

2023 Credit for Taxes Paid to Another State or Country

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 select the About tab on the home page and select Legal Research from the drop-down menu and then click on Procedures or Rulings from the drop-down menu. Using the Category box, select the tax type and then scroll down to find the *Document ID* or use the *Search Keyword* function to locate the document.

Publications

To view or print the department’s publications, go to our website select the About tab on the home page and select Legal Research from the drop-down menu and then click on Publications from the drop-down menu.

Purpose of Form

NOTE – To claim this credit:

- **Individual taxpayers that did not make the Small Business Income election**, complete this credit form and Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture. *Include both completed forms with your Individual Income Tax Return, (Form 140, 140PY, 140NR, or 140X).*
- **Individual taxpayers that made the Small Business Income election and also paid tax on the small business income to another state or country**, complete credit Form 309-SBI and Arizona Form 301-SBI, Nonrefundable Individual Tax Credits and Recapture for Form 140-SBI, 140PY-SBI, 140NR-SBI and 140X-SBI. *Include both completed forms with your SBI Tax Return (Form 140-SBI, 140PY-SBI, 140NR-SBI, or 140X-SBI).*

Use Arizona Form 309 to figure your credit for taxes paid to Arizona and another state or country on the same income. If claiming a credit for more than one state or country, complete a separate Form 309 for **each** state or country.

NOTE: *If you are claiming a credit on Form 301 or 301-SBI for taxes paid to another state or county for the amount of taxes paid by a partnership or S corporation that elected to pay taxes at the entity level, the allowable tax credit on Form 309 may not exceed the amount that would have been allowed if the income were taxed at the individual level and not taxed at the entity level. For more information, see Arizona Revised Statute § 43-1071(G).*

If you are claiming a credit for taxes paid to more than one foreign country for income received from an investment in a regulated investment company (RIC) including, but not

limited to, mutual funds, exchange trade funds (ETF), and real estate investment trusts (REITS), see Income Tax Procedure (ITP) 20-1, *Procedure for Calculating Credit for Taxes Paid to Another Country by Arizona Resident Individuals*, for additional instructions.

NOTE: *Individuals claiming this credit must also complete Arizona Form 301, Nonrefundable Individual Tax Credits and Recapture, and include Form 301 and Form(s) 309 with your tax return to claim this credit.*

Estates and Trusts claiming a credit for taxes paid to another state or country are not required to complete Forms 301 and 309. See the instructions for Arizona Form 141AZ (line 18) for requirements to claim this credit.

If you are not sure what amounts you should enter on Form 309, see the department’s procedure, ITP 08-1, *Procedure for Calculating Credit for Taxes Paid to Another State or Country by Arizona Resident Individuals*.

NOTE: *You must notify the department immediately if the other state or country credits or refunds taxes for which you have received an Arizona credit. In this case, you must file an amended return.*

Complete this form only if you meet the following:

1. You are filing a 2023 Arizona income tax return.
 2. You paid a **net** income tax to another qualified state or country for 2023.
- If you are claiming a credit for taxes paid to another state, payroll taxes withheld from income do not constitute a net income tax. Having tax withheld from your pay by Arizona and another state does not by itself qualify you for this credit. You must file a net income tax return to the other state.
 - If you are claiming a credit for taxes paid to another country, a net income tax paid to another country includes those taxes that qualify for a credit under Internal Revenue Code (IRC) §§ 901 and 903.

NOTE: *To claim a credit for taxes paid to a foreign country, you must complete Form 309. You must complete Form 309 even if you did not have to complete federal Form 1116 to claim a credit on your federal return.*

You may not claim this credit for the following:

- income taxes paid to any city or county, and
- interest or penalties paid to another state or country.

NOTE: *If you file an amended return after you claim this credit, be sure to recalculate the credit, if required.*

Application of Credit

Claim this credit only if the income was subject to tax in both Arizona and the other state or country in the same tax year.

You cannot apply this credit against interest or penalties payable to Arizona.

NOTE: *You may use this credit only in the year incurred. You cannot carry the credit forward to the next year. You also cannot carry the credit back to a prior year.*

Are You Claiming Other Arizona Tax Credits?

A.R.S. § 43-1071 provides that residents shall be allowed a credit against the taxes imposed by Title 43, Chapter 10, for net income taxes imposed by and paid to another state or country on income taxable under this chapter.

“Taxes payable under this chapter” means the income tax imposed by this state on the taxpayer’s taxable income as defined under section 43-1001 minus any tax credit amount claimed for the taxable year under this article but not including the credit amount under this section.”

Therefore, Arizona will only allow a taxpayer to claim the credit for taxes paid to another state or country *after* applying all other available credits.

To determine if you have any remaining tax liability in which to apply the credit for taxes paid to another state or country, use the following rules when applying other tax credits.

- First, apply any credits that cannot be carried over or refunded.
- Second, apply any credits that can be carried over for a limited duration.
- Third, apply refundable credits

If there remains an income tax liability after applying those credits, then you may apply the credit for taxes paid to another state or country.

Arizona Resident

Arizona residents are allowed a credit against Arizona income taxes for net income taxes imposed by and paid to another state or country if the following apply:

- The income taxed in Arizona is derived from sources within another state or country. This income is subject to a net income tax in the other state or country regardless of your residence.
- The other state or country does not allow Arizona residents a credit for taxes imposed on income subject to tax in both Arizona and the other state or country.

As an Arizona resident, nonresident returns filed with the following states qualify for the credit:

Alabama, Arkansas, Colorado, Connecticut, Delaware, District of Columbia (see note below), Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, West Virginia and Wisconsin.

NOTE: *Only income tax paid under the District of Columbia's Unincorporated Business Franchise Tax qualifies for the credit. The tax must be paid by an individual and not the business entity for the credit to qualify.*

Important: *As an Arizona resident, nonresident returns filed with the following states DO NOT QUALIFY for the credit on the Arizona return:*

Alaska, California, Florida, Indiana, Nevada, New Hampshire, Oregon, South Dakota, Tennessee, Texas, Virginia, Washington and Wyoming.

You may be able to claim a credit for taxes paid to Arizona on the nonresident return filed with any of those states listed above.

For tax year 2023, as an Arizona resident, nonresident returns filed with the following states qualify for the credit for the pass-through taxes paid on behalf of the Arizona resident.

Alabama, Arkansas, Colorado, Connecticut, District of Columbia, Georgia, Idaho, Illinois, Kansas, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri (beginning in 2023), New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina, Utah, and Wisconsin.

Important: *As an Arizona resident, nonresidents returns filed with the following states DO NOT QUALIFY for the PTE tax credit on the Arizona return:*

California, Oregon and Virginia.

You may be able to claim a credit for taxes paid to Arizona on the nonresident return filed with any of those states listed above.

Nonresident

A credit against Arizona income taxes is allowed for Arizona nonresidents who are not allowed a credit by their state or country of residence for taxes paid to Arizona if either:

- The other state or country does not tax Arizona residents on income derived from sources within the other state or country.
- The other state or country allows Arizona residents credit for taxes paid on income subject to tax by the other state or country and Arizona.

Arizona nonresidents who file resident returns with the following states qualify for the credit.

- California, Indiana, Oregon, and Virginia

NOTE: *This list is subject to change at any time.*

Arizona nonresidents who file resident returns with the following states qualify for the PTE credit.

- California, Oregon, and Virginia

NOTE: *This list is subject to change at any time.*

Part-Year Residents

For that part of the year you were a resident of Arizona, follow the instructions for residents.

For that part of the year you were an Arizona nonresident, follow the instructions for nonresidents.

Dual Resident

You may be eligible to claim the credit if you are a full-year Arizona resident filing Arizona Form 140 and you are also considered to be a resident of another state under the laws of that other state. Figure your credit for taxes paid to Arizona and that other state on the same income that is taxable by both Arizona and the other state, but only on income that would be sourced to the other state if you had to report that income as a nonresident.

You may claim the credit as a dual resident if you meet the following:

1. You are filing a 2023 full-year Arizona resident income tax return.
2. You are considered to be a resident of another state under the laws of that other state.
3. You paid a **net** income tax to that other state.

An Arizona resident who is also considered to be a resident of another state under the laws of that state is allowed a credit against Arizona income taxes for net income taxes imposed by and paid to that other state if the following apply:

- The other state taxes the income of the Arizona resident and does not allow the Arizona resident a credit for taxes imposed on income subject to tax in both Arizona and the other state.
- The credit is allowed only for taxes imposed on income that would have been sourced to the other state if the Arizona resident had filed as a nonresident to the other state.

NOTE: *If you are an Arizona full-year resident and also considered to be a resident of another state under the laws of that other state, complete the Schedule of Income Allocation, on page 2 of Form 309 before you complete page 1 of Form 309.*

Required Forms

Upon request by the department, the taxpayer shall provide the following as proof for claiming the credit.

- Copy of other state or country's tax return.
If the other country does not require a taxpayer to file a tax return, provide documentation showing amount of tax imposed and paid.
- Copy of brokerage statement, if applicable.
- Proof of payment.
- Statement showing conversion rate for taxes paid to other country.

Line-by-Line Instructions

Enter your name and Social Security Number (SSN) as shown on Arizona Forms 140, Form 140NR, Form 140PY, or Form 140X.

Make sure that every return, statement, or document that you file with the department has your SSN. Failing to include the proper numbers may subject you or your preparer to a penalty. Make sure that all of the required identification numbers are clear and correct. Your return may take longer to process if identification numbers are missing, incorrect, or unclear.

If your name appears first on the return, make sure your SSN is the first number listed.

Part 1 - Computation of Income Subject to Tax by Both Arizona and the Other State or Country During 2023

A. If you are claiming a credit for income taxes paid to another state, enter in the space provided, the two-letter abbreviation for that state. See the last page of these instructions for a list of state abbreviations.

B. If you are claiming a credit for income taxes paid to another country, enter the name of that country on the line provided. *See note on top of the next column.*

NOTE: *If you are claiming a credit for taxes paid to more than one foreign country for income received from an investment in a regulated investment company (RIC) including, but not limited to, mutual funds, exchange trade funds (ETF), and real estate investment trusts (REITS), enter "Various" in Part 1, on line B.*

In order for income to be taxed by both Arizona and another state or country, the following must exist.

For an Arizona resident:

1. The same income must be taxed by both Arizona and the other state or country.
2. The income must have its source within the other state or country.

For a nonresident:

1. The same income must be taxed by both Arizona and the other state or country.
2. The income must have its source within Arizona.

Lines 1 through 6

NOTE: Do **not** include any income item reported on your small business income tax return.

Provide a breakdown of your income which is subject to tax in both Arizona and the other state or country. Complete lines 1 through 5 separately for each income item listed in columns (a) through (c). If you have more than three items of income from the other state or country for which you are claiming the credit, complete additional schedules.

NOTE: *If you are an Arizona resident who is also considered to be a resident of another state under the laws of that other state, complete the Schedule of Income Allocation, on page 2 of Form 309 before you complete Part 1, lines 1 through 6 of Form 309.*

Line 1

Identify the income item from which the income subject to tax in both Arizona and the other state or country is derived. If you have more than one income item, complete column(s) (b) and (c), as necessary. Examples of such income are business income, partnership income, wages, etc. Enter an item in column (a) only if your Arizona adjusted gross income and the adjusted gross income of the return filed with the other state or country includes the income from that item.

If you are an Arizona resident and also considered to be a resident of another state, enter the income item and amount from column (d) of the *Schedule of Income Allocation*.

If you are claiming a credit for taxes paid to another country, and that country withheld at the source, and you are not required to file a return with that country, enter the item of income from which the foreign taxes were withheld.

Line 2

Enter the amount of income from the item listed on line 1 reportable to both Arizona and the other state or country. This is the amount of income derived from that item which you must include in the income reported to both Arizona and the other state or country.

NOTE: *If you are claiming a credit for taxes paid to more than one foreign country for income received from an investment in a regulated investment company (RIC) including, but not limited to, mutual funds, exchange trade funds (ETF), and real estate investment trusts (REITS), enter the total amount of income received on line 2, column (a).*

Line 3

Enter that portion of income on line 2 included in your Arizona adjusted gross income. This amount is that portion of the amount of income included on line 2 that is also included in your Arizona gross income adjusted by any additions or subtractions related to that income required under Arizona law.

For example, during the tax year, Taxpayer A, a full-year Arizona resident, had Schedule C business income of \$50,000 from State P. This \$50,000 of Schedule C income is reportable to both Arizona and to State P.

For federal purposes, Taxpayer A included the \$50,000 in federal adjusted gross income, but also reduced that Schedule C business income by ½ of the self-employment tax related to that income (\$3,532) and by the amount of self-employed health insurance deduction (\$6,000). Therefore, only \$40,468 [$\$50,000 - (\$3,532 + \$6,000)$] of the \$50,000 Schedule C income is included in Taxpayer A's Arizona gross income. Arizona law requires no further additions or subtractions related to this Schedule C income included in Taxpayer A's

Arizona gross income. Therefore, the amount of Schedule C income included in Taxpayer A's Arizona adjusted gross income would be \$40,468. Taxpayer A would enter \$40,468 on line 3.

Line 4

Enter that portion of income on line 2 which is included in the other state or country's equivalent of Arizona adjusted gross income. If you are a full-year Arizona resident filing a nonresident return to the other state or country, this would be the other state or country's income computed under the equivalent of Arizona Revised Statute (A.R.S.) § 43-1094 (adjusted gross income of a nonresident). In other words, the income computed as if only source income were included, and then adjusted by any additions or subtractions related to that income required under the other state or country's law.

For example, during the tax year, Taxpayer A, a full-year Arizona resident, had Schedule C business income of \$50,000 from State P. This \$50,000 of Schedule C income is reportable to both Arizona and to State P.

For federal purposes, Taxpayer A included the \$50,000 in federal adjusted gross income, but also reduced that Schedule C business income by ½ of the self-employment tax related to that income (\$3,532) and by the amount of self-employed health insurance deduction (\$6,000). Taxpayer A was required to make these same adjustments on the return filed to State P. Therefore, only \$40,468 [$\$50,000 - (\$3,532 + \$6,000)$] of the \$50,000 Schedule C income is included in State P's equivalent of Arizona gross income.

Additionally, State P law allows Taxpayer A to subtract an additional \$2,000 of depreciation related to the Schedule C income. Therefore, the amount of Schedule C income included in State P's equivalent of Arizona adjusted gross income would be \$38,468 ($\$40,468 - \$2,000$). Taxpayer A would enter \$38,468 on line 4.

NOTE: *If you are claiming a credit for taxes paid to another country, and that country withheld at the source, and you are not required to file a return with that country, enter the amount of income subject to tax in that foreign country.*

Line 5

Enter the smaller of the amount entered on line 3 or line 4. This is the amount of income from that item which is subject to tax by both Arizona and the other state or country.

Line 6

Add line 5, columns (a) through (c). This is the total income subject to tax in both Arizona and the other state or country.

If less than zero, enter "0." In this case, there is no income that is subject to tax in both Arizona and the other state or country. You cannot claim a credit for taxes paid to the other state or country.

Enter the amount from Part 1, line 6, on Part 2, line 8, and also on Part 2, line 13.

NOTE: *The amounts on lines 2 through 5 may be the same. However, differences may occur due to the application of the other state's law. See the example on page 5.*

The following example illustrates how to complete lines 1 through 6 of Arizona Form 309. If you are an Arizona resident who is also considered to be a resident of another state under the laws of that other state, see the example following the instructions for the *Schedule of Income Allocation* for an example of how to complete lines 1 through 6 of Form 309.

EXAMPLE:

Facts:

Mr. and Mrs. M are Arizona residents. Mr. M is an active duty military member who is stationed in State X. Mr. M receives wages from the military and from a part-time job in State X. Mr. and Mrs. M receive rental income from property in Arizona. During the taxable year for which the credit is being claimed, Mr. and Mrs. M received the following income.

Mr. M's military wages	\$ 15,000
Mr. M's part-time employment wages	\$ 10,000
Rental income from AZ property	<u>\$ 20,000</u>
Total Income	\$ 45,000

As Reported on State X Return		As Reported on Arizona Return	
Federal adjusted gross income	\$ 45,000	Federal adjusted gross income	\$ 45,000
Less non-state X income (military & rental income)	\$ (35,000)	Less subtractions from income (military income of \$15,000 and other exemption of \$2,300)	\$ (17,300)
Less subtraction for second job income	\$ (1,000)	Arizona adjusted gross income	\$ 27,700
State X adjusted gross income	\$ 9,000		

Mr. and Mrs. M must include Mr. M's part-time employment wages of \$10,000 in both the Arizona gross income and the State X's equivalent of Arizona gross income. Therefore, the amount of wage income reportable to both Arizona and State X is \$10,000. For Arizona purposes, there are no additions or subtractions related to that \$10,000 wage income included in Arizona gross income, so the entire \$10,000 of wage income is included in Arizona adjusted gross income. However, under State X law, \$1,000 of the \$10,000 wage income is subtracted from State X's equivalent of Arizona adjusted gross income, so only \$9,000 of that \$10,000 is included in State X's equivalent of Arizona adjusted gross income. Mr. and Mrs. M complete lines 1 through 6 of Form 309 as follows:

1. Description of income items	(a) wages
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$10,000
3. Portion of income on line 2 included in Arizona adjusted gross income.	\$10,000
4. Portion of income included on line 2 included in the other state or country's equivalent of Arizona adjusted gross income.	\$ 9,000
5. Income subject to tax by both Arizona and the other state or country. Enter the smaller of the amount entered on line 3 or 4.	\$ 9,000
6. Total income subject to tax in both Arizona and the other state or country.	\$ 9,000

Part 2 - Computation of Other State or Country Tax Credit

Line 7

Enter your Arizona tax liability less any credits. However, do not reduce your Arizona tax liability by the other state tax credit.

For 2023, your Arizona tax liability prior to tax credits can be found on the following line number.	
Arizona Form	Line Number
140	46
140PY	56
140NR	56
140X	37

NOTE: If you are taking other tax credits, you must reduce your Arizona tax by the amount of those other tax credits. For the purpose of this computation, be sure to reduce your Arizona tax by both refundable and nonrefundable credits.

If you received distributed income from a partnership and/or S Corporation (the Entity) reported on Schedule K-1 or K-1(NR) and the Entity elected to pay Entity-Level Income Tax on your pro-rata share of the distributed income, enter the total taxes paid from the following:

- tax amount paid on your Arizona income tax form (see box above); and
- your pro-rata share of the tax paid by the Entity on your behalf. This tax amount is limited to the amount actually paid by the Entity or the amount of the other state’s individual income tax had the Entity not elected to pay the tax at the entity level, whichever is less.

Line 8

Enter amount from Part 1, line 6.

Line 9 - Entire Income Upon Which Arizona Tax is Imposed

Enter your entire income upon which Arizona tax is imposed. This is the Arizona adjusted gross income excluding allowable exemptions for age 65 or over, blind, dependents, or qualifying parents and grandparents.

Use the appropriate worksheet below to figure your entire income upon which Arizona tax is imposed.

Worksheet for Arizona Residents	
1. Enter the amount from Arizona Form 140, line 42.	
2. Enter the total amount from Form 140, lines 38 through 41.	
3. Add the amounts on line 1 and line 2. Enter the total here and on Form 309, line 9.	

Worksheet for Arizona Nonresidents	
1. Enter the amount from Arizona Form 140NR, line 52.	
2. Enter the amount from Form 140NR, line 51.	
3. Add the amounts on line 1 and line 2. Enter the total here and on Form 309, line 9.	

Worksheet for Arizona Part-Year Residents With No Arizona Source Income for the Period of the Year in Which You Were an Arizona Nonresident	
1. Enter the amount from Arizona Form 140PY, line 52.	
2. Enter the amount from Form 140PY, line 51.	
3. Add the amounts on line 1 and line 2. Enter the total here and on Form 309, line 9.	

Part-Year Residents With Arizona Source Income for the Period of the Year in Which You Were an Arizona Nonresident

If you have Arizona source income for the period of the year in which you were an Arizona nonresident, you must separately determine the amount of Arizona adjusted gross income for the period in which you were a resident and the amount of Arizona adjusted gross income for the period in which you were a nonresident. These figures are not separately stated on any particular line on your Arizona Form 140PY.

Lines 10 and 11

Follow the instructions on the form for lines 10 and 11.

Line 12

12a. Enter the name of the other state or country.

12b. Enter the amount of income tax paid to the other state or country. Do not include federal income taxes or any taxes paid to a city or county. Also, do not include any amount paid to the other state or foreign country for penalty or interest. Amounts of tax paid or accrued to a foreign country do not include amounts that are reasonably certain to be refunded, credited, rebated, abated, or forgiven.

If you received distributed income from a partnership and/or S Corporation (the Entity) reported on Schedule K-1 or K-1(NR) and the Entity elected to pay Entity-Level Income Tax on your pro-rata share of the distributed income, enter the total taxes paid by the Entity on your behalf. This tax amount is limited to the amount actually paid by the Entity or the amount of the other state’s individual income tax had the Entity not elected to pay the tax at the entity level, whichever is less.

Line 13

Enter the amount from Part 1, line 6.

Line 14 - Entire Income Upon Which Other State or Country's Income Tax is Imposed

Enter the entire income upon which the other state or country's income tax is imposed. This is the other state or country's equivalent of Arizona adjusted gross income, but does not include exemptions allowable under the equivalent of A.R.S. § 43-1023. Such income must include items of income and loss, but not exemptions and itemized or standard deductions. Such income must also be adjusted by any additions or subtractions required under the other state's law which relate to the income from sources within the other state. This amount may not be shown on a specific line of the return filed with the other state.

If you are claiming a credit for taxes paid to another country, and that country withheld at the source, and you are not required to file a return with that country, enter the amount of income subject to tax in that foreign country.

NOTE FOR ARIZONA RESIDENTS ONLY: *Since the other state can only tax a nonresident on income which is sourced to that state, the entire income upon which the other state's income tax is imposed includes only income sourced to that other state under its income tax laws. Source income is generally income derived from property located within a state or from an activity carried on within a state when the income recipient is a nonresident.*

NOTE: *You may not be able to take the entire income upon which the other state or country's tax is imposed from a specific line on the return filed to the other state or country. If you must determine this amount, include a schedule.*

The example beginning on page 8 illustrates how an Arizona resident figures the entire income subject to tax in the other state or country.

If you have questions concerning what amount to enter on line 14, call one of the phone numbers listed at the beginning of these instructions.

Lines 15 and 16

Follow the instructions on the form for lines 15 and 16.

Line 17

Enter the smaller of line 11 or line 16. If this is the only state or country for which you are claiming a credit, also enter this amount on Arizona Form 301, Part 1, line 2, column (a).

If you are claiming a credit for more than one state or country, make a separate computation for each. Enter the total from all Arizona Forms 309 on Arizona Form 301, Part 1, line 2, column (a).

EXAMPLE

The following example will illustrate how to figure a credit for taxes paid to another state.
NOTE: The Arizona tax amount used in these examples do not reflect the current year tax amount and is used solely for purpose of providing example computations.

Facts: Mr. and Mrs. F are Arizona residents who derive income from a farm in State XY. During the taxable year for which the credit is being claimed, Mr. and Mrs. F had the following income.

Interest income	\$ 38,000
Dividend income	\$ 4,000
Farm income from State XY	<u>\$ 16,000</u>
Total income	<u>\$ 58,000</u>

As Reported on Arizona Return

Federal adjusted gross income	\$ 58,000
Less other exemption \$2,300	(2,300)
Arizona adjusted gross income	\$ 55,700
Itemized deductions	(18,600)
Arizona taxable income	37,100
Arizona tax	1,030
Credit for Contributions to Public Schools	(300)
Arizona tax liability	730

As Reported on State XY Return		As Reported on State XY Income Allocation Schedule		
			<i>Column A</i> Income from federal return	<i>Column B</i> Income from Column A from State XY sources
1. Federal adjusted gross income	\$ 58,000			
2. Plus State XY additions	0	1. Wages		
3. Less State XY subtractions	0	2. Interest	38,000	
4. State XY adjusted gross income	<u>\$ 58,000</u>	3. Dividends	4,000	
5. Itemized Deductions	(11,000)	4. Farm Income	16,000	16,000
6. Exemptions	(3,000)	5. Capital Gains		
7. State XY taxable income	\$ 44,000	6. Rents, Sub S, Royalties, Partnership		
8. State XY tax	1,760	7. Other Income		
9. Percentage from Income Allocation Schedule	0.2759	8. Total income	58,000	16,000
10. State XY tax on income sourced to State XY. Multiply line 8 by line 9.	\$ 486	9. Tax proration Divide line 8 Column B by Line 8, Column A	16,000/58,000 = .2759	

Credit Computation:

Mr. and Mrs. F complete Arizona Form 309 as follows:

Arizona Form 309

Part I - Computation of Income Subject to Tax by Both Arizona and the Other State or Country

	(a) Farm income	(b)
1. Description of income item(s)		
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$16,000	
3. Portion of income on line 2 included in Arizona adjusted gross income.	\$16,000	
4. Portion of income on line 2 included in State XY's equivalent of Arizona adjusted gross income.	\$16,000	
5. Income subject to tax by both Arizona and the other state or country. Enter the lesser of amount entered on line 3 or line 4.	\$16,000	
6. *Total income subject to tax in both Arizona and the other state or country.		\$16,000

Part II - Computation of Other State or Country Tax Credit

7. **Arizona tax liability less any credits (except other state tax credit)	7	730	
8. Amount from Part 1, line 6	8	16,000	
9. ***Entire income upon which Arizona income tax is imposed	9	58,000	
10. Divide the amount on line 8 by the amount on line 9 (cannot be greater than 1).....	10	.2759	
11. Multiply the amount on line 7 by the decimal on line 10.....	11	201	
12. Income tax paid to State XY (tax less credits).....	12	486	
13. Amount from Part 1, line 6	13	16,000	
14. ****Entire income upon which State XY income tax is imposed	14	16,000	
15. Divide the amount on line 13 by the amount on line 14 (cannot be greater than 1).....	15	1.0000	
16. Multiply the amount on line 12 by the decimal on line 15.....	16	486	
17. Other state or country tax credit. Enter the lesser of line 11 or line 16.....	17	201	

*** Lines 1 through 6 - Income subject to tax in both Arizona and State XY**

Mr. and Mrs. F must report State XY farm income of \$16,000 in both Arizona gross income and State XY's equivalent of Arizona gross income. There are no additions or subtractions related to the \$16,000 farm income required under either Arizona law, or State XY law. Therefore, \$16,000 of farm income is included in Arizona adjusted gross income and \$16,000 of farm income is included in State XY's equivalent of Arizona adjusted gross income.

****Line 7 - Arizona tax liability**

For the purpose of the credit, Mr. and Mrs. F compute the Arizona tax liability as follows:

Arizona tax	\$ 1,030
Less public school tax credit	(300)
Arizona tax liability	\$ 730

*****Line 9 - Entire income upon which Arizona tax is imposed**

For the purpose of the credit, Mr. and Mrs. F compute the entire income upon which Arizona tax is imposed as follows:

Arizona adjusted gross income	\$ 55,700
Plus other exemptions	<u>2,300</u>
Entire income upon which Arizona income tax is imposed	<u>\$ 58,000</u>

******Line 14 - Entire income upon which State XY tax is imposed**

This is the entire income upon which State XY's tax is imposed. This is State XY's equivalent of Arizona adjusted gross income for these individuals. Since these individuals are nonresidents of State XY, State XY's equivalent of Arizona adjusted gross income (not including exemptions and standard or itemized deductions), includes only that income which is sourced to State XY. It should be noted that in this case, the entire income upon which State XY's income tax is imposed had to be determined. This amount was not separately

shown on a specific line of the State XY return, since State XY computes its tax on the total income and then prorates that tax to reflect the tax attributable to income derived from sources within State XY. For the purpose of the credit, Mr. and Mrs. F compute the entire income upon which State XY's tax is imposed as follows:

Mr. and Mrs. F's Farm income sourced to State XY (State XY's equivalent of Arizona adjusted gross income) computed under A.R.S. § 43-1094).....	\$ 16,000
Plus State XY's equivalent of Arizona's dependent exemptions.....	<u>0</u>
Entire income upon which State XY tax is imposed.....	<u>\$ 16,000</u>

Form 309, Page 2 – Schedule of Income Allocation Instructions

Complete page 2, *Schedule of Income Allocation*, **only** if you are a full-year Arizona resident who is also considered a resident of another state under the laws of that other state.

All other taxpayers skip page 2, *Schedule of Income Allocation*.

NOTE: *If you are a full-year Arizona resident that is also considered to be a resident of another state under the laws of that other state, you must complete the Schedule of Income Allocation on page 2 of Form 309 before you complete page 1 of Form 309.*

Because the credit allowed for a full-year Arizona resident that is also considered to be a resident of another state is for taxes paid to that other state on income sourced to that other state, you must complete the *Schedule of Income Allocation*, before you can complete lines 1 through 6 of Form 309.

This schedule allocates income between income sourced to the other state and income from everywhere else that is taxable to the other state. Complete column (a) before completing columns (b) through (d). On lines 1 through 10 of column (a), for each line, enter the amounts reported on your federal income tax return. In column (b), enter the amounts listed in column (a) that are included in income reported on your Arizona return. In column (c), enter the amounts listed in column (a) that are included in income reported on the return filed with the other state. In column (d), enter the amounts listed in column (c) that would be sourced to the other state if you were a nonresident of that state filing a nonresident return to that state.

The following example illustrates how to complete Form 309 for an Arizona resident who is also considered to be a resident of another state under the laws of that other state.

EXAMPLE

Facts:

Mr. and Mrs. R are Arizona residents who are temporarily living and working in State Z. They will be there for one year and then they will return to Arizona. During the current taxable year, Mr. and Mrs. R have been living and working in State Z for 10 and one-half months. Because Mr. and Mrs. R have been living in State Z for more than 183 days during the tax year, State Z considers Mr. and Mrs. R to be residents of State Z and taxes all of their income from the time they moved to State Z. Because Mr. and Mrs. R are Arizona residents who are temporarily out of Arizona, they are still full-year Arizona residents for Arizona income tax purposes and must file a full-year Arizona income tax return and include all income for the taxable year, wherever derived. For the taxable year, Mr. and Mrs. R have the following income.

Mr. R's wages from employment in Arizona	\$ 15,000
Mr. R's wages from employment in State Z	\$ 42,000
Mrs. R's wages from employment in State Z	\$ 5,000
Interest income	\$ 5,000
Rental income from AZ property	<u>\$ 20,000</u>
Total income	<u>\$ 87,000</u>

As Reported on State Z Return		As Reported on Arizona Return	
Wages (Mr. R's State Z wages \$42,000 + Mrs. R's State Z wages \$5,000)	\$ 47,000	Federal adjusted gross income	\$ 87,000
Interest income received after moving to State Z	4,375	Less subtractions from income (other exemption \$2,300)	(2,300)
Rental income from Arizona property received after moving to State Z	17,500	Arizona adjusted gross income	\$ 84,700
State Z gross income	68,875	Arizona itemized deductions	(18,600)
Plus additions to income	0	Arizona taxable income	\$ 66,100
Less subtractions (dependent \$4,000)	(4,000)	Arizona tax	\$ 2,086
State Z adjusted gross income	\$ 64,875		
State Z itemized deductions	(9,500)		
State Z personal exemptions	(7,500)		
State Z taxable income	\$ 47,875		
State Z tax	\$ 2,154		

Before Mr. and Mrs. R can complete Form 309, they must complete the *Schedule of Income Allocation* on page 2 of Form 309. This will help Mr. and Mrs. R determine the income that is taxable in both Arizona and State Z that would be sourced to State Z if Mr. and Mrs. R were filing a nonresident return to State Z.

Schedule of Income Allocation				
	(a) Reported on your 2023 federal return	(b) Amount Entered in column (a) Reported on Your 2023 Form 140	(c) Amount Entered in column (a) Reported on Your Return Filed to Your Statutory State of Residence	(d) Amount Entered in column (c) That Could be Sourced to Your Statutory State of Residence as Income of a Nonresident of that State
1. Wages, salaries, tips, etc.	62,000	62,000	47,000	47,000
2. Interest	5,000	5,000	4,375	0
3. Dividends				
4. Business income (or loss) from federal Schedule C				
5. Gains (or losses) from federal Schedule D				
6. Rents, royalties, partnerships, estates, trusts, small business corporations from federal Schedule E	20,000	20,000	17,500	0
7. Other income reported on your federal return				
8. Total income: <i>Add lines 1 through 7</i>	87,000	87,000	68,875	47,000
9a. Other federal adjustments. <i>List</i>				
9b.				
9c.				
9d. Total adjustments. <i>Add lines 9a through 9c for each column.</i>	0	0	0	0
10. Adjusted gross income. <i>Subtract the sum of amounts entered on line 9d from line 8.</i>	87,000	87,000	68,875	47,000

If Mr. and Mrs. R had filed a nonresident return to State Z, they would have reported \$47,000 of wage income to State Z as State Z source income. Therefore, when Mr. and Mrs. R complete Form 309, they would complete lines 1 through 6 as follows:

Part I	(a)	(b)
1. Description of Income Items	Wages	
2. Amount of income from item listed on line 1, reportable to both Arizona and State Z.	\$ 47,000	
3. Portion of income on line 2 included in Arizona adjusted gross income.	\$ 47,000	
4. Portion of income on line 2 included in State Z's equivalent of Arizona adjusted gross income.	\$ 47,000	
5. Income subject to tax by both Arizona and State Z. Enter the smaller of line 3 or line 4.	\$ 47,000	
6. *Total income subject to tax in both Arizona and State Z.	\$ 47,000	

Part II – Computation of Other State or Country Tax Credit		
7. Arizona tax liability less any credits (except other state tax credit).....	7	2,086
8. Amount from Part 1, line 6.....	8	47,000
9. ** Entire income upon which Arizona income tax is imposed.....	9	87,000
10. Divide the amount on line 8 by the amount on line 9 (cannot be greater than 1).....	10	.5402
11. Multiply the amount on line 7 by the decimal on line 10.....	11	1,127
12. Income tax paid to State Z (tax less credits).....	12	2,154
13. Amount from Part 1, line 6.....	13	47,000
14. ***Entire income upon which State Z’s income tax is imposed.....	14	68,875
15. Divide the amount on line 13 by the amount on line 14 (cannot be greater than 1).....	15	.6824
16. Multiply the amount on line 12 by the decimal on line 15.....	16	1,470
17. Other state or country tax credit. Enter the smaller of line 11 or line 16.....	17	1,127

*** Lines 1 through 6 – Income subject to tax in both Arizona and State XY**

Before completing lines 1 through 6, Mr. and Mrs. R must complete page 2 of Arizona Form 309, *Schedule of Income Allocation*. Even though Mr. and Mrs. R must report wage income, interest income and rental income to State Z, only the wage income earned for services performed in State Z would be sourced to State Z if State Z were taxing Mr. and Mrs. R as nonresidents. Therefore, when Mr. and Mrs. R complete the *Schedule of Income Allocation*, Mr. and Mrs. R indicate that only \$47,000 of wages would be sourced to State Z as income of a nonresident of State Z.

Mr. and Mrs. R must report State Z wages of \$47,000 in Arizona gross income and \$47,000 of State Z wages in State Z’s equivalent of Arizona gross income. There are no additions or subtractions related to the \$47,000 of State Z wages required under either Arizona law, or State Z law. Therefore, \$47,000 of State Z wage income is included in Arizona adjusted gross income and \$47,000 of State Z wage income is included in State Z’s equivalent of Arizona adjusted gross income.

****Line 9 – Entire income upon which Arizona tax is imposed**

For the purpose of the credit, Mr. and Mrs. R compute the entire income upon which Arizona tax is imposed as follows:

Arizona adjusted gross income	\$ 84,700
Plus other exemptions	<u>2,300</u>
Entire income upon which Arizona income tax is imposed	<u>\$ 87,000</u>

*****Line 14 – Entire income upon which State Z tax is imposed**

This is the entire income upon which State Z tax is imposed. This is State Z’s equivalent of Arizona adjusted gross income for these individuals. For the purpose of the credit, Mr. and Mrs. R compute the entire income upon which State Z tax is imposed as follows:

State Z’s equivalent of Arizona adjusted gross income	\$ 64,875
State Z’s equivalent of Arizona’s other exemptions	<u>4,000</u>
Entire income upon which State Z’s tax is imposed	<u>\$ 68,875</u>

List of State Abbreviations

State		State		State		State	
Alabama	AL	Indiana	IN	Missouri	MO	Pennsylvania	PA
Arkansas	AR	Iowa	IA	Montana	MT	Rhode Island	RI
California	CA	Kansas	KS	Nebraska	NE	South Carolina	SC
Colorado	CO	Kentucky	KY	New Jersey	NJ	Utah	UT
Connecticut	CT	Louisiana	LA	New Mexico	NM	Vermont	VT
Delaware	DE	Maine	ME	New York	NY	Virginia	VA
District of Columbia	DC	Maryland	MD	North Carolina	NC	West Virginia	WV
Georgia	GA	Massachusetts	MA	North Dakota	ND	Wisconsin	WI
Hawaii	HI	Michigan	MI	Ohio	OH		
Idaho	ID	Minnesota	MN	Oklahoma	OK		
Illinois	IL	Mississippi	MS	Oregon	OR		