do the following if you computed your 2010 tax under Arizona's claim of right provisions.

1. Write "ARS 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.
2. Include the credit for the prior year tax reduction in the total entered on line 28.
3. Attach a schedule explaining the amounts repaid and the computation of the tax reduction for the prior year(s).

For more information on Arizona's claim of right provisions, see Individual Income Tax Procedure *ITP 95-1*.

Line 29 - Refund From Original Return (if amending)

Enter any refunds received from your original filing.

Line 31 - Voluntary Gift to the Citizens Clean Elections Fund

NOTE: *If the estate or trust makes a gift, the trust or estate cannot change the amount of that gift later on an amended return.*

The estate or trust may give some or all of its refund to the Citizens Clean Elections Fund. The estate or trust may also send in additional money with its return. If the estate or trust sends in additional money with its return, include that amount on line 32. Enter the amount donated on line 31.

If the estate or trust makes a donation to the fund with its 2010 return filed in 2011, the estate or trust may claim a credit for that donation on its 2011 return.

The Citizens Clean Elections Fund provides funding to each participating candidate who qualifies for campaign funding.

Overpayment or Balance Due

Line 32 - Balance Due

Subtract line 30 from line 23. If making a donation on line 31, also add that amount to the amount entered on line 32. This is the amount you owe. Make your check payable to the Arizona Department of Revenue. Be sure to write the estate's or trust's employer identification number on the front of the check. Attach your check to the front of the return in the upper left hand corner where indicated.

Line 33 - Refund Due

Subtract lines 23 and 31 from line 30. This is the amount the State of Arizona owes you.

Line 34 - Amount of Line 33 to be Applied to Your 2011 Estimated Tax

If you want all or part of the refund applied to next year's Arizona estimated taxes, enter that amount.

Declaration

The individual or authorized officer of the organization receiving or having custody, control, or management of the income of the estate or trust must sign the declaration. If two or more individuals act jointly as fiduciaries, any one of them may sign the declaration.

Filing Reminder to Fiduciary Filers

1. Be sure to use the correct year's form to file your return. Also be sure to clearly mark the period covered by the return.
2. Enter the correct employer identification number on the return.
3. If you are ready to file but have not yet received an employer identification number, you may file the return. Let us know what the number is as soon as you receive it. Send your correspondence to: Taxpayer Assistance, Arizona Department of Revenue, PO Box 29086, Phoenix AZ 85038-9086.
4. Put an employer identification number on the front of all checks and correspondence.
5. Send all correspondence separate from returns to: Taxpayer Assistance, Arizona Department of Revenue, PO Box 29086, Phoenix, AZ 85038-9086. Do not attach correspondence to the back of returns.
6. When filing returns that generate a refund due to any previous payments (i.e., amount paid with extension, amount paid as estimated payment, amount paid with original returns), it may speed the refund process if a copy of the canceled check of the previous payment accompanies the return generating the refund.
7. If you are a fiscal year filer (for periods not ending in December), use Tax Table for the prior year. Example: If filing for April 1, 2009, to March 31, 2010, use the 2009 Tax table. If this return is for a short taxable year, use the 2010 Tax Table. Example: If filing for June 1, 2010, to November 30, 2010, use the 2010 Tax Table.
8. If your income is taxable but deductions bring your return to zero, make sure all necessary lines are filled in to support this declaration.
9. Grantor trusts file an information return using Form 141AZ showing no numerical figures for lines 7 through 34. Taxable income on a grantor trust reverts to the grantor. The grantor reports this income on the individual income tax return. The fiduciary should indicate that the return is for a grantor trust by checking the appropriate box on line 6.
10. When filing an amended Form 141AZ return, be sure the return is marked as an amended return. You must plainly mark an amended return "amended" by checking the appropriate box on line 6. If amending the 2010 return use the 2010 form. If amending a different tax year use the Form 141AZ for that tax year.
11. File returns on time to avoid late filing and/or late payment penalties. Returns are due on the 15th day of the fourth (4th) month from the date the tax period ends.

Taxpayer Identification Number

All returns, statements, and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN for a trust or an estate is its employer identification number. Paid tax preparers must also include their TIN on forms where requested. Taxpayers and paid preparers who fail to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns.

Example of the computation of Arizona fiduciary income tax, resident beneficiary's Arizona fiduciary adjustment, and nonresident beneficiary's Arizona source income.

The federal Form 1041 for the Judy Jones estate showed the following items of income and deduction:

Interest Income	\$ 32,614
Dividends	4,800
Net Rent Income (AZ)	<u>16,832</u>
Total Income	\$ 54,246
Fiduciary Fees	6,000
Accountant's Fees	<u>1,500</u>
Total Fees	<u>7,500</u>
Adjusted Total Income	\$ 46,746
Income Distribution Deduction	34,189
Exemption	<u>600</u>
Total	\$ 34,789
Taxable Income	<u>\$ 11,957</u>

The estate also had \$2,476 in non-Arizona municipal bond interest during the taxable year. \$24,000 was distributed to Jane Jones, an Arizona Resident and \$12,000 to June Jones, a nonresident of Arizona. The estate had \$8,700 in U.S. Government interest.

The shares of federal distributable net income are as follows:

Jane Jones	\$ 24,000	48.76%
June Jones	12,000	24.38%
Judy Jones Estate	<u>13,222</u>	<u>26.86%</u>
Total	\$ 49,222	100.00%

The estate's Arizona taxable income is figured as follows:

Federal taxable income	\$ 11,957
Modifications increasing federal taxable income: Non-Arizona municipal bond interest	\$ 2,476
Modifications decreasing federal taxable income: U.S. Government Interest	<u>\$ 8,700</u>
Net Modifications	<u>\$(6,224)</u>
Allocated to the estate @ 26.86%	<u>\$ (1,672)</u>
Arizona taxable income	<u>\$ 10,285</u>

Jane Jones share of the Arizona fiduciary adjustment is figured as follows:

Share of non-Arizona municipal bond interest @ 48.76%	\$ 1,207
Share of U.S. Government Interest @ 48.76%	<u>4,242</u>
Net modification	\$ (3,035)

June Jones income reportable to Arizona is figured as follows:

Share of federal distributable net income	\$ 12,000
From Arizona sources @ 29.67%	3,561

Arizona source income is figured as follows:

<u>Rental income (Arizona) \$16,832</u>	
Total income \$56,722 (\$54,246 + \$2,476)	= 29.67%

This can be verified as follows:

June's share of income \$12,000

DNI \$49,222 (\$46,746+\$2,476)	= 29.67%
Share of rental income \$16,832 X 24.38%	= \$4,104
Share of fees \$7,500 X 24.38% X 29.67% *	= <u>543</u>
Net Arizona income	\$3,561

* Share of fees allocated to rental income

2010 Tax Table for Estate or Trust

(a)	(b)	(c)	(d)	(e)	(f)
If taxable income from Form 141AZ, page 1, line 15 is:	Enter the amount from Form 141AZ, page 1, line 15	Multiply the amount entered in column (b) by	Enter the result	Subtract	Tax Enter this amount on Form 141AZ, page 1, line 16
Over	But not over				
\$0	\$10,000	X .0259	=	- 0	=
\$10,000	\$25,000	X .0288	=	- \$ 29.00	=
\$25,000	\$50,000	X .0336	=	- \$ 149.00	=
\$50,000	\$150,000	X .0424	=	- \$ 589.00	=
\$150,000	and over	X .0454	=	- \$ 1,039.00	=