

**ARIZONA FORM
120S**

**Nonresident Shareholder's Share of
Income and Deductions**

2004

Schedule K-1(NR)

For taxable year beginning _____, and ending _____

CHECK ONE:
Original Amended

Shareholder's identifying number	Corporation's identifying number
Shareholder's name, address, and ZIP code	Corporation's name, address, and ZIP code

Shareholder's percentage of stock ownership for the taxable year _____%

Pro Rata Share Items From Federal Form 1120S Schedule K-1	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers Enter the Amount in Column (c) on:
1 Ordinary income (loss) from trade or business activities				
2 Net income (loss) from rental real estate activities				
3 Net income (loss) from other rental activities				
4 Total - Add lines 1, 2 and 3				Line B10
5 Portfolio income (loss):				
5a Interest				Line B5
5b Ordinary dividends				Line B6
5c Royalties				Line B10
5d Net short-term capital gain (loss)				Line B9
5e Net long-term capital gain (loss)				Line B9
5f Other portfolio income (loss) - <i>attach schedule</i>				Line B11
6 Net IRC Section 1231 gain (loss)				Line B9
7 Other income (loss)				Line B11
8 IRC Section 179 expense				Line B10
9 Deductions related to portfolio income (loss) - <i>attach schedule</i>				
10 Other deductions - <i>attach schedule</i>				

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Instructions for Individuals and Fiduciaries

Column (c) is your Arizona source income. Nonresident individuals should report the amounts in column (c) on the Form 140NR line numbers indicated on the Schedule K-1(NR). Nonresident trusts or nonresident estates should add lines 4 through 7, column (c), and enter the total on Arizona Form 141AZ, page 2, Schedule A.

However, if your Arizona Form 120S Schedule K-1(NR) shows a loss, you may only claim such losses on your Arizona nonresident return to the extent that such losses are included in your federal adjusted gross income (individuals) or federal taxable income (trusts and estates). Therefore, if the loss is considered to be a passive activity loss for federal purposes, the loss will likewise be considered to be a passive activity loss for Arizona purposes.

If you have an Arizona source passive activity S corporation loss, you would not necessarily begin the Arizona return with the amounts shown in column (c) of your Arizona Schedule K-1(NR). For Arizona purposes, you must first determine if any portion of the loss shown on your Arizona Schedule K-1(NR) has been limited on your federal return because of the federal passive activity loss rules.

The amount of passive activity loss which is derived from Arizona sources is the amount of the passive activity loss which will be allowed on the Arizona return. Therefore, any portion of the passive activity loss which is not allowed on the federal return due to the passive activity loss limitations will likewise be limited on the Arizona return. That portion of the passive activity loss derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

Note: The amount of Internal Revenue Code § 179 expense deductible is limited to the Arizona portion of the amount deducted on federal Form 1040, Schedule E.