

2018 Arizona Partnership Adjustment - Federal Imputed Underpayment Assessment

Arizona Form
165PA

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 *Reports & Legal Research* then click on *Legal Research* and select a document and a category type from the drop down menus.

Publications

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

General Instructions

Who May Use Form 165PA

This form is for use by partnerships that were issued a federal imputed underpayment assessment. Partnerships that elected not to participate in the federal imputed underpayment assessment program, do NOT use this form, use Form 165 and check the "Amended" box to report federal changes.

Use this form to report the result of the federal imputed underpayment issued by the Internal Revenue Service (IRS). Report to Arizona the adjustments to items of income, or the gain, loss or deduction on which the federal imputed underpayment was based *and* any correlative adjustments required to be made. Do not include changes to federal credits.

Do NOT use this form to report any other changes to your original Form 165 for taxable year 2018. Use Form 165 and check the box labeled "Amended" to file an amended return for all other changes to the partnership's Arizona income tax return for taxable year 2018.

Records

Every partnership should maintain books and records substantiating information reported on the return and keep those documents for inspection. See the department's ruling, GTR 96-1, *Electronic Data Processing*, for more information about record retention requirements.

Partnerships passing through the Arizona adjustments to their partners should complete three copies of each partner's Form 165PA Schedule K-1 or Form 165PA Schedule K-1(NR) (Notice). File a copy of each partner's completed Notice with the partnership's Form 165PA. Provide all partners with a copy of their completed Notice. Retain a copy of each completed Notice for the partnership's records.

NOTE: Use Form 165PA Schedule K-1 for all resident and part-year resident individual partners, resident estate partners, and resident trust partners.

Use Form 165PA Schedule K-1(NR) for all nonresident partners, nonresident estate partners, nonresident trust partners, partnerships that are partners in the partnership, and all corporate partners.

Rounding Dollar Amounts

Partnerships 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.

Penalties and Interest

A. Late Filing Penalty

A return filed after the original due date is subject to the late filing penalty unless the taxpayer 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. The penalty period is each month or fraction of a month between the due date of the return and the date the taxpayer filed the return. The maximum penalty is 25% of the tax found to be remaining due.

B. Late Payment Penalty

The late payment penalty is charged on any amount shown as tax on a return that is not paid by the due date. 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: For taxable years beginning after December 31, 2016, if you voluntarily file Form 165PA and pay the additional tax due when you file the return, or your partners voluntarily file their appropriate amended return(s) and pay their portion of the additional tax, the department will not assess the late payment penalty. Exceptions are:

- The taxpayer is under audit by the department.
- The amended return was filed on demand or request by the department.

NOTE: Penalties will be assessed from the IRS date of final determination plus 90 days. (The Arizona due date on Form 165PA, Part 1, line B.)

C. Interest

The department charges interest on any portion of the tax not paid by the due date. The department compounds interest annually and applies it in the same manner and at the same time as the IRS. The Arizona rate of interest for both underpayments and overpayments for all taxpayers is the federal underpayment rate.

NOTE: Interest will be assessed from the due date of the original Form 165 to the payment date. The due date is the 15th day of the 3rd month following the close of the taxable year.

On January 1 of each year, any interest outstanding as of that date is added to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

Payment of Tax

Make checks payable to the Arizona Department of Revenue. Mail your check to the address on the bottom of Form 165PA.

Specific Instructions

For calendar year filers, check the box, "calendar year 2018." For fiscal year filers, check the box, "fiscal year" and enter the beginning and ending dates for the fiscal year.

Type or print the required information in the name, address, and information boxes on the top of page 1. If the partnership has a foreign address, enter the information in the following order: city, province or state, and country. Follow the country's practice for entering the postal code.

Do not abbreviate the country's name. Enter the partnership's employer identification number (EIN), which is the partnership's taxpayer identification number (TIN).

All returns, statements, and other documents filed with the department must have the partnership's EIN or TIN indicated on them. Partnerships who fail to include their EIN or TIN may be subject to a penalty.

Paid tax return preparers must include their Preparer's Taxpayer Identification Number (PTIN) where requested. Paid tax return preparers who fail to include their PTIN may be subject to a penalty.

Part 1 – Required Information

Line A –

Enter the date the IRS made its final determination.

Line B –

Add 90 days to the date on Line A. (The 90-day period begins on the day after the date the IRS makes its final determination.) This is the Arizona due date for Arizona Form 165PA.

NOTE: *If the Arizona due date 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 the department's ruling, GTR 16-2, Timely Filing of Income or Withholding Tax Return – Holidays and Weekends, for additional information.*

EXAMPLE: *ABC Partnership (ABC) is audited by the IRS for its calendar year end 12/31/2018. The federal imputed underpayment is finalized on August 31, 2019.*

ABC adds 90 days to the date its federal imputed underpayment was finalized - the result is November 29, 2019. The due date for ABC to submit its Arizona Form 165PA is November 29, 2019. If it chooses to pass the Arizona partnership adjustment through to its partners, it must also provide the 165PA, Schedule(s) K-1 and K-1(NR) to the department and to each partner by that same date, November 29, 2019.

Line C –

Check the box corresponding to how the federal tax was resolved:

- Check box C1 if the federal tax was paid by the partnership. The partnership must pay the Arizona tax due. Complete this form and file it to the department.
- Check box C2 if the federal tax was passed through to the partners. Answer the questions on line D.

Line D –

If box C2 is checked, will this return be filed with the department by the Arizona due date on line B, **and** will all Form(s) 165PA Schedule K-1s and 165PA Schedule K-1(NR)s be provided to the department and to the partners by that same date?

NOTE: *If this return is being filed after the date on line B, you must check the box on line D2 and pay the Arizona tax due.*

- Check box D1 if the answer to the question on line D is "Yes." If box D1 is checked, the partnership shall pass through the Arizona adjustment to its partners.
 - Complete Parts 2, 4, and 5 of this form.
 - Prepare the appropriate Form(s) 165PA Schedule K-1 and/or Form(s) 165PA Schedule K-1(NR) for the department, the partners, and for the partnership's records.
 - Provide a completed copy of the appropriate Form 165 PA Schedule K-1, or Form 165PA Schedule K-1(NR) to each partner.
 - Mail this completed form to the department, include a completed copy of each Form 165PA Schedule K-1, and/or Form 165PA Schedule K-1(NR).
- Check box D2 if the answer to the question on line D2 is "No." If box D2 is checked, the partnership **must** pay the Arizona tax due. Complete this form and mail it to the department.

Part 2 – Arizona Partnership Adjustment

NOTE: *Report only the adjustments to income or the gain, loss or deduction on which the federal imputed underpayment assessment was based. Do NOT include the adjustments made on the federal imputed underpayment assessment with amounts previously reported on an original, or amended, Form 165.*

Line 1 –

Enter the federal adjustment to items of income or the gain, loss or deduction on which the federal imputed underpayment of the partnership was based. **DO NOT INCLUDE** changes to federal credits.

Line 2 –

Enter the positive change in net Arizona additions and subtractions due to the federal adjustments on line 1. (See the **NOTE** box and **EXAMPLES** following line 4 for additional information.)

Line 3 –

Add line 1 and line 2. Enter the total.

Line 4 –

Enter the negative change in net Arizona additions and subtractions to the federal adjustments on line 1. (See the **NOTE** box in the next column and the **EXAMPLES** beginning below for additional information.)

NOTE: Changes in the additions to, or in the subtractions from, gross income due to the federal imputed underpayment must be reported to Arizona. (See the instructions for Form 165, pages 4 through 7, for a description of the additions and subtractions to be reported.)

Report only the **net change** to the additions and subtractions resulting from the federal adjustments.

Compute the additions and subtractions as they should have been reported.

- Subtract the “as reported” additions from the corrected additions.
- Subtract the “as reported” subtractions from the corrected subtractions.
- Subtract the net difference in subtractions from the net difference in additions.
 - If the result is a positive number, report that amount on Part 2, line 2.
 - If the result is a negative number, report that amount, as a **positive** number, on Part 2, line 4.

EXAMPLES:**Example #1 –**

Partnership Z (Z) received a federal imputed underpayment assessment (audit) indicating adjustments to income of \$45,000 (there were no changes to federal credits). Z reports this increase to income on Part 2, line 1 of its Form 165PA.

In analyzing the Arizona additions and subtractions, Z finds the audit changed \$15,000 of interest income from Non-Arizona Municipal Interest Income (Non AZ Muni) to US Interest Income. Z also under-reported its interest income by \$5,000 in income from US T bills due to a timing difference.

Using a separate worksheet, Z makes the following changes to its originally reported Arizona taxable income by completing Form 165PA as follows:

- Z reduces its “As Reported” Non AZ Muni Interest Income by \$15,000
- Z increases its “As Reported” US Interest Income by \$20,000 (\$15,000 in US Interest Income originally reported as Non AZ Muni Interest, and \$5,000 in US Interest Income that was originally not reported).

| | Corrected | As Reported | Net Change |
|---|----------------|----------------|-----------------|
| Additions: | | | |
| Federal Depreciation | 50,000 | 50,000 | - |
| Non AZ Muni Interest | 100,000 | 115,000 | (15,000) |
| AZ Basis Adjustment | 25,000 | 25,000 | - |
| A Total Additions | 175,000 | 190,000 | (15,000) |
| | | | |
| Subtractions: | | | |
| AZ Re-Calculated Depreciation | 65,000 | 65,000 | - |
| US Interest | 95,000 | 75,000 | 20,000 |
| B Total Subtractions | 160,000 | 140,000 | 20,000 |
| | | | |
| C Net Additions (Subtractions) {A - B = C} | 15,000 | 50,000 | (35,000) |

The change in net Arizona additions and subtractions is a negative \$35,000 (-\$15,000 - \$20,000). Z reports the net negative change as a **positive** number on Part 2, line 4 of Form 165PA.

Example #2 –

Partnership S (S) received a federal imputed underpayment assessment (audit) indicating audit adjustments to income of \$150,000 (there were no changes to federal credits). S reports this increase to income on Part 2, line 1 of its Form 165PA.

In analyzing the Arizona additions and subtractions, S finds the audit changed \$25,000 of interest income from US Interest to Non AZ Muni Interest. S also over-reported its interest income by \$7,000 in income from US T Bills due to a timing difference.

Using a separate worksheet, S makes the following changes to its originally reported Arizona taxable income by completing Form 165PA as follows:

- S increases its “As Reported” Non AZ Muni Income by \$25,000
- S decreases its “As Reported” US Interest Income by \$32,000 (\$25,000 in income that should have been reported as Non Arizona Municipal Interest Income, and \$7,000 in US Interest Income that was reported prematurely).

| | Corrected | As Reported | Net Change |
|---|----------------|-----------------|-----------------|
| Additions: | | | |
| Federal Depreciation | 50,000 | 50,000 | - |
| Non AZ Muni Interest | 90,000 | 65,000 | 25,000 |
| A Total Additions | 140,000 | 115,000 | 25,000 |
| | | | |
| Subtractions: | | | |
| AZ Re-Calculated Depreciation | 65,000 | 65,000 | - |
| US Interest | 83,000 | 115,000 | (32,000) |
| B Total Subtractions | 148,000 | 180,000 | (32,000) |
| | | | |
| C Net Additions (Subtractions) {A - B = C} | (8,000) | (65,000) | 57,000 |

The change in net Arizona additions and subtractions is a positive \$57,000 [\$25,000 – (-\$32,000)]. S reports the net positive change on Part 2, line 2 of Form 165PA.

Line 5 –

Subtract line 4 from line 3. Enter the difference. This is your net Arizona adjustment to items of income or the gain, loss or deduction of your partnership – the “Arizona Partnership Adjustment.”

- If the amount on line 5 is greater than zero **and** either box C1 or D2 is checked, continue to Part 3.
- All others, complete and mail the appropriate notices to the partners (Form 165PA Schedule(s) K-1 and/or Form 165PA Schedule(s) K-1(NR). Do not complete Part 3. Complete Parts 4 and 5. File this form, including copies of the notices sent to the partners.

NOTE: *If the amount on line 5 is zero, notices to the partners are not necessary.*

Part 3 – Calculation of the Partnership’s Tax Liability

If line 5 is greater than zero and either box C1 or box D2 is checked, complete Part 3. Otherwise, skip to Part 4.

Line 6 –

Enter the amount from line 5.

Line 7 –

Enter all nonapportionable or allocable amounts included in line 6.

NOTE: *Apportionable income, or “Business income,” under the transactional and functional tests means income arising from transactions and activity in the regular course of the taxpayer’s trade or business, and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer’s regular trade or business operations. Refer to Arizona Revised Statutes (A.R.S.) § 43-1131(1).*

Nonapportionable income, or “Nonbusiness income,” means all income other than business income. Refer to A.R.S. § 43-1131(4).

Nonbusiness income is nonapportionable and specifically allocable to a particular state.

Line 8 –

Subtract line 7 from line 6. Enter the difference. This is the amount subject to apportionment.

Line 9 –

Enter the partnership's Arizona apportionment ratio.

NOTE: See the instructions for Form 165, pages 7 through 10, for information on calculating the partnership's Arizona apportionment ratio.

Generally, this will be the Arizona apportionment ratio from the partnership's originally filed Form 165, Schedule C, line C5, for the Standard Apportionment Ratio, or Form 165, Schedule C, line C3f, column (c) for Sales Factor Only Apportionment. However, changes resulting from the federal audit may affect the partnership's apportionment ratio. If the apportionment ratio is modified, enter the corrected apportionment ratio. Include a schedule detailing the changes with your return.

NOTE: Do not include apportionment factors generating nonapportionable or non-taxable income in the calculation of the apportionment ratio.

Line 10 –

Multiply the amount on line 8 by the ratio on line 9. Enter the result.

Line 11 –

Enter the portion of line 7 allocated to Arizona. See the **NOTE** box following the instructions for line 7 for information about allocating income to Arizona.

Line 12 –

Add line 10 and line 11. Enter the total. If less than zero, enter "0".

Line 13 –

Multiply the amount on line 12 by the tax rate, 4.54%. Enter the result. **This is the amount of tax owed by the partnership.**

Line 14 –

Enter the amount of penalty and interest owed.

You may choose to calculate penalties and interest due. Penalties are assessed for late filing or late payment of tax. See *Penalties* on page 1 of these instructions for more information.

Interest is calculated on the amount shown on line 13 at the prevailing federal interest rate. The interest period is from the due date of the original Form 165 to the payment date. (See *Interest* on page 1 of these instructions for more information.)

NOTE: You may choose not to calculate penalties or interest owed. If you do not calculate penalties and/or interest owed, the department will calculate the penalties (if applicable) and interest owed, and bill you for the total amount.

Line 15 –

Add line 13 and line 14. Enter the total. **This is the total due from the partnership.**

Make checks payable to the Arizona Department of Revenue. Include your EIN on the front of the check. Include your check with the return.

Complete Parts 4 and 5.**Part 4 – Explanation of Changes**

Explain the changes made in this return. If additional space is needed, prepare a schedule (in the same format) labeled "*Part 4 – Explanation of Changes*" and include the schedule with this Form 165PA. Include any necessary supporting documentation with the return.

Part 5 – Certification

One of the partners must sign the return. If receivers, trustees in bankruptcy, or assignees are in control of the property or business of the organization, such receivers, trustees, or assignees 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 TIN.