

2023 Nonresident Shareholder's Share of Income and Deductions

Arizona Form 120S Schedule K-1(NR)

Instructions for Nonresident Shareholders

Pass-Through Entity Election

Line A

If the S Corporation made the PTE election, the "Yes" box will be checked. If it did not make the PTE election, the "No" box will be checked.

Line B

If the S Corporation's records indicate you did NOT opt out of its PTE election, the "Yes" box will be checked. If the S Corporation's records indicate you DID opt out of its PTE election, the "No" box will be checked. If you are ineligible to participate in the S Corporation's PTE election, the "No" box will be checked.

Part 1 - Share of Income and Deductions

Nonresident shareholders, column (c) is your Arizona source income:

- If you are a nonresident individual, use the line numbers on Schedule K-1(NR) to report the amounts shown in column (c) on your Arizona Form 140NR.
- If you are a nonresident trust or estate, add lines 4 through 13 in column (c). Enter the total on Arizona Form 141AZ, page 2, Schedule A.

If Arizona Form 120S, Schedule K-1(NR), shows a loss, you may only claim such losses on your Arizona nonresident return to the extent:

- Those losses are included in:
 - The federal adjusted gross income of an individual, or
 - The federal taxable income of a trust or an estate.
- The loss is **not** considered a passive activity loss for federal purposes. (If it is, the loss will be treated as a passive activity loss for Arizona purposes.)

If the S Corporation passes through to you a passive activity loss derived from Arizona sources:

- Do not begin your Arizona return with the amounts shown in column (c) of your Arizona Form 120S, Schedule K-1(NR).
- You must first determine if any portion of the loss has been limited on your federal return due to federal passive activity loss rules.

In addition:

- Only the amount of passive activity loss derived from Arizona sources will be allowed on the Arizona return.
- Any portion of the passive activity loss not allowed on the federal return due to passive activity loss limitations will be limited on the Arizona return.
- That portion of the passive activity loss derived from Arizona sources required to be carried forward for federal purposes will 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.*

Part 2 - Net Capital Gain (Loss) From Investment in a Qualified Small Business – Information Schedule

Arizona allows individuals, estates, and trusts a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business if:

- The gain is included in:
 - The individual's federal adjusted gross income, or
 - The estate or trust's federal taxable income, and
- The business in which the S Corporation invested is determined to be a qualified small business by the Arizona Commerce Authority.

A shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction for the estate or trust, or
- Complete Arizona Form 141AZ, Schedule K-1, or Schedule K-1(NR), for each beneficiary.

Line 14

Column (c) is your share of net capital gain (loss) from investment in a qualified small business that is apportioned to Arizona. To determine if you qualify to take this subtraction, see the instructions for Arizona Form 140NR.

Part 3 - Net Capital Gain (Loss) From the Exchange of Legal Tender – Information Schedule

For taxable years beginning from and after December 31, 2017, Arizona allows the exclusion from gross income the amount of net capital gain (loss) derived from the exchange of one kind of legal tender for another kind of legal tender.

- (a) "Legal tender" means a medium of exchange, including specie that is authorized by the United States Constitution or Congress for the payment of debts, public charges, taxes and dues.
- (b) "Specie" means coins having precious metal content.

Line 15-

Column (c) is your share of net capital gain (loss) from the exchange of legal tender that is apportioned to Arizona.

Part 4 - Net Long-Term Capital Gain Subtraction – Information Schedule

Arizona allows individuals, estates, and trusts a subtraction from Arizona gross income for a percentage of any net long-term capital gain if:

- The gain arises from assets acquired after December 31, 2011.
- The gain is included in:
 - The individual's federal adjusted gross income, or
 - The estate or trust's federal taxable income.

In addition:

- Only include net long-term gains if you can verify the asset was acquired after December 31, 2011.
- If you cannot verify the asset was acquired after December 31, 2011, treat it as a capital gain asset acquired before January 1, 2012.

- An asset acquired by gift or inheritance is considered acquired on the date it was acquired by the gift-giver, or the deceased.

A shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction, or,
- Complete Arizona Form 141AZ, Schedule K-1, or Schedule K-1(NR), for each beneficiary.

Line 16

Line 16, column (d) is your share of net long-term capital gain (loss) from assets acquired after December 31, 2011.

Line 17

Line 17 is your share of the S Corporation's net long-term capital gain from investment in a qualified small business that is included in the amount on line 16, column (d). *The amount on this line cannot be included in your subtraction for any net long-term capital gain from assets acquired after December 31, 2011.*

For more information, see the instructions for Arizona Form 140NR or 141AZ.

Line 18

Line 18 is your share of the S Corporation's net long-term capital gain from the exchange of legal tender that is included in the amount on line 16, column (d). *The amount on this line cannot be included in your subtraction for any net long-term capital gain from assets acquired after December 31, 2011.*

Worksheet for Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011 (Worksheet)

To determine if you qualify for a net long-term capital gain subtraction on your Arizona income tax return:

- **Nonresident shareholder**, use only the amount of Arizona-sourced, net long-term capital gain (loss) entered on lines 16 through 18, column (d) to figure the allowable subtraction on the Worksheet included in the instructions for Arizona Form 140NR.
- **Nonresident Estate or Trust shareholder**, use only the amount of Arizona-sourced, net long-term capital gain (loss) entered on lines 16 through 18, column (d) to complete the Worksheet included in the instructions for Arizona Form 141AZ. If the net long-term capital gain (loss) in Part 4 is distributed to the beneficiaries the Worksheet will assist the estate or trust in completing the *Net Long-Term Capital Gain Subtraction – Information Schedule* on Arizona Form 141AZ, Schedule K-1, or Schedule K-1(NR), for each beneficiary.

Part 5 – Marijuana Establishments Only – Information Schedule

If the S Corporation is licensed by ADHS as a Marijuana Establishment, a Marijuana Testing Facility, or as a Dual Licensee that made the election to operate on a for-profit basis, Arizona permits the S Corporation

to deduct its federal disallowed expenses in computing its Arizona taxable income.

Line 19

Line 19 is the S Corporation's disallowed federal expenses from the operation of the Marijuana Establishment.

Line 20

Line 20 is your share of the S Corporation's disallowed federal expenses from the operation of the Marijuana Establishment. Enter this amount on your Arizona income tax return.

If you ***did not make the Small Business Income election*** and are filing Arizona Form 140NR, enter this amount on page 6, line L.

- If you ***did not make the Small Business Income election*** and are filing Arizona Form 140PY, enter this amount on page 6, line V.
- If you **made the Small Business Income election** and are filing Arizona Form 140NR-SBI, enter this amount on line 44.
- If you **made the Small Business Income election** and are filing Arizona Form 140PY-SBI, enter this amount on line 44.

Part 6 – Shareholder's Share of the S Corporation's Pass-Through Entity (PTE) Tax Credit

If the S Corporation is making the election to pay tax at the entity level on its pass-through income **AND** you as the nonresident individual or estate and trust shareholder did not opt out of that election, Part 6 provides you with your *pro-rata* share of the pass-through credit.

Line 21

Line 21 is your share of the pro-rata share of the S Corporation's PTE Tax Credit.

Individuals, enter this amount on Credit Form 355, Part 1, line 2.

Estates and trusts, see the instructions for Form 141AZ, line 19 to claim this credit.

Line 22

Line 22 is your pro-rata share of the S Corporation's Arizona PTE taxes paid in 2023 for taxable year 2022.

Individuals that *did not make the Small Business Income election*, add this amount back on Form 140NR, page 5, line L.

Individuals that **made the Small Business Income election**, add this amount back on Form 140NR-SBI, line 24.

Estates and trusts, add this amount back on Form 141AZ, Schedule B, line B3.

Line 23

Line 23 is your pro-rata share of the S Corporation's Arizona PTE taxes paid in 2023 for taxable year 2023.

Individuals that *did not make the Small Business Income election*, add this amount back on Form 140NR, page 5, line L.

Individuals that **made the Small Business Income election**, add this amount back on Form 140NR-SBI, line 24.

Estates and trusts, add this amount back on Form 141AZ, Schedule B, line B3.

Line 24

Line 24 is your pro-rata share of comparable PTE Taxes paid from other states in 2023 for taxable year 2022.

Individuals that *did not make the Small Business Income election*, add this amount back on Form 140NR, page 5, line L.

Individuals that **made the Small Business Income election**, add this amount back on Form 140NR-SBI, line 24.

Estates and trusts, add this amount back on Form 141AZ, Schedule B, line B3.

Line 25

Line 25 is your pro-rata share of comparable PTE Taxes paid from other states in 2023 for taxable year 2023.

Individuals that *did not make the Small Business Income election*, add this amount back on Form 140NR, page 5, line L.

Individuals that **made the Small Business Income election**, add this amount back on Form 140NR-SBI, line 24.

Estates and trusts, add this amount back on Form 141AZ, Schedule B, line B3.