

2016 Arizona Exempt Organization Business Income Tax Return

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.

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

Organizations Which Must File This Tax Return

Organizations that have tax-exempt status under *Arizona Revised Statutes (A.R.S.) § 43-1201(A)* file this return to report Internal Revenue Code (IRC) § 512 unrelated business taxable income (UBTI).

Organizations exempt under *A.R.S. § 43-1201(A)(8)* file Form 99T to report UBTI if their income is payable to a church or to a convention or association of churches. These organizations also file this return if their income is payable to another tax-exempt organization required to file Form 99T.

Homeowners Associations

Homeowners associations described in IRC § 528 are not exempt from tax under *A.R.S. § 43-1201(A)* [associations that file federal Form 1120-H or 1120]. These associations must file an Arizona corporate income tax return on Form 120A or Form 120.

Certain homeowners associations are federally tax exempt under IRC § 501(c)(4) as social welfare organizations, or under IRC § 501(c)(7) as clubs organized for pleasure or recreation. These homeowners associations are similarly tax exempt for Arizona income tax purposes and may file Arizona Form 99.

Taxable Year Covered by Return

Indicate the period covered by the taxable year and whether the taxable year is a calendar year or a fiscal year.

Records

Every organization should maintain books and records substantiating information reported on the return and keep these documents for inspection. *GTR 96-1, Electronic Data Processing* 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

These payments cannot be deducted on the Arizona tax returns as an ordinary and necessary business expense or otherwise.

Rounding Dollar Amounts

Organizations 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.

Extension of Time to File a Return

- The organization can apply for an Arizona extension by filing a completed Arizona Form 120EXT by the original due date of the return.
 - The organization can also use a valid federal extension, rather than applying for an Arizona extension.
 - Arizona will accept the federal extension for the same period of time as covered by the federal extension.
 - *The department grants an Arizona extension for a period of six months.*
 - The organization must use Arizona Form 120EXT to transmit extension payments via check or money order, whether the organization uses a valid federal extension or requests an Arizona extension.
- If the organization uses an extension, the organization must check the extension box (82F) on page 1 of the return.
- *Either the Arizona or federal extension provide an extension of time to file, but do not provide an extension of time to pay.*
 - The organization must pay 90% of the tax liability (less any tax credits) by the original due date of the return. The organization's tax liability may be the \$50 minimum tax.
 - The department imposes the extension underpayment penalty on any late or underpaid extension payments.
- See *CTR 01-3, Extensions*, for additional information.
- **Mail the extension request to the address shown on the form.**

Filing Original Returns

- The due date to file Form 99T is the 15th day of the fifth month after the close of the taxable year.
- Be sure to check the box indicating that the organization is filing an original return.
- If the organization has a valid federal or Arizona extension, file the return by the extended due date.
- If the organization uses an extension, the organization must check the extension box (82F) on page 1 of the return.
- **Mail the return to the address shown on the form.**

Timely filing of returns:

- The Department determines the timeliness of a tax return by the postmark or other official mark of the United States Mail stamped on the envelope in which the return is mailed.
 - See *General Tax Ruling (GTR) 16-1, Timely Filing of Income or Withholding Tax Returns Through the United States Mail*.

- The Department will accept proof of mailing from a private delivery service included in the Internal Revenue Service (IRS) list of designated private delivery services.
 - Contact the private delivery service for information regarding how to obtain written proof of mailing.
- If the due date for the return falls on a Saturday, Sunday, or a legal holiday, the return is considered timely filed if it is post-marked the next business day.
 - See *GTR 16-2, Timely Filing of Income or Withholding Tax Return – Holidays and Weekends*.

Filing Amended Returns

- Any tax exempt organization with UBTI that files an amended return with the IRS must file an Arizona amended return on Form 99T within 90 days after the final determination of the change or determination by the IRS.
- The organization must report changes or corrections to the organization’s UBTI by the IRS, or as the result of renegotiation of a contract or subcontract with the United States, to the department. The organization must 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 organization must include additional schedules that provide sufficient information for the department to recompute the organization’s Arizona UBTI based on the Revenue Agent Report changes.
- The department may require that the organization file an amended return if the department does not have the necessary information to recompute the tax owed to Arizona.
- Be sure to check the box on page 1 of the return to indicate that the organization is filing an amended return.
- **Mail the amended return to the address shown on the form.**

NOTE: *File an amended return for a prior taxable year on the Form 99T for that taxable year. Use the 2016 Form 99T to amend only taxable year 2016.*
 Do **NOT** file an amended return until the original return has been processed.

Estimated Tax Payments

Organizations that expect an Arizona income tax liability for the taxable year of \$1,000 or more must make Arizona estimated tax payments. Use Arizona Form 120ES, *Corporation Estimated Tax Payment*. For exceptions to the estimated tax requirements, see the instructions for Arizona Form 220, *Underpayment of Estimated Tax by Corporations*. An organization that fails to make the required estimated tax payments is subject to a penalty on any estimated tax payment that is late or underpaid. Arizona's required annual payment of estimated tax is the smaller of:

- Ninety percent of the organization's Arizona tax liability for the current taxable year; **or**

- One hundred percent of the organization's Arizona tax liability for the prior taxable year.

Organizations required to make Arizona corporate estimated tax payments should use the 2017 Arizona Form 120W, Estimated Tax Worksheet for Corporations, to compute the required installments. Refer to the 2017 Arizona Form 120W and its instructions before completing the 2017 Arizona Form 120ES.

ESTIMATED TAX PAYMENTS BY ELECTRONIC FUNDS TRANSFER (EFT)

Organizations 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 organization is making its estimated tax payments by electronic funds transfer (EFT), the organization should not submit Arizona Form 120ES to the department.

Organizations 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.

Organizations 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.

Refer to *A.R.S. § 42-1129* and the related Arizona Administrative Code rules (*A.A.C. R15-10-301 through R15-10-307*) for detailed information regarding electronic funds transfer.

NOTE: *Organizations required to make estimated payments via EFT that fail to do so will be subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).*

Penalties and Interest

A. Late Filing Penalty. A return filed after the original due date is subject to the late filing penalty unless the organization has a valid federal or Arizona extension. A return filed after its extended due date is also subject to the late filing penalty. The late filing penalty is 4.5% (.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 for each month or fraction of a month between the due date of the return and the date the organization filed the return. The maximum penalty is 25% of the tax found to be remaining due.

B. Extension Underpayment Penalty. The organization must pay 90% of the tax liability (less any tax credits) disclosed by the organization's return on or before the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments. The extension underpayment penalty is 0.5% (.005) of the tax not paid. The penalty period is for each 30 day period or fraction thereof between the original due date of the return

and the date the organization paid the tax. The maximum penalty is 25% of the unpaid tax. Organizations subject to the extension underpayment penalty are not subject to the late payment penalty described in C below.

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. "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 that may be claimed on the return. The late payment penalty is 0.5% (.005) of the unpaid tax for each month or fraction of a month that the tax remains unpaid, not to exceed 10% of the unpaid tax.

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

Refer to *Arizona Corporate Income Tax Ruling CTR 09-1, When do Penalties Apply to an Income Tax Return Filed Under an Extension*, regarding the application of penalties to returns filed under extension.

D. Interest. The department assesses interest on any portion of the tax, whether determined by the department or the organization, 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 IRC § 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. Estimated Tax Underpayment Penalty. The department imposes the estimated tax underpayment penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 220 for further details. The penalty imposed is the penalty prescribed by A.R.S. § 43-582 for the applicable period.

Payment of Tax

The entire amount of tax is due by the original due date of the return. Payments can be made via check, money order, electronic check, or credit card. Visit www.AZTaxes.gov to register and make payments via the internet.

Specific Instructions

Type or print the required information in the name, address, and information boxes on the top of page 1. Indicate whether the taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the taxable year on the top of the return. Indicate whether this return is an original or an amended return.

Enter the employer identification number (EIN) of the organization, which is its taxpayer identification number (TIN). Complete lines A through G. Be sure to enter the unrelated business activity code(s) from the federal Form 990-T on line C.

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

NEW: *For taxable years beginning from and after December 31, 2013, a multistate service provider (MSP) may elect to treat sales from services as being in Arizona based on a combination of income producing activity sales and market sales prescribed under A.R.S. § 43-1147(B). Taxpayers who want to make the election should check the applicable boxes on line E on page 1 of the return and include Schedule MSP with the return. See the specific instructions for the apportionment formula on these instructions. Also refer to A.R.S. § 43-1147 and Schedule MSP instructions for more information.*

Arizona Unrelated Business Taxable Income (UBTI) Computation

Line 1 - Unrelated Business Taxable Income

Enter the amount of UBTI from federal Form 990-T.

NOTE: *A.R.S. §§ 43-1231 and 43-1241 do not allow additions to or subtractions from federal UBTI similar to those allowed for corporations. However, if the organization claims certain Arizona income tax credits related to its UBTI activities, each credit statute requires an addition to UBTI.*

Line 2 - Additions Related to Arizona Tax Credits

Enter the following additions to UBTI that are related to Arizona tax credits claimed by the organization. Include a schedule detailing these additions.

A. Environmental Technology Facility Credit

- **Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the facility over depreciation or amortization computed on the Arizona adjusted basis of the facility. Make this adjustment for the facility for which the organization claimed a tax credit on Form 305 in a prior year.

- **Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the facility exceeds the Arizona adjusted basis of the facility. Make this adjustment if the facility or any component of the facility for which the organization claimed a tax credit on Form 305 in a prior year was sold or otherwise disposed of during the taxable year.

B. Pollution Control Credit

- **Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the organization claimed a tax credit on Form 315 in a prior year.

- **Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the organization claimed a tax credit on Form 315 in a prior year was sold or otherwise disposed of during the taxable year.

C. Credit for Taxes Paid for Coal Consumed in Generating Electrical Power

Enter the amount of expenses deducted pursuant to the IRC for which the organization claimed the credit for taxes paid for coal consumed in generating electrical power, in Arizona on Form 318. The addition is required for the amount of Arizona transaction privilege taxes and Arizona use taxes included in the computation of UBTI for which the Arizona credit is claimed.

D. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets

Enter the amount of expenses deducted in computing UBTI for the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets for which the organization claimed a tax credit under on Form 319.

E. Credit for Employment of TANF Recipients

Enter the amount of wage expenses deducted pursuant to the IRC for which the organization claimed a tax credit for employment of TANF recipients on Form 320.

F. Agricultural Pollution Control Equipment Credit

- **Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the organization claimed a tax credit on Form 325 in a prior year.

- **Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the organization claimed a tax credit on Form 325 in a prior year was sold or otherwise disposed of during the taxable year.

G. Credit for Donation of School Site

Enter the amount deducted pursuant to the IRC representing a donation of a school site for which the organization claimed a tax credit on Form 331.

I. Credit for Corporate Contributions to School Tuition Organizations

Enter the amount deducted in computing UBTI as contributions for which a tax credit is claimed on Form 335.

J. Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students with Disabilities

Enter the amount deducted in computing UBTI as contributions for which a tax credit is claimed on Form 341.

Line 4 - Apportionment Ratio

This line is provided for multistate organizations to enter an apportionment ratio. An apportionment ratio represents the percentage of the multistate organization's UBTI that arises from Arizona. Schedule A on page 2 of Form 99T is used to compute the apportionment ratio for non-air carrier multistate organizations. Air carrier organizations must complete Schedule ACA and include with the return. Arizona's apportionment ratio provisions are explained later in these instructions.

An exempt organization that has income from unrelated business activities taxable in more than one state is a *multistate organization*. An exempt organization that has income from unrelated business activities taxable entirely within Arizona is a *wholly Arizona organization*.

Non-air carrier multistate organizations - enter the average ratio from page 2, Schedule A, line A5, column C. The organization must carry out the decimal on line 4 to six places.

Air carrier multistate organizations - enter the average ratio from Schedule ACA, line 3. The organization must carry out the decimal on line 4 to six places.

Line 5 - Taxable Income Attributable to Arizona

Multistate organizations: The organization must apportion its UBTI; multiply the amount on line 3 by the ratio on line 4. Enter the result.

Wholly Arizona organizations: If the organization has UBTI that is taxable entirely within Arizona, enter the amount from line 3.

Arizona Tax Liability Computation

Line 6 - Arizona Tax

Multiply the net UBTI that is subject to Arizona tax (page 1, line 5) by 5.5%. If the computed amount of tax is less than \$50, enter the minimum tax liability of \$50. Every organization required to file a return shall pay a \$50 minimum tax in accordance with A.R.S. § 43-1111.

Line 7 - Tax From Recapture of Tax Credits

Enter the amount of tax due from recapture of the credits from Arizona Form 300, Part 2, line 31.

Line 8 - Subtotal

Add line 6 and line 7. This is the amount of tax to which the total amount of tax credits claimed by the organization may be applied.

Line 9 - Nonrefundable Tax Credits

Enter the allowable nonrefundable tax credit amount from Arizona Form 300, Part 2, line 56. This amount cannot be larger than the amount on Form 99T, line 8.

These credits are available to an exempt organization that is subject to corporate income tax on UBTI. The credit(s) must result from the activities that generate UBTI.

- **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 A.R.S. § 41-1514.02. Complete Form 305 to claim this tax credit.

- **Military Reuse Zone Credit.** This tax credit is for net increases in employment of full-time employees working in a military reuse zone established under Arizona law. Complete Form 306 to claim this tax credit.
- **Credit for Increased Research Activities.** This tax credit is for organizations that incur qualified research expenses for research conducted in Arizona. A portion of the excess credit claimed for taxable years beginning from and after December 31, 2009, may be refundable with approval from the Arizona Commerce Authority. Be sure to include only the nonrefundable portion on line 9. Complete Form 308 to claim this tax credit.
- **Pollution Control Credit.** This tax credit is for expenses incurred during the taxable year to purchase real or personal property used in the organization's unrelated business in Arizona to control or prevent pollution. Complete Form 315 to claim 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 organization 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 organization paid the Arizona use tax to the department, the seller passed the Arizona transaction privilege tax through to the organization as an added charge, or the seller collected the Arizona use tax from the organization. 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 organization. The houses or dwelling units must be located in Arizona. 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 temporary assistance for needy families (TANF) who are residents of Arizona. 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 organization's unrelated business in Arizona to control or prevent agricultural pollution. Complete Form 325 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. Complete Form 331 to claim this tax credit.
- **Credits for Healthy Forest Enterprises.** These tax credits are for net increases in qualified employment positions in a healthy forest enterprise and net training and certifying costs. Use Form 332 to claim these tax credits.
- **Credit for Employing National Guard Members.** This tax credit is for an employer who has an employee that is a member of the Arizona National Guard and the employee was placed on active duty. Use Form 333 to claim this tax credit.
- **Credit for Corporate Contributions to School Tuition Organizations.** This tax credit is for organizations that made contributions to school tuition organizations that provide scholarships and tuition grants to children attending qualified nongovernmental schools. Use Form 335 to claim this tax credit.
- **Credit for Solar Energy Devices - Commercial and Industrial Applications.** This tax credit is available to organizations that install solar energy devices for commercial, industrial, or any other nonresidential purpose in the organization's unrelated business located in Arizona. The credit may be transferred to a third party that either financed, installed, or manufactured the qualifying solar energy device. Use Form 336 to figure this tax credit.
- **Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students With Disabilities.** This tax credit is for organizations that made contributions to school tuition organizations that provide scholarships and tuition grants to qualifying children attending qualified nongovernmental schools. Use Form 341 to claim this tax credit.
- **Renewable Energy Production Tax Credit.** This tax credit is for organizations that produce electricity using qualified energy resources. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Use Form 343 to claim this tax credit.
- **Solar Liquid Fuel Credit.** This credit is for taxpayers in the solar liquid fuel industry. Credits are allowed for taxpayers who:
 - Had increased research and development activities in Arizona related to solar liquid fuel.
 - Produced solar liquid fuel in Arizona in commercial quantities.
 - Incurred costs to convert or modify existing motor vehicle service stations for the retail sale of solar liquid fuel to customers in Arizona.
 - Use Form 344 to claim this tax credit..
- **Credit for New Employment.** This tax credit is for organizations that have net increases in employment resulting from the activities that generate UBTI. The credit limit is administered by the Arizona Commerce Authority. Use Form 345 to claim this tax credit.
- **Additional Credit for Increased Research Activities for Basic Research Payments.** This tax credit is for organizations that made qualified basic research payments for research conducted in Arizona. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Use Form 346 to claim this tax credit.

- **Credit for Qualified Health Insurance Plans.** The credit for qualified health insurance plans has been repealed. All credits for qualified health insurance plans that were properly established can be carried forward for the respective three year carry forward period. Use Form 347 to claim this carry-forward tax credit.
- **Credit for Renewable Energy Investment and Production for Self-consumption by Manufacturers or International Operations Centers.** This tax credit is for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy resources if the power will be used primarily for manufacturing or International Operations Centers. Use Form 351 to claim this tax credit.

Complete the appropriate credit form for each tax credit. Include the completed credit form and Form 300 with the tax return.

Line 10 - Credit Type

Indicate which nonrefundable tax credits were claimed on line 9 by entering the applicable form number(s) in the space provided.

Nonrefundable Income Tax Credit	Form
Environmental Technology Facility Credit	305
Military Reuse Zone Credit	306
Credit for Increased Research Activities	308
Pollution Control Credit	315
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 Donation of School Site	331
Credits for Healthy Forest Enterprises	332
Credit for Employing National Guard Members	333
Credit for Corporate Contributions to School Tuition Organizations	335
Credit for Solar Energy Devices - Commercial and Industrial Applications	336
Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students With Disabilities	341
Renewable Energy Production Tax Credit	343
Solar Liquid Fuel Credit	344
Credit for New Employment	345
Additional Credit for Increased Research Activities for Basic Research Payments	346
Credit for Qualified Health Insurance Plans	347
Credit for Renewable Energy Investment and Production for Self-Consumption by Manufacturers	351

Line 11 - Tax Liability

Subtract line 9 from line 8 and enter the difference. If line 9 is larger than line 8, enter zero (0). Line 11 cannot be a negative amount.

Tax Payments

Line 12 - Refundable Tax Credits

Check the box(es) marked 308, 342 and/or 349 to indicate which of these refundable tax credits the organization is claiming. Enter the total amount of the credits claimed on line 12.

Credit for Increased Research Activities. A portion of this tax credit is refundable for qualified organizations. The refund is limited to 75% of the excess credit, which is the current year's credit less the current year's tax liability, not to exceed the amount approved by the Arizona Commerce Authority. Include a copy of your "Certificate of Qualification" from the Arizona Commerce Authority, Arizona Form 300 and Arizona Form 308 with your return. Enter the amount from Arizona Form 308, Part 7, line 44.

Credit for Renewable Energy Industry. This tax credit is for expanding or locating qualified renewable energy operations in Arizona and is refundable in five equal installments. Pre-approval and post-approval is required from the Arizona Commerce Authority. Include a copy of your "Certificate of Qualification" from the Arizona Commerce Authority and Arizona Form 342 with your tax return to claim this credit. Enter the amount from Arizona Form 342, Part 6, line 18.

Credit for Qualified Facilities. This tax credit is for expanding or locating a qualified facility in Arizona and is refundable in five equal installments. Pre-approval and post-approval are required through the Arizona Commerce Authority. Include a copy of your "Certificate of Qualification" from the Arizona Commerce Authority and Arizona Form 349 with your tax return to claim this credit. Enter the amount from Arizona Form 349, Part 8, line 18.

If you are claiming more than one of the refundable tax credits, check the appropriate boxes and add the amounts from the credit forms together and enter the total on line 12, or use the worksheet below to figure the amount to enter on line 12.

Refundable Credit Worksheet	
1. Enter the refundable credit from Form 308, Part 7, line 44.	
2. Enter the apportioned credit from Form 342, Part 6, line 18.	
3. Enter the apportioned credit from Form 349, Part 8, line 18.	
4. Add the amounts on lines 1, 2, and 3. Enter the total here and on Form 99T, page 1, line 12.	

Line 13 - Extension Payment

Enter any payment made with the Arizona request for extension of time to file the income tax return (Arizona Form 120EXT) or made online by the original due date. If the organization is filing under an extension, check the extension box (82F) on page 1 of the return.

Line 14 - Estimated Tax Payments

Enter the total amount of estimated tax payments made by the organization during the tax year. Use the following worksheet to figure the amount of these payments that should be entered on line 14.

Estimated Tax Payment Worksheet		
Payments	Date of Payment	Amount
1. Estimated Payment 1		
2. Estimated Payment 2		
3. Estimated Payment 3		
4. Estimated Payment 4		
5. Total. Add lines 1 through 4. Enter the total here and also on Form 99T, page 1, line 14.		

Line 15 - Amended Returns: Payment Made With Original Return Plus All Payments After It Was Filed

Use the following worksheet to figure the amount of the payments that should be entered on line 15.

NOTE: Do not include payments reported on lines 13 or 14.

Payment Worksheet		
Payments	Date of Payment	Amount
1. Payment with original return		
2. Payment		
3. Payment		
4. Payment		
5. Total. Add lines 1 through 4. Enter the total here and also on Form 99T, page 1, line 15.		

Line 16 - Subtotal Payments

Add lines 12 through 15. Enter the subtotal.

Line 17 - Overpayments of Tax From Original Return or Later Adjustments

Enter the amount of the overpayment of tax, if any, from the original return, and the total amount of any overpayments from an Arizona Department of Revenue correction notice, an amended return, or an audit. Do not include or enter the amount of any penalties or interest paid.

Computation of Total Due or Overpayment

Line 19 - Balance of Tax Due

If the amount on line 11 is **larger** than the amount on line 18, there is a balance of tax due. Subtract line 18 from line 11 and enter the difference. Skip line 20.

Line 20 - Overpayment of Tax

If the amount on line 18 is **larger** than the amount on line 11, there is an overpayment of tax. Subtract line 11 from line 18 and enter the difference.

Line 21 - Penalty and Interest

Calculate any penalty or interest due as a result of late filing or late payment of tax. Calculate interest on the amount shown on line 19 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 page 2 of these instructions.

Line 22 - Estimated Tax Underpayment Penalty

Original returns: The organization does not have to complete Form 220, *Underpayment of Estimated Tax by Corporations*, if the organization made its estimated tax payments based on either of the following methods:

- An amount equal to 90% of the current taxable year's tax liability (line 11 less line 12), paid in four equal installments; or
- An amount equal to 100% of the organization's tax liability for the prior taxable year, paid in four equal installments.

The department will compute the estimated tax underpayment penalty based on either of these methods and notify the organization of any amount due. If the organization elects to have the department compute the penalty, do not check box **22A** or enter an amount on line 22.

The organization must complete Form 220, even though no penalty is due, if it made its estimated tax payments based on either of the following methods:

- The annualized income installment method; or
- The adjusted seasonal installment method.

Enter the total penalty from Form 220, Part C, line 37. Include the completed Form 220 with the return **and** check box **22A**.

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

Line 23 - Total Amount Due

If the organization had a balance of tax due on line 19, add lines 19, 21 and 22. Enter the total on line 23. This is the total amount due. Pay this amount when the organization files the return. Payments can be made via check, electronic check, money order, or credit card.

Check or Money Order

Make checks payable to Arizona Department of Revenue. Include the organization's TIN on the front of the check or money order. Include the check or money order with the return.

Internet Payments

Organizations must be licensed by the department before they can register to pay taxes online. Go to www.AZTaxes.gov to register and make payments over the internet.

Electronic payment from checking or savings account

Payments can be made electronically from a checking or savings account. Go to www.AZTaxes.gov and choose the

e-check option. There is no fee to use this method. This payment method will debit the amount from the specified checking or savings account on the date specified. If an electronic payment is made from a checking or savings account, a confirmation number will be generated. Please keep this confirmation number as proof of payment.

Credit card payment

Payments can be made via American Express, Discover, MasterCard or VISA credit cards. Go to www.AZTaxes.gov and choose the credit card option. This will take you to the website of the credit card payment service provider. The service provider will charge a convenience fee based on the amount of the tax payment. The service provider will disclose the amount of the convenience fee during the transaction and the option to continue or cancel the transaction will be presented. If you accept the convenience fee and complete the credit card transaction, a confirmation number will be generated. Please keep this confirmation number as proof of payment.

Line 24 - Overpayment

If the organization had an overpayment of tax on line 20, subtract the total of lines 21 and 22 from line 20. Enter a positive difference on line 24. This is the total overpayment. If the difference is a negative, enter the difference as a positive number on line 23.

Line 25 - Overpayment Applied to Estimated Tax

Original Returns: The organization may apply part or all of an overpayment reported on line 24 as a 2017 estimated tax payment. Enter the applicable amount on line 25.

Amended Returns: The organization may apply part or all of an overpayment reported on line 24 as a 2017 estimated tax payment, if this amended return is filed during the organization’s taxable year 2017. Enter the applicable amount on line 25.

Line 26 - Refund

Subtract line 25 from line 24. This is the refund amount.

**Schedule A - Apportionment of Income
(Multistate Corporations With UBTI Only)**

A.R.S. §§ 43-1131 through 43-1150 govern the apportionment of income. A corporation that engages in activities both within and without Arizona must apportion its business income based on property, payroll, and sales in Arizona as compared to these factors everywhere. "Everywhere" means the property, payroll, and sales factors related to the whole combined or consolidated business.

A combined return excludes the factors of a unitary foreign corporation unless the foreign corporation is itself subject to the Arizona corporate income tax. A consolidated return includes the factors of a foreign corporation that is a member of the affiliated group. Both combined and consolidated returns exclude the factors of an insurance company exempt under A.R.S. § 43-1201(A)(14).

Taxpayers apportioning income shall complete lines 6 through 12 on page 1 of Arizona Form 120.

NON-APPORTIONABLE INCOME

Apportionment factors generating nonapportionable or non-taxable income are not to be included in the calculation of the apportionment ratio.

ADMINISTRATIVE RELIEF REQUESTS

A.R.S. § 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, except with respect to an Arizona affiliated group, as defined in A.R.S. § 43-947.
- 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, other than disallowance of a properly elected consolidated return.

This section permits a departure from the allocation and apportionment provisions only in limited cases. A.R.S. § 43-1148 may be invoked only if 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.

COMPUTING THE APPORTIONMENT RATIO

When computing the factors of the apportionment ratio, carry the result out to six (6) places after the decimal. If the seventh (7th) place after the decimal is five (5) or more, round the sixth (6th) decimal place up to the next higher digit. If the seventh (7th) place after the decimal is less than five (5), leave the sixth (6th) place decimal as it is.

Example #1:

Arizona Factor	<u>123,456</u>
Everywhere Factor	789,654
Average	.1563418

The seventh (7th) digit after the decimal is "8". Since "8" is greater than five (5), the sixth (6th) digit after the decimal is increased to the next higher digit, "2".

The average rounded to six (6) decimal places is .156342.

Example #2:

Total Ratio	<u>.179865</u>
Divided by	4
Average	.0449662

The seventh (7th) digit after the decimal is “2”. Since “2” is less than five (5), the sixth (6th) digit after the decimal remains “6”. No increase to the sixth (6th) digit after the decimal is made.

The average rounded to six (6) decimal places is .044966.

**SCHEDULE ACA - AIR CARRIER APPORTIONMENT FORMULA
(Multistate Air Carriers With UBTI Only)**

A.R.S. § 43-1139 requires a taxpayer that is a qualifying air carrier to use revenue miles to apportion its business income to Arizona. 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. If the taxpayer files a combined or consolidated return, the combined group or the Arizona affiliated group must use this method of apportionment if 50% or more of the taxpayer’s gross income is derived from air commerce. The taxpayer will apportion its business income by means of a single apportionment ratio computed under this method for all group members.

Check the box labeled “AIR CARRIER” on line D on page 1 of this return. Do not complete Schedule A on page 2 of this return.

Complete Schedule ACA and include with the return. Schedule ACA is available on the department's website at: <http://www.azdor.gov/Forms/Corporate.aspx>.

**NON-AIR CARRIER APPORTIONMENT FORMULA
(MULTISTATE CORPORATIONS ONLY)**

Non-air carrier multistate corporations have the opportunity to choose one of two apportionment formulas for calculating the apportionment ratio.

- Non-air carrier multistate corporations may elect the enhanced apportionment formula.
- The standard apportionment formula must be used by non-air carrier multistate corporations not electing to use the enhanced apportionment formula.

Check the box on line D of page 1 of the return to indicate which apportionment formula, “Standard”, or “Enhanced”, will be used to calculate the apportionment ratio on the corporation’s return. Whichever apportionment method is indicated, the taxpayer must complete the apportionment ratio using that formula. (The taxpayer cannot use “Standard” to calculate one portion of the ratio, and “Enhanced” to calculate another portion of the ratio.)

For the standard apportionment ratio, the numerator of the fraction of the standard apportionment formula is the property factor plus the payroll factor plus two (2) times the sales factor. The denominator of the fraction is four (4). Use the numbers located on the left-hand side of Schedule A, column A, to double-weight the sales factor.

For the enhanced apportionment ratios, the numerator of the fraction is two and one-half (2.5) times the property factor plus two and one-half (2.5) times the payroll factor plus ninety-five (95) times the sales factor. The denominator of the fraction is 100. Use the numbers located on the right-hand side of Schedule A, column A to weight the property, payroll, and sales factors respectively.

Line A1 - Property Factor

The Property Factor is a fraction that represents the average value of the taxpayer’s property owned or rented and used in Arizona to the total average value of the taxpayer’s property owned or rented and used during the tax period.

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. Property used to generate non-apportionable or non-taxable income is not included in the property factor.

The value of tangible personal property and real property rented by the taxpayer is eight (8) 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.

For a discussion of the treatment of computer software in the property factor, refer to *Corporate Tax Ruling (CTR) 01-2*.

Report real property situated, and tangible personal property permanently located, in Arizona as property within Arizona during the tax year. Attribute the value of mobile property to Arizona based on the total time that the property was within Arizona.

Taxpayers Electing “STANDARD APPORTIONMENT”

- Check the box on line D of the return labeled “STANDARD”.
- Divide the numerator of the property factor by the denominator. The result is the “Standard” property factor. Express the ratio as a decimal carried out to six (6) places. The property factor will not exceed 1.0.

Taxpayers Electing “ENHANCED APPORTIONMENT”

- Check the box on line D of the return labeled, “ENHANCED”.
- Multiply the numerator of the property factor by two and one-half (2.5). Divide that result by the denominator. The result is the “Enhanced” property factor. Express the ratio as a decimal carried out to six (6) places. The property factor may exceed 1.0 but may not exceed 2.5.

For additional information on the property factor, refer to:
A.R.S. §§ 43-1140 through 43-1142
A.A.C. R15-2D-601 through R15-2D-607 and R15-2D-902
CTR 01-2

Line A2 - Payroll Factor

The Payroll Factor is a fraction that represents the compensation paid in Arizona by the taxpayer to the total compensation paid by the taxpayer during the tax year.

Report the salaries, wages, or other compensation of officers, employees, etc., as being within Arizona if the performance of those services occurs entirely in Arizona. 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. Payroll used to generate non-apportionable or non-taxable income is not included in the payroll factor.

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.

Taxpayers Electing "STANDARD APPORTIONMENT"

- Check the box on line D of the return labeled "STANDARD".
- Divide the numerator of the payroll factor by the denominator. The result is the "Standard" payroll factor. Express the ratio as a decimal carried out to six (6) places. The payroll factor will not exceed 1.0.

Taxpayers Electing "ENHANCED APPORTIONMENT"

- Check the box on line D of the return labeled, "ENHANCED".
- Multiply the numerator of the payroll factor by two and one-half (2.5). Divide that result by the denominator. The result is the "Enhanced" payroll factor. Express the ratio as a decimal carried out to six (6) places. The payroll factor may exceed 1.0 (100%) but may not exceed 2.5.

For additional information on the payroll factor, refer to:
 A.R.S. §§ 43-1143 and 43-1144
 A.A.C. R15-2D-701 through R15-2D-705

Line A3 - Sales Factor

The Sales Factor is a fraction that represents the total sales of the taxpayer in Arizona to the total sales of the taxpayer during the tax period.

"Sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income. Gross receipts from non-apportionable or non-taxable income are not included in the sales factor.

Sales of tangible personal property is determined on a destination sales basis. Sales of real property is determined based on the location of the property. Generally, sales of other than tangible personal property is determined based on the location where the income producing activity occurs. Service income is determined based on the location of the income producing activity, *unless* the taxpayer elected to be treated as a Multistate Service Provider (MSP). (See the box below for a description of an MSP.)

TAXPAYERS THAT QUALIFY AS MULTISTATE SERVICE PROVIDERS ELECTING TO SOURCE SALES OF SERVICES TO ARIZONA USING A COMBINATION OF INCOME PRODUCING ACTIVITY SALES AND MARKET SALES

For taxable years beginning from and after December 31, 2013, taxpayers that qualify as a Multistate Service Provider MSP may elect to treat sales from service as being sourced to Arizona based on a combination of income-producing activity sales and market sales. Multistate taxpayers complete Schedule MSP to determine if they qualify as an MSP. If the taxpayer qualifies, and wishes to make the election, the completed Schedule MSP must be included with the taxpayer's original, timely-filed tax return. (*The election to be treated as an MSP cannot be made on an amended return.*) Once made, the election is binding for five (5) years. For each year of the election period, Schedule MSP must be completed by the taxpayer to source sales from services to Arizona. Once Schedule MSP is completed, the taxpayer can compute the sales factor.

Taxpayers that qualify, and who want to make the election, should:

- Ensure the completed Schedule MSP is included with the return.
- Ensure the box on Line D of the return is checked
- Ensure the box indicating the year of the taxpayer's election cycle is checked.
- Enter on line A3b, column A, the Arizona sales from services from the completed Schedule MSP, line B5.
- Complete the calculation of the sales factor following the instructions for the taxpayer's choice of the "STANDARD" or "ENHANCED" apportionment formula.

Taxpayers qualifying as an MSP, and electing to be treated as an MSP:

- Enter the Arizona sales from services on line A3b from the completed Schedule MSP, line B5

Taxpayers not making the election to be treated as an MSP:

- Include Arizona sales from services on line A3c.

Taxpayers Electing "STANDARD APPORTIONMENT"

- Check the box on line D of the return labeled "STANDARD."
- Multiply the numerator of the sales factor by two (2). Divide that result by the denominator. The result is the "Standard" sales factor. Express the ratio as a decimal carried out to six (6) places. The sales factor will not exceed 2.0.

Taxpayers Electing "ENHANCED APPORTIONMENT"

- Check the box on line D of the return labeled "ENHANCED".
- Multiply the numerator of the sales factor by ninety-five (95). Divide that result by the denominator. The result is the "Enhanced" sales factor. Express the ratio as a decimal carried out to six (6) places. The sales factor may exceed 2.0 but may not exceed 95.0.

For more information on the sales factor, refer to:
A.R.S. §§ 43-1145 through 43-1147
A.A.C. R15-2D-801 through R15-2D-807, and R15-2D-903
CTR 02-2, Apportionment of Installment Gain
CTR 07-1, Inclusion of Short Term Investments in the Sales Factor

Line A4 – Total Ratio

Add the ratios for the property factor, the payroll factor, and the sales factor in column C. Enter the result.

Line A5 - Average Apportionment Ratio

NOTE: Taxpayers must exclude a factor if both the numerator and the denominator of a factor are zero (0). Do not exclude a factor if the numerator of the factor is zero (0) and the denominator of a factor is greater than zero (0).

Taxpayers Electing “STANDARD APPORTIONMENT”

If either the property or the payroll factor is excluded, determine the average ratio by dividing the total ratio by three (3). If the sales factor is excluded, determine the average ratio by dividing the total ratio by two (2). If two of the factors are excluded, the remaining factor, without respect to any weighting, is the apportionment ratio.

Taxpayers Electing “ENHANCED APPORTIONMENT”

If the either property or the payroll factor is excluded, determine the average ratio by dividing the total ratio by ninety-seven and one-half (97.5). If the sales factor is excluded, determine the average ratio by dividing the total ratio by five (5). If two of the factors are excluded, the remaining factor, without respect to any weighting, is the apportionment ratio.

Taxpayers Electing “STANDARD APPORTIONMENT”

Divide the total ratio, line A4, column C, by four. Express the ratio as a decimal carried out to six (6) places. Enter the average ratio here and on page 1, line 4.

Taxpayers Electing “ENHANCED APPORTIONMENT”

Divide the total ratio, line A4, column C by 100. Express the ratio as a decimal carried out to six (6) places. Enter the average ratio here and on page 1, line 4.

Certification

The president, treasurer, or other principal corporate officer must sign the return.

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