

## 2023 Arizona Partnership 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](http://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 select *Reports & Legal Research*. On the next page, click on *Legal Research*. Select a Document Type and a Category from the drop down menus. If you know the document ID number you may enter it in the Search field and then press enter.

**Publications**

To view or print the department's publications, go to our website, scroll down, click on *Reports & Legal Research*, and click on *Publications* in the right hand column.

### General Instructions

**Who Must Use Arizona Form 165**

File Arizona Form 165 for every domestic partnership including syndicates, groups, pools, joint ventures, and every foreign partnership (syndicate, pool, etc.) required to file an Arizona Partnership Income Tax Return.

**Disaster Relief for Out-of-State Businesses**

If an out-of-state partnership is in Arizona on a temporary basis solely for the purpose of performing disaster recovery from a declared disaster during a disaster period, it may not be required to file, remit, withhold or pay state or local (income) tax. See the department's publication, Pub. 720, *Disaster Recovery Tax Relief* to determine if the taxpayer qualifies.

**NOTE:** *A partnership that has no Arizona income, deductions or credits for taxable year 2023 is not required to file a partnership return for that year.*

**Entity Classification under the Federal "Check-the-Box Rules"**

The federal tax classification of an entity under the federal "check-the-box rules" determines the entity's classification for Arizona tax purposes. Refer to the department's ruling, PTR 97-1, *Federal "Check-The-Box Rules" on Elective Tax Classification*, for further information.

**Limited Liability Companies**

A limited liability company (LLC) that is classified as a partnership for federal income tax purposes must file Arizona Form 165.

A single-member LLC that is disregarded as an entity for federal income tax purposes is treated as a branch or division of its owner, and is included in the tax return of its owner. Refer to the department's ruling, PTR 97-2, *Limited Liability Companies*, for further information.

**Marijuana Establishments, Marijuana Testing Facilities, Dual Use Licensees and Nonprofit Medical Marijuana Dispensaries**

- A partnership licensed by the Arizona Department of Health Services (ADHS) as a Marijuana Establishment (Adult Use) or as a Marijuana Testing Facility (Adult Use), must file an Arizona Partnership Income Tax Return – Arizona Form 165 to report the income and expenses of its operations for the taxable year.
- A partnership licensed by ADHS as a Dual Use Licensee (Dual Use) that elected to operate on a for-profit basis, must file an Arizona Form 165 to report the income and expenses of ALL its operations for the taxable year.
- A partnership licensed by ADHS as a Dual Licensee that did not elect to operate on a for-profit basis, must file Arizona Form 99M to report the income and expenses from the NMMD portion of its operations, and file Arizona 165. The Dual Licensee that did not elect to operate on a for-profit basis must also complete Arizona Form 165 Schedules K-1 and K-1(NR) and provide copies of each partner's respective K-1 or K-1(NR) to the partner as the partners are not exempt from Arizona income tax.
- A partnership registered by ADHS as a Nonprofit Medical Marijuana Dispensary **only**, must file Arizona Form 99M AND Arizona Form 165 to report the income and expenses from its operation as an NMMD. The NMMD must also complete Arizona Form 165 Schedules K-1 and K-1(NR) and provide copies of each partner's respective K-1 or K-1(NR) to the partner as the partners are not exempt from Arizona income tax.

**Partnerships Making the Pass-Through Entity Election**

For taxable years beginning from and after December 31, 2021, the partners of a business that is taxed at the federal level as a partnership may consent to have its flow-through (or pass-through) income taxed at the entity level in Arizona. The Arizona PTE income tax is assessed at a rate of 2.5% of the income attributable to the partnership's resident partners and the income derived from sources within Arizona attributable to the nonresident partners.

**NOTE:** *The 2023 legislative session mandated a change in the starting point to compute the Arizona taxable income for partnerships making the PTE election (See S.B. 1734.). For taxable years beginning from and after December 31, 2022, the starting point to calculate Arizona taxable income for partnerships making the PTE election is the partnership's ordinary income and rental income including any Arizona additions found in A.R.S. § 43-1021 less any Arizona subtractions found in A.R.S. § 43-1022, **plus**, the items that require separate computation under section 43-1412, paragraphs 1 through 16.<sup>1</sup>*

The PTE election must be made by the partnership no later than the due date or extended due date of its Arizona income tax return, Arizona Form 165.

<sup>1</sup> Paragraphs 1 through 16 of section 43, 1412 include such items as capital gains (losses), section 1231 gains (losses), income taxes imposed and paid to another state or country, etc.

**NOTE:** *If the PTE election is not made on a timely-filed return (Arizona Form 165), including extensions, the PTE election will be denied and all related tax payments made will be refunded to the partnership.*

A partnership that intends to make this election must notify all partners who are individuals or estates and trusts (eligible partners) of the intent to make this election. Each eligible partner has the right to opt out of this election. The notice must allow each eligible partner at least 60 days after receiving the notice to exercise the right to opt out of the election. If the eligible partner does not respond, that partner will be included in the election.

Partners that are not individuals or estates and trusts (ineligible partners) may not participate in this election. Partners who are individuals or estates and trusts who opt out of this election also may not participate in this election.

If the partnership making this election does not pay the tax owed to the department, the department may collect the tax owed by the partnership from its eligible partners based on the proportionate share of income attributable to each eligible partner for Arizona tax purposes.

Partnerships whose taxable income for the previous year exceeds \$150,000 must make payments of estimated tax. Estimated tax payments are due April 15<sup>th</sup>, June 15<sup>th</sup>, and September 15<sup>th</sup> of the current taxable year and January 15<sup>th</sup> of the year following the close of the taxable year. (For taxable years that do not begin January 1<sup>st</sup>, the due dates for estimated tax payments are the 15<sup>th</sup> day of the 4<sup>th</sup>, 6<sup>th</sup>, and 9<sup>th</sup> months of the current taxable year and the 15<sup>th</sup> day of the 1<sup>st</sup> month following the close of the taxable year.)

**NOTE:** *For additional information on the PTE election, refer to Publication 713, The Arizona Pass-Through Entity Election, available here: [https://azdor.gov/sites/default/files/2023-03/PUBLICATION\\_713.pdf](https://azdor.gov/sites/default/files/2023-03/PUBLICATION_713.pdf)*

**Records**

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

**IRC § 7519 - Required Payments**

Taxpayers cannot deduct the federal required payments on their Arizona tax returns as an ordinary and necessary business expense or otherwise.

**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.

**Examples:**

*Partnership A (A) reports federal taxable income of \$15,000. A has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .326954. A multiplies the federal taxable income by the apportionment ratio. The result is \$4,904.31. Partnership A rounds the result to \$4,904.00.*

*Partnership W (W) reports a federal taxable loss of (\$27,000). W has no Arizona additions to, or subtractions from, its federal*

*taxable loss. Its apportionment ratio is .005946. W multiplies its federal loss of (\$27,000) by the apportionment ratio. The result is an Arizona loss of (\$160.54). Partnership W rounds the result to (\$161.00).*

*Partnership Z (Z) reports a federal taxable loss of (\$500). Z has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .075000. Z multiplies its federal loss of (\$500) by the apportionment ratio. The result is an Arizona loss of (\$37.50). Partnership Z rounds the result to (\$38.00).*

**Timely filing of returns**

- The department determines the timeliness of an electronically filed tax return by the date of the electronic postmark. If the taxpayer and the electronic return preparer or the electronic return transmitter are in different time zones, it is the taxpayer’s time zone, as determined by the taxpayer’s address, that controls the timeliness of the electronically filed return. When a return has been electronically received on the host system of more than one electronic return preparer or electronic return transmitter during its ultimate transmission to the department, the return shall be deemed filed and received by the department on the date of the earliest electronic postmark.
- 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 the department’s 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 the department’s ruling, GTR 16-2, *Timely Filing of Income or Withholding Tax Return – Holidays and Weekends*.

**IMPORTANT:** *All partnership returns are due on or before the 15<sup>th</sup> day of the third month following the close of the taxable year.*

**Extension of Time to File a Return**

- A request for an extension of time to file an Arizona partnership return **must** be submitted by the original due date of the return.
- The extension request can be made by filing an Arizona extension request, Arizona Form 120/165EXT, or by filing a federal extension.
- You may file Form 120/165EXT electronically or by mail. If mailing, submit Form 120/165EXT to:  
 Arizona Department of Revenue  
 P O Box 29079  
 Phoenix, AZ 85035-9079
- If the original return is filed under extension, do not include a copy of the extension with your return. However, make sure to check the extension box 82E on page 1 of your return.

**Partnerships filing Composite Returns:** Use Arizona Form 204 to request an extension of time to file a composite return on Arizona Form 140NR for qualifying nonresident individual partners.

### Filing Original Returns

- Returns are due by the 15th day of the third month following the close of the taxable year.
- A partnership filing a short-period return must file the return by the 15th day of the 3rd month after the short-period ends.
- If the partnership has a valid federal or Arizona extension, the return is due by the extended due date.
- If the return is filed under extension, check box 82E on page 1 of the return.
- If the original due date or extended 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 the department’s ruling, GTR 16-2, *Timely Filing of Income or Withholding Tax Return – Holidays and Weekends*.
- The department requests that partnerships include a copy of their “as-filed” federal Form 1065 and all its schedules and attachments with their Arizona return.
- Submit the return to the department electronically unless the partnership has been granted a waiver pursuant to A.R.S. §43-323(F), or has been directed to file a paper return by the IRS or by the department.
- The return must be signed by a partner of the partnership.
- Do not submit a blank Arizona return with a copy of the federal return. Partnerships must:
  - Furnish complete data,
  - Answer all questions on the return,
  - Complete all applicable schedules, and,
  - Include all appropriate supplementary schedules.
- You must electronically submit Arizona Form 165 unless you have one of the following:
  - A federal waiver from electronically filing your federal return.
  - You meet one of the federal exemptions from electronically filing your federal return.
  - You received an Arizona electronic filing waiver.
  - You meet one of the Arizona exemptions from electronically filing your Arizona return.
  - You have been directed by the IRS or the department to paper file your return.
- If you have been granted a waiver from electronically filing Arizona Form 165, or you are not required to e-file your return, mail the return to:
 

Arizona Department of Revenue  
P.O. Box 52153  
Phoenix, AZ 85072-2153
- The department requests that partnerships include a copy of their “as-filed” federal Form 1065 and all its schedules and attachments with their Arizona return.

### Taxable Year Covered by Return

The partnership must have the same taxable year for Arizona purposes as it has for federal purposes.

File the 2023 Arizona Form 165 for calendar year 2023, and fiscal years that begin in 2023 and end in 2024. Indicate whether the taxable year is a calendar year or a fiscal year. If the return is for a fiscal year, indicate the beginning and ending dates for the year in the space(s) provided at the top of page 1. If this is a short-period return, indicate the beginning and ending dates of the short-period. Check the box if this return is based on a 52/53 week taxable year.

The 2023 Arizona Form 165 can also be used if the partnership has a tax year of less than 12 months that begins and ends in 2024 and the 2024 Arizona Form 165 is not available at the time the partnership is required to file its return. The partnership must show its 2024 year on the 2023 Arizona Form 165 and take into account any tax law changes that are effective for tax years beginning after December 31, 2023. If submitting the 2023 Arizona Form 165 for a 2024 short-period return, submit a paper-filed return. Do not submit this short-period return electronically.

### Filing Amended Returns

Partnerships that are subject to the BBA centralized partnership regime (BBA) must submit Arizona Form 165PA to report changes to their federal return either as the result of a federal imputed underpayment assessment and (amended) returns for which an administrative adjustment request (AAR) was filed by the partnership.

Partnerships that made the election to opt out of the BBA for taxable year 2023 must use an amended Arizona Form 165 to report changes to their federal return.

- Any partnership that files an amended return with the IRS must file an Arizona amended return on Arizona Form 165 within 90 days of final determination of the federal amended return by the IRS.
- When submitting an amended Arizona Form 165, check the box labeled “Amended” in the upper right corner of page 1.
- Partnerships must report changes or corrections of the partnership’s taxable income by the IRS or as a result of renegotiation of a contract or subcontract with the United States to the department.
- Within 90 days after the final determination of the change or correction, the partnership must:
  - File a copy of the final determination with the department, concede the accuracy of the determination or state any errors, and request that the department recompute the tax owed Arizona, or,
  - File an amended return as required by the department.
- The partnership must provide sufficient information for the department to recompute the partnership’s Arizona taxable income based on the Revenue Agent Report changes.
- The department may require the partnership to file an amended return if the department does not have the necessary information to recompute the tax owed to Arizona.
- If the amended return is due to federal changes, either an RAR or an amended return, please include a copy of the amended return or RAR with the amended return.

- If the original or amended federal return was filed electronically, you may submit the Arizona amended return electronically. If the original federal return was filed as a paper return, or if electronic filing is unavailable, mail the amended Arizona Form 165 to:

**Arizona Department of Revenue**  
**PO Box 52153**  
**Phoenix, AZ 85072-2153**

- Amended returns not based on federal changes should include any schedules, forms, and/or statements that are necessary to fully explain and substantiate the change(s).
- File an amended 2023 Arizona Form 165 to amend only taxable year 2023. File amended returns for prior years on the respective amended Arizona Form 165 for those taxable years.

**NOTE:** *Do not use this form to report changes from the filing of an amended federal Form 1065 if the partnership is subject to the BBA centralized audit regime. Report any federal imputed underpayment assessment resulting from an audit or from filing an administrative adjustment request (AAR) on Arizona Form 165PA.*

### Electronic Filing of Partnership Tax Returns

**Electronic filing of Arizona partnership income tax returns is required for the 2023 taxable year.** Please see the department's website at <https://azdor.gov/e-services/approved-vendors> for a list of approved software vendors.

### Which Partnerships Are Not Required to Electronically File (e-file) Their Arizona Partnership Income Tax Return?

- Partnerships that cannot e-file their federal return cannot e-file their Arizona return.
- Any partnerships that was granted a federal waiver from filing its federal return is not required to e-file its Arizona return.
- Any partnerships having a federal exemption from electronically filing its federal return is not required to e-file its Arizona return.
- Any partnerships having an Arizona electronic filing waiver or an Arizona exemption is not required to e-file its Arizona return.
- A partnership submitting the 2023 Arizona Form 165 for a 2024 short period return, submit a paper filed return. Do NOT submit this short period return electronically.
- Any partnership that has been directed to file a paper return by the IRS or by the department.
- Due to system constraints, the department's computer system can handle an electronically filed return up to 246MB in size. The department requests that returns in excess of 246MB be filed as a paper return.

### Requesting an Electronic Filing Waiver

Any partnership who is required to file its income tax return electronically may apply to the director for an annual waiver from the electronic filing requirement. The waiver may be granted, which may be renewed for one subsequent year, if any of the following apply:

- The partnership has no computer.
- The partnership has no internet access.
- Any other circumstance considered to be worthy by the director.

Waivers are granted on an annual basis and expire at the end of the requested tax year. Waivers must be renewed each calendar year. If a waiver is not renewed, you will be subject to statutory electronic filing requirements at the expiration of your waiver.

To request a waiver, submit Arizona Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Arizona Form 292 is available at:

<https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

A waiver is not required if the partnership tax return cannot be electronically filed for reasons beyond the taxpayer's control, including situations in which the taxpayer was instructed by either the Internal Revenue Service or the Arizona Department of Revenue to file by paper.

Please contact the department at [azefile@azdor.gov](mailto:azefile@azdor.gov) if you need assistance in electronically submitting your Arizona partnership tax return. If your return has been rejected, please include the Arizona submission ID and the form type (Form 165) in your correspondence.

### Submitting Arizona Form 165 Schedule(s) K-1 and Arizona Form 165 Schedule(s) K-1(NR)

Schedules K-1 and K-1(NR) [Notice] are an integral part of the partnership return. File one copy of each partner's Notice with the partnership return. Provide each partner with a copy of their completed Notice. Retain a copy of each completed Notice for the partnership's records.

For calendar year filers, check the box, "calendar year 2023." For fiscal year filers, check the box, "fiscal year" and enter the beginning and ending dates for the fiscal year. If this is a short-period return, indicate the beginning and ending dates for the short period.

**NOTE:** *See pages 18 and 21 for instructions on completing Arizona Form 165, Schedule(s) K-1 and K-1(NR).*

**Partnerships filing their partnership return electronically** must electronically submit Schedule(s) K-1 and K-1(NR) to the department.

**NOTE:** *Due to system constraints, the department's computer system can handle an electronically filed return up to 246 MB in size. This accommodates a partnership's return and approximately 66,054 Arizona Form 165 Schedule(s) K-1 and/or K-1(NR) [Schedules K-1 and K-1(NR)]. Partnerships submitting Arizona Form 165 with more than 11,000 Schedules K-1 and/or K-1(NR) **must file a paper return**. The department requests those partnerships submit their Schedules K-1 and/or K-1(NR) by CD, DVD, or flash drive. Please refer to the section below, "OPTIONAL REPORTING FORMAT..." for additional information.*

**Partnerships filing their partnership return by paper** may submit Schedule(s) K-1 and K-1(NR) to the department by CD, DVD, flash drive (Optical Media), or by paper. Partnerships choosing to submit Schedules K-1 and K-1(NR) using Optical Media, see the information presented below.

**OPTIONAL REPORTING FORMAT for Schedule(s) K-1 and Schedule(s) K-1(NR) required to be included with Arizona Form 165:** The department will accept a hard copy spreadsheet that contains all the requested information, or the

information may be submitted on electronic media as a Microsoft Excel spreadsheet on a CD, DVD or flash drive (Optical Media). The document submitted by Optical Media must be Microsoft Windows compatible.

Partnerships submitting the information on Optical Media should secure it in a hard case and include it with the tax return. The Schedule(s) K-1 and Schedule(s) K-1(NR) submitted on Optical Media are part of the income tax return and are subject to the sworn statement on the return that they are correct to the best of the signer's knowledge and belief.

The Optical Media should be labeled with the partnership's name, employer identification number (EIN), taxable year and Arizona Form 165, Schedule K-1/K-1(NR). Partnerships may password protect the Optical Media and email the password separately to [MediaLibrarian@azdor.gov](mailto:MediaLibrarian@azdor.gov). Include "Arizona Form 165, Schedule K-1/K-1(NR)" in the subject line of the email. In the body of the email, include the same information that is on the label. If the Optical Media is password protected, include the email address the password originated from on the label of the Optical Media.

Mail the Optical Media to:

Arizona Department of Revenue  
Attention: Media Librarian  
P.O. Box 52153  
Phoenix, AZ 85072-2153

**The department will not return or copy any media.**

**CAUTION:** *The partnership substitutes the Optical Media at its own risk and understands that the information may need to be provided to the department again at a later date if it is not accessible by the department for any reason.*

**Payment of Tax, Penalties, and Interest**

The entire amount of tax, penalties, and interest is due by the original due date of the return.

**Payment by Electronic Funds Transfer**

Partnerships making the PTE election with a tax liability of \$500 or more for the 2023 taxable year must pay their tax liability by Electronic Funds Transfer (EFT).

**NOTE:** *If a partnership was required to pay its 2023 tax liability by EFT, it must also pay any additional tax due from an amended return by EFT.*

**Requesting a Waiver From the EFT Requirement**

A partnership may apply to the director for an annual waiver from the electronic payment requirement. The application must be received by December 31 of each year. The director may grant the waiver if any of the following applies:

- The partnership has no computer.
- The partnership has no internet access.
- Any other circumstance considered to be worthy by the director exists, including:
  - The partnership has a sustained record of timely payments, and,
  - No delinquent tax account with the department.

To request a waiver, submit Arizona Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Arizona Form 292 is available at:

<https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

**NOTE:** *A taxpayer who is required to pay by EFT but who fails to do so is subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).*

*For additional information on electronic funds transfer, 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.*

**How to Make EFT Payments**

Partnerships making an EFT payment from a checking or savings account or by credit card are no longer required to register with the department prior to making EFT payments for tax year 2023. Visit [AZTaxes.gov](http://AZTaxes.gov), click "Make a Corporation/S Corporation/Partnership Payment" and follow the prompts.

- **Electronic payment from checking or savings account/e-check/ACH Debit.**

Payments can be made electronically from a checking or savings account. Go to: [www.AZTaxes.gov](http://www.AZTaxes.gov), click "Make a Corporation/S Corporation/Partnership Payment", follow the prompts, and choose the e-check option. Follow the prompts to make your payment.

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. **When 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.**

- **Online credit card payment.**

Payments can be made by American Express, Discover, MasterCard, or Visa credit cards. Go to: [www.AZTaxes.gov](http://www.AZTaxes.gov), click "Make a Corporation/S Corporation/Partnership Payment", follow the prompts, and choose the credit card option. This will take you to the website of the credit card payment service provider. Follow the prompts to make your payment.

The service provider will charge a fee based on the amount of the tax payment. The service provider will disclose the amount of the fee during the transaction and you will be given the option to continue or cancel. **If you accept the fee and complete the credit card transaction, a confirmation number will be generated. Please keep this confirmation number as proof of payment.**

- **Partnerships may also make EFT payment by ACH Credit.** Partnerships wishing to pay by ACH credit must register with the department before their ACH payment will be accepted.

To register to make ACH Credit payments, complete Arizona Form number 10366, *Electronic Funds Transfer (EFT) Disclosure Agreement for ACH Credit filers*, available here: <https://azdor.gov/forms/other-forms/electronic-funds-transfer-eft-disclosure-agreement-ach-credit-filers>. Complete the form as instructed. Submit the completed form at least

ten business days before the first anticipated transaction as it may take that long to process the application.

Fax the completed form to the department at (602) 771-9913. You may also email the completed form to the department at: [electronicfundstransfer@azdor.gov](mailto:electronicfundstransfer@azdor.gov). If you have not received your approval within one week, you may direct follow-up inquiries to: [electronicfundstransfer@azdor.gov](mailto:electronicfundstransfer@azdor.gov). Once the application is processed, you will receive additional information to present to your bank to make the ACH Credit payment.

Your payment will be electronically transferred into the department's account, normally the next business day. Consult with your bank for the timeframe required to make timely payments. You may be charged a service fee.

**NOTE:** *Partnerships using a foreign bank account to make EFT payments cannot make EFT payments by ACH Debit. The department does not accept ACH Debit payments from a foreign bank account. If the Partnership wishes to make payment from a foreign bank account by EFT, the payment MUST be made by ACH Credit. See the instructions for ACH Credit above to register and make ACH Credit payments.*

**Estimated Tax Payments for 2024**

Partnerships making the Pass-Through Entity election to pay tax on its pass-through income must make Arizona estimated payments if their PTE income for the previous was in excess of \$150,000 for the taxable year. All Partnerships making the PTE election are required to make four PTE estimated payments. Those payments are due by the 15<sup>th</sup> day of the 4<sup>th</sup>, 6<sup>th</sup>, and 9<sup>th</sup> months of the taxable year. The 4<sup>th</sup> required payment is due by the 15<sup>th</sup> day of the 1<sup>st</sup> month following the close of the taxable year

Partnerships that fail to make the required estimated tax payments are subject to a penalty on any estimated tax payment which is late or underpaid.

The Arizona required annual payment of estimated tax for a partnership is the **smaller** of:

- Ninety percent of the Partnership's Arizona tax liability for the *current* taxable year; or
- One hundred percent of the tax due for the previous taxable year.

Complete Arizona Form 120/PTE-W to compute the estimated payments for 2024.

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

*For additional information on electronic funds transfer, 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.*

**MAKING ESTIMATED TAX PAYMENTS**

Partnerships making estimated tax payments for 2024 that expect a 2024 income tax liability of \$500 or more must make Arizona estimated income tax payments using EFT. See the Section *Payment by Electronic Funds Transfer* on page 5 for details on making tax payments by EFT.

**NOTE:** *Partnerships that make estimated tax payments by EFT should not submit Arizona Form 120/165ES.*

Partnerships making estimated payments for 2024 that expect a 2024 income tax liability of less than \$500 may pay by check, e-check, money order, credit card, or they may elect to participate in EFT. See the Section, *Payment by Electronic Funds Transfer* on page 5 for additional information. If paying by check or money order, complete Arizona Form 120/165ES and include the check or money order with the form.

**Is the partnership subject to the Estimated Underpayment Penalty for the 2023 taxable year?**

*See the instructions for Arizona Form 220/PTE.*

**Penalties**

**Partnerships that do not make the Pass-Through Entity election may be subject to the Information Return Penalty.**

This form is an information return when no tax liability is due. The penalty for failing to file, filing late (including extensions) or filing an incomplete information return is \$100 for each month or fraction of a month that the failure continues, up to a maximum penalty of \$500.

**Partnerships making the Pass-Through Entity election may be subject to the following penalties:**

**A. Late Filing Penalty**

Without a valid federal or Arizona extension, a return filed after the original due date is subject to the late filing penalty. 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. Extension Underpayment Penalty**

The partnership making the PTE election must pay 90% of the tax liability reported on its return by the original due date of the return. If it does not, the extension underpayment penalty is charged on any late or underpaid extension payments. The extension underpayment penalty is 0.5% (.005) of the tax not paid for each 30-day period or fraction of a 30-day period between the original due date and the date the tax is paid. The maximum penalty is 25% of the unpaid tax. Taxpayers subject to the extension underpayment penalty are not subject to the late payment penalty described in C below.

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

**Amended Return Filers:** *If you voluntarily file an amended return and pay the additional tax due when you file your amended return, 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.*

Refer to the department’s 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. Information Return Penalty**

This form is an information return when no tax liability is due. The penalty for failing to file, filing late (including extensions) or filing an incomplete information return is \$100 for each month, or fraction of a month that the failure continues, up to a maximum penalty of \$500.

- If the partnership is not making the PTE election, it may be subject to the Information Return Penalty.
- If the partnership is making the PTE election and a portion of its partners opt out of its PTE election or are not eligible to make the PTE election, it may be subject to the Information Return Penalty.
- If the partnership is making the PTE election and all its partners do not opt out of its PTE election, it is not subject to the Information Return Penalty.

**E. Underpayment of Estimated Tax Penalty**

The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 220/PTE, *Underpayment of Estimated Tax by Corporations*, for further details.

- The partnership making the PTE election must complete Arizona Form 220/PTE if it made its estimated tax payments based on either the annualized income installment or adjusted seasonal installment methods. This is required even if no penalty is due.
- The partnership does not have to complete Arizona Form 220/PTE if the partnership made its estimated tax payments in four equal installments based on an amount equal to either 90% of the current taxable year’s tax liability or 100% of the prior year’s tax liability. “Tax liability” means the liability reduced by any refundable tax credits and the claim of right adjustment, if applicable.

The department will compute the estimated tax underpayment penalty based on either of these methods and notify the partnership of any amount due.

**F. Failure to Pay by Electronic Funds Transfer**

Partnerships making the PTE election that anticipate a tax liability of \$500 or more for the taxable year must pay their tax liability by Electronic Funds Transfer (EFT).

Partnerships required to pay their tax liability by EFT that fail to do so may be subject to a penalty equal to five percent (5%) of the amount of the payment not made by EFT.

**Interest**

Partnerships making the Pass-Through Entity election may be subject to interest on any portion of PTE tax not paid by the due date.

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 prescribed by the IRS. The Arizona rate of interest for both underpayments and overpayments *for all taxpayers* is the federal underpayment rate.

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.

**Specific Instructions**

Calendar year filers, check the box “calendar year 2023”. Fiscal year filers, check the box, “fiscal year” and enter the beginning and ending dates for the fiscal year. If this is a short-period return, indicate the beginning and ending dates of the short-period. Check the box if this return is based on a 52/53 week taxable year.

Type or print the required information in the name, address, and information boxes on the top of page 1. Include the Business Telephone Number (with area code), and the Business Activity Code (NAICS Code) from the partnership’s federal return.

If the taxpayer 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 EIN. Partnerships that fail to include their EIN may be subject to a penalty. All returns, statements, or other documents filed with the department must have the partnership’s EIN indicated on them.

**Box 68**

- Check Box “A” if this is the partnership’s first return filed to Arizona.
- Check Box “B” if the partnership changed its name during the tax year.
- Check Box “C” if the partnership changed its address during the tax year.

**Box 82E**

Check this box if this return is being filed under extension.

**Line A**

If the partnership is making the Pass-Through Entity (PTE) election to pay Arizona income tax on its flow-through income at the entity level, check “Yes”. If the partnership is not making the PTE election, check “No”.

**Line B**

If the partnership operates using a different name (Doing Business As), enter that DBA.

**Line C**

Enter the date the partnership began its business operations.

**Line D**

If this partnership is an Arizona-only partnership check “Yes”. If not, check “No”.

**Line E**

- If this is the partnership’s final return to Arizona using this EIN, check “Yes.”
- If this is not the partnership’s final return to Arizona using this EIN, check “No.”

**Line F**

- If line D is “No”, check the box indicating the method the partnership is using to apportion its income to Arizona:
  - Check Box 1, if the partnership used the Air Carrier Apportionment. Complete Arizona Form ACA and include it with this return.
  - Check Box 2, if the partnership used the Standard apportionment formula.
  - Check Box 3, if the partnership used the Sales Factor Only apportionment formula.
- If the partnership is not required to apportion its income to Arizona, leave this line blank.

**Line G**

- Check this box only if the partnership elected to be treated as a Multistate Service Provider (MSP) by completing Arizona Schedule MSP and including it with this return. Check the appropriate box, 1 through 5, to indicate the year of the taxpayer’s election cycle.
- If the partnership did not elect multistate service provider treatment, leave this line blank.

**Line H**

- If the partnership filed 2021 and 2022 Arizona partnership returns, check “Yes.”
- If the partnership did not file 2021 and 2022 Arizona partnership returns, check “No.” Enter the reason for not filing Arizona partnership returns on the line below.

**Line I**

- If the partnership filed amended federal partnership returns for prior years, check “Yes.” List the tax years on the line below.
- If the partnership did not file amended federal partnership returns for prior years, check “No.”

**Line J**

- If the IRS made adjustments to any federal income tax return the partnership filed that were not reported to the department, check the box labeled, “Yes.” List the years not reported on the line below. Submit these adjustments separately to the department using the address indicated in the instructions for Arizona Form 165.
- If the partnership has reported adjustments made to its previously filed federal Forms 1065 by the IRS, check “No.”

**Line K**

Enter the name and complete location of the person or entity responsible for maintaining the partnership’s books and records.

**Line L**

Will a composite return be filed on Arizona Form 140NR?

- If the partnership is not making the PTE election, it may file a composite return for its nonresident partners.
- If the partnership is making the PTE election and a portion of its nonresident partners opt out of its PTE election, it may file a composite return only for those nonresident partners provided all qualifying criteria for the composite

- return are met, including having a minimum of 10 nonresident partners included in the composite return.
- If the partnership is making the PTE election and all its nonresident partners do not opt out of the PTE election, it may not file a composite return.

Check “Yes” if a composite return will be filed on Arizona Form 140NR. If not, check “No.”

**NOTE:** For additional information, see the instructions for Form 140NR on how to complete a composite return.

**Marijuana Establishments Only**

**Line M**

- Check Box 1 if the partnership is licensed by ADHS as an Adult Use only establishment,
- Check Box 2 if the partnership is licensed by ADHS as a Dual Licensee that has elected to operate on a for-profit basis, or
- Check Box 3 if the partnership is licensed by ADHS Dual Licensee that has not elected to operate on a for-profit basis, or
- Check Box 4 if the partnership is registered with ADHS as an NMMD only.

**Line N**

If a box on Line M is checked, enter the registry identification number issued by ADHS for that marijuana establishment.

**Adjustment of Partnership Income From Federal to Arizona Basis**

**Line 1 - Federal Ordinary Business and Rental Income**

Enter the total of ordinary income (loss) from trade or business activities, rental real estate activities, and other rental activities from the federal Form 1065, Schedule K.

**Schedule A - Additions to Partnership Income**

**Line A1 - Total Federal Depreciation**

Enter the total amount of depreciation deducted on the federal return.

**Line A2 - Non-Arizona Municipal Bond Interest**

Enter interest income received from any state or municipal obligations (other than Arizona) credited to or earned by the partnership during the taxable year. Reduce the amount of interest income by the amount of any interest on indebtedness and other related expenses incurred or continued to purchase or carry those obligations that were not otherwise deducted or subtracted in the computation of Arizona gross income. Do not include interest from obligations specifically exempt from Arizona income tax, nor any related expenses.

**Line A3 - Additions Related to Arizona Tax Credits**

Enter on line A3 the following additions to partnership income that are related to Arizona tax credits. Complete the worksheet for Schedule A, line A3 on page 6 of the return before entering the total. If you enter an amount on line A3, include the worksheet with your return.

**A. Agricultural Water Conservation System Credit**

Enter the total amount of expenses used to calculate the allowable credit claimed on Arizona Form 312 for this taxable year.



**B. Credit for Taxes Paid for Coal Consumed in Generating Electrical Power in Arizona**

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

**C. Credit for Employment of Temporary Assistance for Needy Families (TANF) Recipients**

Enter the amount of wage expenses deducted pursuant to the IRC for which the taxpayer claimed the TANF credit on Arizona Form 320.

**D. 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 for which a credit was taken, or that is pollution control equipment for which a credit was taken before taxable year 2023, over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the partnership elected to claim a tax credit on Arizona Form 325 in a current or prior taxable year.

• **Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the property for which a credit was taken, or that is pollution control for which a credit was taken before taxable year 2023, exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the partnership elected to claim a tax credit on Arizona Form 325 in a prior taxable year was sold or otherwise disposed of during this taxable year.

**E. Total Additions Related to Arizona Income Tax Credits**

Add lines A through D. Enter the total. Also, enter the total on Page 1, line A3.

**Line A4 - Other Additions to Partnership Income**

Enter the following "other additions" to the partnership income. Complete the worksheet for Schedule A, line A4 on page 6 of the return before entering the total. If you enter an amount on line A4, include the worksheet with your return.

**A. Positive Partnership Income Adjustment**

Make this adjustment if this partnership is a partner of another partnership.

If the partnership received Arizona Form 165 Schedule K-1(NR), and the net amount on line 17 is positive, enter the amount from column (a). If the partnership received more than one Arizona Form 165, Schedule K-1(NR), total the amounts from line 17, column (a) and enter that total on line A4.

If the net amount on Arizona Form 165 Schedule K-1(NR), line 17 is negative, enter the amount from column (a) on Schedule B, line B5. See the instructions for Schedule B, line B5 on page 10 for additional information.

**Arizona Form 165PA Schedule K-1(NR):** *If this partnership received Arizona Form 165PA Schedule K-1(NR) for this taxable year, and the amount on line 3, is positive, file an amended*

*Arizona Form 165 for this taxable year. Enter the positive amount from line 3 of the 165PA Schedule K-1(NR) on line A4. Complete the amended return. Provide amended Arizona Form 165 Schedule(s) K-1 and K-1(NR) to the partners. Submit the amended Arizona Form 165 and the amended Arizona Form 165 Schedule(s) K-1 and K-1(NR) to the department.*

**B. Federal Depreciation of Child Care Facilities**

Arizona's statutes, which allow special amortization for the cost of day care facilities, are no longer applicable to partnerships. However, if the partnership elected to claim the special amortization under Arizona's former statutory provisions, the partnership must continue to amortize these items in accordance with those provisions. Therefore, the partnership must make the same additions to and subtractions from Arizona gross income that Arizona's former statutory provisions required. If this applies to the partnership, enter the amount of depreciation deducted for these items on the federal partnership return.

**C. Expenditures for the Americans with Disabilities Act**

If a subtraction is or has been taken in the current or a prior taxable year for the full amount of eligible access expenditures paid or incurred to comply with the Americans with Disabilities Act of 1990 or Title 41, chapter 9, article 8, enter any amount of eligible access expenditures that is recognized under the internal revenue code, including any amount that is amortized and that is included in computing Arizona taxable income for the current taxable year.

**D. Total Other Additions Partnership Income**

Add lines A through C. Enter the total. Also, enter the total on Page 1, line A4.

**Line 2 - Total Additions to Partnership Income**

Add lines A1 through A4. Enter the total.

**Line 3 - Subtotal**

Add lines 1 and 2. Enter the total.

**Schedule B - Subtractions From Partnership Income**

**Line B1 - Recalculated Arizona Depreciation For Current Year**

**For assets placed in service in taxable years beginning before December 31, 2012,** enter the total amount of depreciation allowable pursuant to IRC § 167(a) for the taxable year calculated as if the taxpayer had elected not to claim bonus depreciation for eligible properties for federal purposes.

**For assets placed in service in taxable years beginning from and after December 31, 2012 through December 31, 2013,** the amount of the subtraction for these assets depends on the method used to compute the depreciation for assets. See the department's procedure, ITP 16-2, *Procedure for Individuals who Claim Federal and/or Arizona Bonus Depreciation.*

**For assets placed in service in taxable years beginning from and after December 31, 2013 through December 31, 2015,** enter the total amount of depreciation allowable pursuant to IRC § 167(a) for the taxable year calculated as if the bonus depreciation is 10% of the amount of federal bonus depreciation pursuant to IRC § 168(k). See the department's procedure, ITP 16-2, *Procedure for Individuals who Claim Federal and/or Arizona Bonus Depreciation.*

**For assets placed in service in taxable years beginning from and after December 31, 2015 through December 31, 2016,** enter the total amount of depreciation allowable pursuant to IRC § 167(a) for the taxable year calculated as if the bonus depreciation is 55% of the amount of federal bonus depreciation pursuant to IRC § 168(k).

**For assets placed in service in taxable years beginning after December 31, 2016,** enter the total amount of depreciation allowable pursuant to IRC § 167(a) for the taxable year calculated as if the bonus depreciation had been the full amount of federal bonus depreciation pursuant to IRC § 168(k).

Add all amounts together and enter the total on line B1.

**NEW Arizona Bonus Depreciation:** For more information and examples of how to calculate Arizona bonus depreciation, see the department's procedure, *ITP 16-2, Procedure for Individuals who Claim Federal and/or Arizona Bonus Depreciation*, before completing line B1.

**Line B2 - Basis Adjustment for Property Sold or Otherwise Disposed of During the Taxable Year**

With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer who has complied with the requirement to add back all depreciation with respect to that property on tax returns for all taxable years beginning from and after December 31, 1999, enter the amount of depreciation that has been allowed pursuant to IRC § 167(a) to the extent that the amount has not already reduced Arizona taxable income in the current or prior years. The effect of this is to allow a subtraction for the difference in basis for any asset for which bonus depreciation has been claimed on the federal return.

**Line B3 - Interest from U.S. Government Obligations**

Enter the interest income received from U.S. obligations included on the federal Form 1065, Schedule K, exempt from state income taxes under federal law.

**NOTE:** *Not all obligations associated with the federal government are obligations of the federal government. Obligations of the Government National Mortgage Association (GNMA) or the Federal National Mortgage Association (FNMA) are not obligations of the U.S. government and, therefore, are taxable to Arizona.*

See the department's ruling, *ITR 06-1, Obligations of the United States Government, Federal Agencies, and United States Territories, for a listing of qualifying U.S. obligations.*

**Line B4 - Agricultural Crops Charitable Contribution**

Enter the amount of the allowable subtraction for qualified crop contributions made during the taxable year to one or more Arizona tax-exempt charitable organizations for use in Arizona. Refer to the department's procedure, *ITP 12-1, Establishing an Income Tax Subtraction for Agricultural Crops Contributed to Charitable Organizations*, for information on how to determine if the contribution qualifies for the subtraction.

**Line B5 - Other Subtractions from Partnership Income**

Enter the following "other subtractions" from partnership income. Complete the worksheet for Schedule B, line B5 on page 6 of the return before entering the total. If you enter an amount on line B5, include the worksheet with your return.

**A. Negative Partnership Income Adjustment**

Make this adjustment if the partnership is a partner in another partnership.

If the partnership received Arizona Form 165, Schedule K-1(NR) and the net amount on line 17 is negative, enter the amount from column (a) as a positive number on line B5. If the partnership received more than one Arizona Form 165 Schedule K-1(NR), total the amounts from line 17, column (a) and enter that total on line B5 as a positive number.

If the net amount on Arizona Form 165, Schedule K-1(NR), line 17 is positive, enter the amount from column (a) on Schedule A, line A4. See the instructions for Schedule A, line A4 on page 9 for additional information.

**Arizona Form 165PA Schedule K-1(NR):** *If this partnership received Arizona Form 165PA Schedule K-1(NR) for this taxable year, and the amount on line 3 is negative, file an amended Arizona Form 165 for this taxable year. Enter the negative amount from line 3 of the 165PA Schedule K-1(NR) as a positive number on line B5. Complete the amended return. Provide amended Arizona Form 165, Schedule(s) K-1 and K-1(NR) to the partners. Submit the amended Arizona Form 165 and the amended Arizona Form 165 Schedule(s) K-1 and K-1(NR) to the department.*

**B. Mine Exploration Expenses**

Arizona no longer has special mine exploration expense provisions for partnerships. Arizona now conforms to the federal treatment of mine exploration expenses. However, if the partnership deferred exploration expenses under Arizona's former provisions, the partnership may subtract such deferred expenses. The partnership claims the subtraction on a ratable basis as the units of produced ores or minerals discovered or explored as a result of such expenditures are sold. Enter the amount of such deferred exploration expenses.

**C. Interest on Federally Taxable Arizona Obligations Evidenced by Bonds**

Enter the amount of interest income received on obligations of the State of Arizona, or any of its political subdivisions, evidenced by bonds, that is included on the federal Form 1065, Schedule K. Omit interest income received on obligations of the State of Arizona, or any of its political subdivisions, exempt from federal taxation and not included in the partnership's federal distributive income.

**D. Wood Stoves, Wood Fireplaces or Gas-Fired Fireplaces**

Enter the amount allowed by A.R.S. § 43-1027 for the cost of *converting* an existing wood fireplace to a qualified wood stove, wood fireplace, or gas-fired fireplace on property located in Arizona.

**E. Expenses Related to Certain Federal Tax Credits**

Enter the amount of wages or salaries paid or incurred by the taxpayer for the taxable year not deducted in computing Arizona gross income if the taxpayer received the following federal credits:

- The Work Opportunity Credit,
- The Empowerment Zone Employment Credit,
- The Credit for Employer-Paid Social Security Taxes on Employee Cash Tips, and/or
- The Indian Employment Credit.

**F. Expenditures for the Americans with Disabilities Act**

Enter the amount of expenditures paid or incurred during the taxable year to comply with the Americans with Disabilities Act of 1990 or A.R.S. Title 41, chapter 9, article 8 by retrofitting real property that was originally placed in service at least ten years before the current taxable year. (See A.R.S. §§ 43-1122 and 43-1124).

“*Eligible business access expenditures*” include reasonable and necessary amounts paid or incurred to:

- Remove any barriers that prevent a business from being accessible to or usable by individuals with disabilities.
- Provide qualified interpreters or other methods of making audio materials available to hearing-impaired individuals.
- Provide qualified readers, taped texts and other effective methods of making visually delivered materials available to individuals with visual impairments.
- Acquire or modify equipment or devices for individuals with disabilities.
- Provide other similar services, modifications, materials or equipment.

**NOTE:** *A taxpayer who has been cited for noncompliance with the Americans with Disabilities Act of 1990 or Title 41, Chapter 9, Article 8 by either federal or state enforcement officials is ineligible for a subtraction under this section for any expenditure required to cure the cited violation.*

**G. Marijuana Establishments Only***Disallowed Federal Expenses*

- If the partnership is licensed by ADHS as a Marijuana Establishment or as a Marijuana Testing Facility, enter the amount of disallowed federal expenses from *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments*.
- If the partnership is licensed by ADHS as a ***Dual Licensee that has made the election to operate on a for-profit basis***, enter the amount of disallowed federal expenses from *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments*.
- If the partnership is licensed by ADHS as a ***Dual Licensee that has not made the election to operate on a for-profit basis***, leave blank.
- If the partnership is registered by ADHS as an ***NMMD***, leave blank.

**H. Total Other Subtractions from Partnership Income**

Add lines A through G. Enter the total. Also, enter the total on Page 1, line B5.

**Line 4 - Total Subtractions from Partnership Income**

Add lines B1 through B5. Enter the total.

**Line 5 - Partnership Income Adjusted to Arizona Basis**

Subtract line 4 from line 3. Enter the difference. This is the partnership income adjusted to an Arizona basis.

**Line 6 - Net Adjustment of Partnership Income from Federal to Arizona Basis**

Subtract line 1 from line 5. Enter the difference. This is the adjustment of partnership income from federal to Arizona basis

that will be reported on Arizona Form 165 Schedule K-1 or Schedule K-1(NR) for each partner.

**Line 7 - Penalty for Late Filing or Incomplete Filing**

**Partnerships that did not make the PTE election**, this is an information return. If it is incomplete or it is filed late (including extension) it is subject to a penalty of \$100 per month or fraction of a month during which the failure continues, up to a maximum of \$500. If this return is incomplete or it is filed late, enter the amount of the penalty. If this return is not incomplete or filed late, skip Part 2, complete Schedules C, D and/or G as necessary.

**Partnerships that made the PTE election and a portion of its partners opted out of its PTE election or are not eligible to make the PTE election**, this is an information return. If it is incomplete or it is filed late (including extension) it is subject to a penalty of \$100 per month or fraction of a month during which the failure continues, up to a maximum of \$500. If this return is incomplete or it is filed late, enter the amount of the penalty. Continue to Part 2, line 8.

**Partnerships that made the PTE election and all partners did not opt out of its PTE election**, this is not an information return. Continue to Part 2, line 8.

If this penalty is assessed, make checks payable to the Arizona Department of Revenue. Include the partnership's EIN on the front of the check or money order. Include the check or money order with the return. Mail the check and the return to:

Arizona Department of Revenue

PO Box 52153

Phoenix, AZ 85072-2153

---



---

**Part 2 - Calculation of Partnership Tax to be Paid at the Entity Level**


---



---

Partnerships making the PTE election, complete Part 2. All others, leave blank and skip to Schedule C.

**Calculation of the Income Attributable to the Partners**

**NOTE for Lines 11, 13, 15, and 17:** *Enter the amounts from Schedule E on these lines as a decimal carried out to 6 digits to the right of the decimal. A partnership distribution of 6.54% would be 0.065400. A partnership distribution of 100% would be 1.000000.*

**Line 8**

Enter the amount from line 5.

**Line 9**

Enter the total of all items requiring separate computation.

**NOTE:** *2023 legislation, SB 1734 mandated a change in the starting point to compute the Arizona taxable income for partnerships making the PTE election. For taxable years beginning from and after December 31, 2022, the starting point to calculate Arizona taxable income for partnerships making the PTE election is the partnership's ordinary income and rental income including any Arizona additions found in A.R.S. § 43-1021 less any Arizona subtractions found in A.R.S. § 43-1022, **plus**, the items that require separate computation under section 43-1412, paragraphs 1 through 16.*

**Line 10**

Add lines 8 and 9. Enter the total.

**Line 11**

Add lines E1 and E4 in column (c) of Schedule E. Enter the total. This is the total of the partnership distribution to all resident individual partners, and to all resident trust and estate partners, that did not opt out of the partnership's PTE election to pay tax at the entity level.

**Line 12**

Multiply line 10 by line 11. Enter the result. This is the partnership income attributable to resident individual partners and resident trust and estate partners that did not opt out of the partnership's PTE election to pay tax at the entity level.

**Line 13**

Add lines E2 and E5 in column (c) of Schedule E. Enter the total. This is the total of the partnership distribution to all nonresident individual partners, and to all nonresident estate and trust partners, that did not opt out of the partnership's election to pay tax at the entity level.

**Line 14**

Multiply line 10 by line 13. Enter the result. This is the partnership income attributable to nonresident individual partners and nonresident trust and estate partners that did not opt out of the partnership's PTE election to pay tax at the entity level.

**Line 15**

Enter the distributive share from line E3, column (c) of Schedule E. This is the total of the partnership distribution to all part-year resident partners that did not opt out of the partnership's PTE election to pay tax at the entity level.

**Line 16**

Multiply line 10 by line 15. Enter the result. This is the partnership income attributable to part-year resident partners that did not opt out of the partnership's PTE election to pay tax at the entity level.

**Line 16A**

Enter the portion of line 16 that all part-year resident partners earned while residents of Arizona.

**Line 16B**

Enter the portion of line 16 that all part-year resident partners earned while nonresidents of Arizona.

**NOTE:** *The total of lines 16A and 16B must equal the amount reported on line 16.*

**Line 17**

Enter the distributive share from line E7, column (c) of Schedule E. This is the total of the partnership distribution to all partners that opted out of the partnership's PTE election to pay tax at the entity level, and to all entity partners that are not eligible to make the election.

**Line 18**

Multiply line 10 by line 17. Enter the result. This is the partnership income attributable to partners that opted out of the partnership's PTE election to pay tax at the entity level and to entities that are not eligible to make that election.

**NOTE:** *The total of lines 12, 14, 16 and 18 must equal the amount reported on line 10.*

**Calculation of the Tax Attributable to Partners That Did Not Opt Out of the PTE Election**

**Line 19**

Add line 12 and line 16A. Enter the total. If the total is less than zero, "0", enter "0".

**Line 20**

Multiply the amount on line 19 by the PTE tax rate, 2.5% (0.025). Enter the result. This is the amount of the tax attributable to resident partners and part-year resident partners (during the period of residency) that did not opt out of the partnership's PTE election to pay tax at the entity level. Distribute this amount to each resident partner that did not opt out of the partnership's PTE election based on that resident partner's share of the partnership income that is taxable in Arizona.

**Line 21**

Add line 14 and line 16B. Enter the total. If the total is less than zero "0", enter "0".

**Line 22 – Arizona Apportionment Ratio  
Multistate Partnerships Only**

If Line D is "Yes", enter 1.0; otherwise compute the Arizona apportionment ratio on Schedule C (for non-air carrier partnerships) or on Schedule Air Carrier Apportionment (ACA) (for qualified air carrier partnerships). Enter the average apportionment ratio on line 22. Carry out the decimal to six places.

**NOTE:** *If line 22 is "0.000000", the partnership is considered to have no Arizona nexus.*

*If line 22 is blank or "1.000000", the partnership is considered to be 100% Arizona (taxable entirely within Arizona).*

**Line 23**

Multiply the amount on line 21 by the decimal on line 22. Enter the result.

**Line 24**

Multiply the amount on line 23 by the PTE tax rate, 2.5% (0.025). Enter the result. This is the amount of the tax attributable to nonresident partners and part-year resident partners (during the period of nonresidency) that did not opt out of the partnership's PTE election to pay tax at the entity level. Distribute this amount to each nonresident partner that did not opt out of the partnership's PTE election based on that nonresident partner's share of the partnership income that is taxable in Arizona.

**Calculation of the Partnership's PTE Tax, Interest and Penalties**

**Line 25**

Add line 20 and line 24. Enter the total. This is the amount of PTE tax owed by the partnership.

**Line 26**

Enter the Extension Payment made with Form 120/165EXT or online.

**Line 27**

Enter the total amount Estimated Tax Payments from Schedule F, line F7, column (b).

**Line 28 – Amended Returns**

Enter the amount of the payment sent with the original return. Also include any additional payment(s) made after the original return was filed.

**Line 29 – Subtotal of Tax Payments**

Add lines 26 through 28. Enter the total.

**Line 30 – Overpayments of Tax from Original Return**

**Amended returns only:** Enter all refunds received from the original return or previous amended returns submitted.

**Line 31 – Total Tax Payments**

Subtract line 30 from line 29. Enter the difference.

**Line 32 – Balance of Tax Due**

If line 25 is larger than line 31, subtract line 31 from line 25. Enter the difference.

**Line 33 – Overpayment of Tax**

If line 31 is larger than line 25, subtract line 25 from line 31. Enter the difference.

**Line 34 - Penalty and Interest**

Partnerships making the PTE election to pay tax at the entity level may be subject to penalties and interest. The partnership may choose to calculate any penalty and interest due as a result of late filing, late payment of tax, or extension underpayment of tax. Interest is calculated on the amount shown on line 25 at the prevailing rate. The interest period is from the original due date of the return to the payment date. See the "Penalties " section beginning on page 3 of these instructions.

**NOTE:** *Partnerships making the PTE election to pay tax at the entity level may not be subject to the Information Return Penalty. See "Information Return Penalty" on page 6 for more information about the Information Return Penalty and the PTE election.*

**Line 35 – Estimated Tax Underpayment Penalty**

Partnerships making the PTE election to pay tax at the entity level may be subject to the Estimated Tax Underpayment Penalty.

The partnership does not have to complete Arizona Form 220/PTE, *Underpayment of Estimated Tax by Corporations and Pass-Through Entities*, if it 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 (reduced by refundable tax credits and claim of right adjustments, if applicable), paid in four equal installments; or
- An amount equal to 100% of the taxpayer's tax liability (reduced by refundable tax credits and claim of right adjustments, if applicable) 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 taxpayer of any amount due. If the taxpayer elects to have the department compute the penalty, do not check box 30A or enter an amount on line 35.

The taxpayer **must** complete Arizona Form 220/PTE, even though no penalty is due, if it made its estimated tax payments based the annualized income installment method.

Enter the total penalty from Arizona Form 220/PTE, Part C, line 37. Include the completed Arizona Form 220/PTE with the return **and** check box 35A.

See the instructions for Arizona Form 220/PTE for detailed information.

**Line 36 – Information Return Penalty**

Enter the amount from line 7.

**Line 37 – Total Amount Due**

Add lines 32 and 34 through 36. Enter the total This is the total tax, penalties and interest due.

**Payment of Tax, Penalties, and Interest**

Full payment for all tax, penalties, and interest is due by the original due date of the return.

**Partnerships required to make payments by EFT**, see the Section, "How to Make Eft Payments" on page 5 of these instructions for options to pay your tax liability by EFT.

**Partnerships not required to make payment by EFT** may elect to pay by EFT or they may pay by check or money order. Make the check or money order payable to the Arizona Department of Revenue. Include the Partnership's EIN on the front of the check or money order.

- **If the Partnership's income tax return was submitted electronically**, submit the check or money order with Arizona Form 120/165V, available here: <https://azdor.gov/forms/corporate-tax-forms/arizona-corporate-or-partnership-income-tax-payment-voucher>. Mail Form 120/165V and the check or money order to the address indicated on the form.

- **If the Partnership is filing a paper return**, include the check or money order with the Partnership's income tax return. Mail the check or money order and the return to:

Arizona Department of Revenue  
P.O. Box 52153  
Phoenix, AZ 85072-2153

**Line 38 – Overpayment**

If the partnership has an overpayment of tax on line 33, subtract the total of lines 34 through 36 from line 33. Enter a positive number on line 38. This is the total overpayment. If the difference is negative, enter the difference as a positive number on line 37.

**Line 39 – Amount of Overpayment Applied to Estimated Tax**

**Original Returns:** The partnership may apply part or all of an overpayment reported on line 38 as a 2024 PTE estimated tax payment. Enter the amount of the overpayment to be applied as a 2024 PTE estimated tax payment.

**Amended Returns:** The partnership may apply part or all of an overpayment reported on line 38 as a 2024 estimated tax payment, if this amended return is filed during the taxpayer's taxable year 2024. Enter the amount of the overpayment to be applied as a 2024 PTE estimated tax payment.

**Line 40 – Amount to be Refunded**

Subtract line 39 from line 38. Enter the difference. This is the amount to be refunded to the partnership

**Schedule C - Apportionment Formula**

**NOTE:** *Qualifying multistate air carriers are required to use revenue miles, and cannot use Schedule C on this return. Multistate air carriers must use Schedule ACA, which is a separate form available on the department's website: <https://azdor.gov/forms/corporate-tax-forms/air-carrier-apportionment>. See Schedule ACA for more information.*

Any partnership that has income from business activity that is taxable both within and without Arizona must allocate and apportion its net income. The partnership must allocate and apportion its net income according to UDITPA, A.R.S. §§ 43-1131 through 43-1150.

A partnership that has income from business activity taxable in more than one state is a *multistate partnership*.

A partnership that has income from business activity taxable entirely within Arizona is a *wholly Arizona partnership*.

**ARIZONA APPORTIONMENT METHODS**

There are three apportionment methods for multistate partnership income tax returns filed to Arizona: (1) air carrier apportionment; (2) standard apportionment; and (3) sales factor only apportionment.

Air carriers are required to use revenue miles. All other taxpayers may select either the standard or the sales factor only apportionment method.

**1. Air Carrier Apportionment**

An air carrier is required to use revenue miles to calculate its apportionment ratio. Check Box 1 on line F of page 1, fill out Schedule ACA, and include it with your return. Do not complete Schedule C.

**2. Standard Apportionment**

All non-air carrier taxpayers are allowed to continue to use Arizona's standard apportionment formula, which double-weights the sales factor. Check Box 2 on line F of page 1 and complete Schedule C using the number on the left-hand side of line C3e, column A, to double-weight the sales factor. Divide the total ratio by four.

**3. Sales Factor Only Apportionment**

All non-air carrier taxpayers may use Arizona's sales factor only apportionment formula, which is determined by dividing Arizona Sales by Everywhere Sales. Check Box 3, on line F of page 1, complete Schedule C, Section C3, "Sales Factor", lines a through f.

**NON-APPORTIONABLE INCOME**

Apportionment factors generating non-apportionable or nontaxable 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 that 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.

A.R.S. § 43-1148 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. Please include a contact phone number and email address with your request.

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 places after the decimal. If the seventh place after the decimal is five or more, round the sixth decimal place up to the next higher digit. If the seventh place after the decimal is less than five, leave the sixth place decimal as it is.

**Example #1:**

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

The seventh digit after the decimal is "8". Since "8" is greater than "5," the sixth digit after the decimal is increased to the next higher digit, "2".

The factor rounded to six decimal places is .156342.

**Example #2:**

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

The seventh digit after the decimal is "2". Since "2" is less than "5", the sixth digit after the decimal remains "6". No increase to the sixth digit after the decimal is made.

The apportionment ratio rounded to six decimal places is .044966.

**SCHEDULE ACA - AIR CARRIER APPORTIONMENT FORMULA (MULTISTATE AIR CARRIERS 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.

Check the box labeled “AIR CARRIER” on line F of page 1 of the return. Do not complete Schedule C on page 3 of the 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 PARTNERSHIPS ONLY)**

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

- The standard apportionment formula or
- The sales factor only apportionment formula.

Check the box on line F of page 1 of the return to indicate which apportionment formula, “STANDARD,” or “Sales Factor Only,” will be used to calculate the apportionment ratio on the partnership’s return. Whichever apportionment method is indicated, the partnership must complete the apportionment ratio using that formula. The partnership cannot use “STANDARD” to calculate one portion of the ratio, and “Sales Factor Only” to calculate another portion of the ratio.

For the standard apportionment ratio, the numerator of the fraction is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four.

For taxable years beginning after December 31, 2016, Sales Factor Only Apportionment replaced the enhanced apportionment ratio. The numerator is Arizona sales. The denominator is Everywhere sales. The property factor and the payroll factor are not included in this computation.

**Line C1 - Property Factor – Standard Apportionment**

**Partnerships electing “SALES FACTOR ONLY APPORTIONMENT” – leave blank.**

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

The value of tangible personal property and real property owned by the partnership is its original cost. The partnership 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 nontaxable income is not included in the property factor.

The value of tangible personal property and real property rented by the partnership is eight times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the partnership for rented property, less the aggregate annual subrental rates paid by subtenants of the partnership. The partnership 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 the department’s ruling, CTR 01-2 *How Does a Taxpayer Filing an Arizona Corporate Income Tax Return Determine Whether Computer Software is Included in the Property Factor*.

Report real property situated and tangible personal property permanently located in Arizona as property within Arizona.

Attribute the value of mobile property to Arizona based on the total time that the property was within Arizona.

**Partnerships Electing “STANDARD APPORTIONMENT”**

Divide the numerator of the property factor by the denominator. Express the ratio as a decimal carried out to six places. (The property factor may not exceed 1.0.) Enter the result on line C1c, Column C.

**Partnerships Electing “SALES FACTOR ONLY APPORTIONMENT,” leave line C1, Columns A through C, blank.**

*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, *How Does a Taxpayer Filing an Arizona Corporate Income Tax Return Determine Whether Computer Software is Included in the Property Factor*

**Line C2 - Payroll Factor – Standard Apportionment**

**Partnerships electing “SALES FACTOR ONLY APPORTIONMENT” - leave blank.**

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

Report the salaries, wages, or other compensation of officers, employees, etc., as within Arizona if the performance of their 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 nontaxable 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;
- The employee's base of operation is in Arizona;
- 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.

**Partnerships Electing “STANDARD APPORTIONMENT”**

Divide the numerator of the payroll factor by the denominator. Express the ratio as a decimal carried out to six (6) places. (The payroll factor may not exceed 1.0) Enter the result on line C2, Column C.

**Partnerships Electing “SALES FACTOR ONLY APPORTIONMENT,” leave line C2, Columns A through C, blank.**

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

**Line C3 - 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 nontaxable 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.)

**PARTNERSHIPS THAT QUALIFY AS MULTISTATE SERVICE PROVIDERS ELECTING TO SOURCE SALES FROM SERVICES AND FROM DESIGNATED INTANGIBLES TO ARIZONA USING MARKET SALES**

Partnerships that qualify as a Multistate Service Provider (MSP) may elect to treat sales from services and from designated intangibles as being sourced to Arizona based on market sales.

**[NOTE: For purposes of the Multistate Service Provider Election and Computation, sales from designated intangibles means sales derived from credit and charge card receivables, including fees, merchant discounts, interchanges, interest and related revenue [A.R.S. § 43-1147(E)(3)(a)]. *The sale of any other intangible may not be included in the calculation of this election.*]**

Multistate partnerships complete Schedule MSP to determine if they qualify as an MSP. If the partnership qualifies, and wishes to make the election, the completed Schedule MSP must be included with the partnership'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 years. For each year of the election period, Schedule MSP must be completed by the partnership to source sales from services and from designated intangibles to Arizona. Once Schedule MSP is completed, the partnership can compute the sales factor.

Partnerships that qualify and want to make the election should:

- Ensure the completed Schedule MSP is included with the return.
- Ensure the box on line G of the return is checked. Ensure the box indicating the year of the partnership's election cycle is checked.
- Enter on line C3b, Column A, the Arizona sales from services and from designated intangibles from the completed Schedule MSP, line B.
- Complete the calculation of the sales factor following the instructions for the partnership's choice of the "STANDARD" or "SALES FACTOR ONLY" apportionment formula.

**Partnerships qualifying as an MSP, and electing to be treated as an MSP**

Enter the Arizona sales from services and from designated intangibles on line C3b from the completed Schedule MSP, line B.

**Partnerships not making the election to be treated as an MSP**

- Leave line C3b blank.
- Include Arizona sales from services on line C3c.

**Partnerships Electing "STANDARD APPORTIONMENT"**

- Check the box on line F of the return labeled "STANDARD."
- Multiply the numerator of the sales factor by two. Divide that result by the denominator. Express the ratio as a decimal carried out to six places. (The sales factor may not exceed 2.0.) Enter the result on line C3f, Column C.

**Partnerships Electing "SALES FACTOR ONLY APPORTIONMENT"**

- Check the box on line F of the return labeled "SALES FACTOR ONLY."
- Divide the numerator (Arizona sales) by the denominator (Everywhere sales). Express the ratio as a decimal carried out to six places. (The sales factor may not exceed 1.0) Enter the result. Also, enter the result on Arizona Form 165, Schedule K-1(NR), Part 1, column (b) through Part 6, column (b). If the partnership made the PTE election, also enter the apportionment ratio on Part 2, line 22.

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 Sale Gain*  
 CTR 07-1, *Inclusion of Short Term Investments in the Sales Factor*

**Line C4 – Total Ratio**

**Partnerships Electing "STANDARD APPORTIONMENT"**

Add the amounts in Column C of lines C1c, C2, and C3f, and enter the total.

**Partnerships Electing "SALES FACTOR ONLY APPORTIONMENT,"** leave this line blank.

**Line C5 - Average Apportionment Ratio – Standard Apportionment**

**NOTE:** Partnerships must exclude a factor if both the numerator and the denominator of a factor are zero. Do not exclude a factor if the numerator of the factor is zero and the denominator of that factor is greater than zero. See A.A.C. R15-2D-901(B).

**Partnerships Electing "STANDARD APPORTIONMENT"**

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

**Partnerships Electing "STANDARD APPORTIONMENT"**

Divide the total ratio, line C4, Column C, by four. Express the ratio as a decimal carried out to six places. Enter the average ratio. Also, enter the average ratio on Form 165, Schedule K-1(NR), Part 1, column (b) through Part 6, column (b). If the partnership made the PTE election, also enter the apportionment ratio on Part 2, line 22.

**Partnerships Electing "SALES FACTOR ONLY APPORTIONMENT,"** leave this line blank.



**NOTE:** *If line C5 is "0.000000", the partnership is considered to have no Arizona nexus.  
If line C5 is blank or "1.000000", the partnership's income is considered to be sourced entirely within Arizona.*

**Schedule D - Partner Information**

Enter the requested information for each partner. If the partnership has more than 10 partners, include additional schedules as necessary.

**NOTE:** *If the partnership operating agreement specifies partnership proceeds are to be distributed on the basis of a special allocation, complete columns (f) and (g) using that allocation method.*

**Lines 1 - 10**

**Columns (a), (b) and (c)**

Enter each partner's requested information in the column(s) provided. If the partnership has more than 10 partners, include additional schedules as necessary.

**Column (d)**

Enter the partner's Tax Identification Number (TIN) with no dashes. For an individual partner, enter the partner's social security number (SSN) or individual taxpayer identification number (ITIN). For all other partners, enter the partner's EIN. If the partner is an IRA, enter the TIN of the custodian of the IRA. Do not enter the TIN of the person for whom the IRA is maintained.

**Do not truncate the partner's TIN.**

**Column (e)**

Enter "R" for resident individual, "N" for nonresident individual, "P" for part-year resident individual, "E" for estate or trust, and "O" for other entity (i.e. corporation, partnership, etc.).

**Column (f)**

Enter each partner's distributive share of the income and expenses of the partnership. Enter the distributive share as a decimal carried out to six places after the decimal. For a partner with a distributive share of 1%, enter the partner's distributive share as .010000.

**Column (g)**

Enter each partner's distributive share of the partnership income and expenses adjusted to the Arizona basis (from page 1, line 5).

**Schedule E – Summary of Partner Information**

Partnerships making the PTE election, complete Schedule E. All others, skip to Schedule G.

Schedule E summarizes the partner information presented in Schedule D. The information summarized here is used to complete Part 2 of this return.

**NOTE:** *If the partnership operating agreement specifies partnership proceeds are to be distributed on the basis of a special allocation, complete column (c) using that allocation method.*

**Lines E1 – E5**

**NOTE:** *For column (c), enter the total of the partners' distributive shares as a decimal carried out to six decimal places. For example, for a distributive share of 20%, enter the partners' distributive share as .200000. A total distributive share of 100% would be 1.000000.*

Enter the following information in columns (b) and (c) for lines E1 through E5:

- Column (b) – Enter the count of partners described in column (a),
- Column (c) – Enter the total distributive share for the partners described in column (a).

**Line E6**

Add the amounts in columns (b) and (c) of lines E1 through E5 and enter the totals in the respective columns. Column (b) is the total number of partners that did not opt out of the PTE election. Column (c) is the total distributive share of those same partners.

**Line E7**

Enter the total number of partners that opted out of the PTE election or are excluded from making the PTE election in column (b). Enter the total distributive share (as a decimal) of those same partners in column (c). Enter the percentage in column (c) in Part 2, line 17.

**Line E8**

Add lines E6 and E7 in columns (b) and (c). Enter the totals in the respective columns (b) and (c). Column (b) is the total number of partners in the partnership. Column (c) should total 1.000000.

**Schedule F – Schedule of Tax Payments Applied to Partnership PTE Tax Liability**

Partnerships making the PTE election, complete Schedule F. All others, skip to Schedule G.

Use this schedule to list any partnership estimated PTE tax payments and PTE extension payments made which the partnership is applying to this return. Include additional sheets if necessary.

- Enter the total amount of "Extension Payments" on page 2, line 24.
- Enter the total amount of "Estimated Payments" on page 2, line 25.

**NOTE:** *The total extension payments and estimated payments reported on this schedule must equal the amounts reported on page 2, lines 26 and 27, respectively.*

**Schedule G - Business Information**

If the partnership has income from business activity *taxable entirely within Arizona*, complete question G1.

If the partnership has income from business activity *taxable within and without Arizona*, complete questions G1 and G2.

**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).

Paid preparers must provide a Tax Identification Number (TIN). Paid preparers that fail to include their TIN may be subject to a penalty.

The TIN for a paid preparer may be one of the following:

- The preparer’s PTIN,
- The EIN for the business,
- The individual preparer’s social security number (SSN), if self-employed.

**Arizona Form 165, Schedule K-1  
Partnership Instructions**

Complete Arizona Form 165, Schedule K-1 for the following partners:

- All resident individual partners,
- All part-year resident partners,
- All resident estate partners, and
- All resident trust partners (including IRA’s and other retirement interests).

*Complete Arizona Form 165, Schedule K-1(NR) for all other partners.*

**NOTE:** *A partnership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the owner (of the grantor trust)*

*A partnership share that is owned by a grantor that elected to be taxed as a trust for federal income tax purposes is treated as owned by a trust.*

*A partnership share that is owned by an IRA (or other retirement plan interest) is treated as owned by a trust.*

*A partnership share that is owned by a single-member LLC that is disregarded for federal income tax purposes is treated as owned by the member.*

Type or print the required information in the name, address, and information boxes on the top of Arizona Form 165, Schedule K-1. Indicate whether the partnership’s taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the period covered by the taxable year on the schedule. Indicate whether this is an original or an amended schedule.

**Partnerships that did not make the PTE Election OR partnerships that made the PTE Election but have partners not participating in that election<sup>2</sup>:** *Complete Arizona Form 165 Schedule K-1 for all resident and part-year resident individual partners and all resident estate partners and resident trust partners (including IRAs and other retirement interests) not participating in the PTE Election. Complete Arizona Form 165, Schedule K-1(NR) for all other (nonresident) partners not participating in the PTE Election.*

**Partnerships making the PTE Election whose partners are participating in the PTE Election<sup>3</sup>:** *Complete Arizona Form 165 Schedule K-1 for all resident individual partners, all resident estate partners and all resident trust partners (including IRA’s and other retirement interests) who did not opt out of the PTE Election.*

<sup>2</sup> Partners not participating in the PTE Election include those partners who are not individuals, estate or trust partners, and those individuals, estates or trusts who opted out of the partnership’s PTE Election.

<sup>3</sup> Partners who are participating in the PTE Election include those partners who are individual, estates or trusts who did NOT opt out of the partnership’s PTE Election.

*For all part-year resident individual partners who did not opt out of the partnership’s PTE Election, complete Form 165, Schedule K-1 **AND** Form 165, Schedule K-1(NR) for each part-year individual partner.*

- *Complete Form 165, Schedule K-1 to report that partner’s apportioned share of the partnership’s adjustment of income from federal to Arizona basis, PTE tax credit and PTE tax paid while the partner was a resident of Arizona.*
- *Complete Form 165, Schedule K-1(NR) to report that partner’s apportioned share of the partnership’s PTE income, the partnership’s adjustment of income from federal to Arizona basis, PTE tax credit and PTE tax paid while the partner was NOT a resident of Arizona.*

**Truncating the partner's TIN on Schedule K-1.**

The partnership may truncate a partner's identifying number on the Arizona Form 165 Schedule K-1 it sends to the partner. Truncation is not permitted on Schedule D of Arizona Form 165. The partnership cannot truncate its own TIN on any form. To truncate, where permitted, follow the guidelines established by the IRS.

**Pass-Through Entity Election**

**Line A**

If the partnership made the PTE election check “Yes”. Otherwise, check “No”.

**Line B**

If the partnership made the PTE election, did this partner consent to that election (not opt out of the election)? If the partner did not opt out of the election, check “Yes”. If this partner opted out of the PTE election, check “No”.

**NOTE:** *If the partner is not eligible to make the PTE election, check “No” on Line B.*

**Part 1 - Arizona Partnership Adjustment**

Complete Part 1, lines 1 through 3 as instructed on the form.

**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 taxpayer’s federal adjusted gross income, or,
  - The estate or trust’s federal taxable income.
- The business in which the partnership invested is determined to be a qualified small business by the Arizona Commerce Authority.

A partner 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.

Complete Arizona Form 165, Schedule K-1, Part 2 to provide information to:

- The resident and part-year resident individual partner to calculate the subtraction for net capital gain from investment in a qualified small business.

- The resident estate or trust partner to:
  - Calculate the subtraction for net capital gain from investment in a qualified small business; or,
  - Complete Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR) for each beneficiary.

Complete Arizona Form 165, Schedule K-1, Part 2, line 4, and Part 6, line 9 if the partner’s federal Schedule K-1 (Form 1065) includes any net capital gain (loss) from investment in a qualified small business. If Part 2, line 4, is zero, enter “0” on Part 6, line 9.

Do NOT complete Arizona Form 165, Schedule K-1, Part 2, line 4 and Part 6, line 9 if the partner’s federal Schedule K-1 (Form 1065) does not include any net capital gain (loss) from investment in a qualified small business.

**Part 3 - Gain or Loss on the Sale of Virtual Currency and Non-Fungible Tokens – Information Schedule**

**Line 5**

To the extent not already excluded from Arizona gross income under the internal revenue code, enter the value of virtual currency and non-fungible tokens the partnership received pursuant to an airdrop at the time of the airdrop, on line 5.

**NOTE:** *This paragraph may not be interpreted as providing a subtraction for any appreciation in value that occurs from holding the virtual currency after the initial receipt of the airdrop.*

***If the value of the virtual currency and NFT has already been excluded from the partnership’s Arizona gross income, or if the partnership has no virtual currency and/or NFT, do not complete Part 3.***

For the purpose of this subtraction, A.R.S. § 43-1028 defines the following:

- **Airdrop** as the receipt of virtual currency through a means of distribution of virtual currency to the distributed ledger addresses of multiple taxpayers.
- **Non-fungible tokens (NFT)** as a non-fungible cryptographic asset on a blockchain that possesses unique identifiers or other metadata that distinguishes the asset from another token or asset in a manner that makes the asset irreplaceable and non-exchangeable for a similar token or asset.
- **Virtual currency** as a digital representation of value that functions as a medium of exchange, a unit of account and a store of value other than a representation of the U.S. dollar or a foreign currency.
- **Foreign currency** as the coin and paper money of a country other than the United States that is designated as legal tender, circulates and is customarily used and accepted as a medium of exchange in the country of issuance.

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

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

Complete Arizona Form 165, Schedule K-1, Part 3 to provide information to:

- The resident and part-year resident individual partner to calculate their portion of the subtraction for the value of virtual currency and NFT that has not already been excluded from the partnership’s Arizona gross income.
- The resident estate or trust partner to:
  - Calculate the subtraction for value of virtual currency and NFT that has not already been excluded from the partnership’s Arizona gross income; or,
  - Complete Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR) for each beneficiary.

**Part 4 – Gain or Loss on the Sale of Virtual Currency and Non-Fungible Tokens - Gas Fees and Non-Fungible Tokens Basis - Information Schedule Line 6**

Enter the amount allowed as a subtraction by A.R.S. § 43-1028 for gas fees not already included in the basis of the partnership’s virtual currency or non-fungible tokens, on line 6.

***If the value of the gas fees has already been excluded from the partnership’s Arizona gross income do not complete Part 4.***

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

- Calculate its portion of the subtraction of the partnership’s gas fees, or,
- Complete Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 165, Schedule K-1, Part 4 to provide information to:

- The resident and part-year resident individual partner to report their portion of the subtraction of gas fees that have not already been excluded from the partnership’s Arizona gross income.
- The resident estate or trust partner to:
  - Calculate its portion of the subtraction for value of the subtraction of gas fees that have not already been excluded from the partnership’s Arizona gross income; or,
  - Complete Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR) for each beneficiary.

**Part 5 - Net Capital Gain (Loss) From the Exchange of Legal Tender – Information Schedule**

For taxable years beginning from and after December 31, 2017, Arizona allows individuals, estates, trusts and corporations an exclusion for any net capital gain included in Arizona gross income that is derived from the exchange of one kind of legal tender for another kind of legal tender.

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

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

Complete Arizona Form 165 Schedule K-1, Part 5 to provide information to:

- The resident and part-year resident individual partner to calculate the exclusion for any net capital gain (loss) derived from the exchange of one kind of legal tender for another kind of legal tender.
- The resident estate or trust partner to:
  - Calculate the exclusion for net capital gain (loss) derived from the exchange of one kind of legal tender for another kind of legal tender, or,
  - Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary.

Complete Arizona Form 165 Schedule K-1, Part 5, line 7 and Part 6, line 10, if the partner's federal Schedule K-1 (Form 1065) includes any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender. If Part 5, line 7 is zero, enter "0" on Part 6, line 10.

Do NOT complete Arizona Form 165 Schedule K-1, Part 5, line 7 and Part 6, line 10, if the partner's federal Schedule K-1 (Form 1065) does not include any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender.

**Part 6 - 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 asset was 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 the partnership can verify the asset was acquired after December 31, 2011.
- If the partnership cannot verify the asset was acquired after December 31, 2011, treat it as a capital gain asset acquired before January 1, 2012.

A partner 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.

Complete Part 6 (if line 8 is applicable) of Arizona Form 165, Schedule K-1 as instructed on the form. Do NOT complete Part 6 if the partner's federal Schedule K-1 (Form 1065) does not include any net capital gain (loss).

Complete Arizona Form 165, Schedule K-1, Part 6 to provide information to:

- The resident or part-year resident individual partner to calculate the subtraction for net long-term capital gain for assets acquired after December 31, 2011.
- The resident estate or trust partner to:
  - Calculate the subtraction for long-term capital gain for assets acquired after December 31, 2011; or,
  - Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary.

A worksheet is provided at the end of these instructions to assist the partnership in determining the amount(s) to include on each partner's Arizona Form 165, Schedule K-1, Part 6, lines 8 through 10.

**Part 7 – Partner's Share of the Partnership's Pass-Through Entity Election**

For taxable years beginning from and after December 31, 2021, Arizona allows partnerships to elect to become a Pass-Through Entity (PTE) and pay tax at the entity level on its pass-through income. Complete Part 7 if the partnership is making the election to pay tax at the entity level on its pass-through income.

Complete lines 11 through 15 for all resident and part-year resident partners that did not opt out of the partnership's election to pay tax at the entity level.

**Line 11**

Enter the partner's pro-rata share of the PTE tax credit,

**Line 12**

Enter the partner's pro-rata share of the Arizona PTE taxes paid in 2023 for taxable year 2022.

**Line 13**

Enter the partner's pro-rata share of the Arizona PTE taxes paid in 2023 for taxable year 2023.

**Line 14**

Enter the partner's pro-rata share of comparable PTE taxes from other states paid in 2023 for taxable year 2022.

**Line 15**

Enter the partner's pro rata share of comparable PTE taxes from other states paid in 2023 for taxable year 2023.

**NOTE for lines 12 and 14:** *If the partnership made the PTE election for taxable year 2022 and the partner did not opt out of the PTE election, any amounts of PTE tax paid in 2023 for taxable year 2022 MUST be added back to the calculation of the partner's Arizona taxable income for 2023, regardless of the PTE election for 2023.*

**Submitting Arizona Form 165, Schedule K-1**

Complete three copies of Arizona Form 165, Schedule K-1 for each partner. File one copy of each partner's Arizona Form 165, Schedule K-1 with the partnership's Arizona Form 165. Provide all partners with a copy of their Arizona Form 165, Schedule K-1. Keep a copy for the partnership's records.

**Arizona Form 165 Schedule K-1(NR) - Partnership Instructions**

A.R.S. § 43-306 requires partnerships having nonresident partners to allocate and apportion their income under the Arizona Uniform Division of Income for Tax Purposes Act (UDITPA) (see A.R.S. §§ 43-1131 through 43-1150). The basis of the apportionment formula is property, payroll, and sales in Arizona compared with everywhere. "Everywhere" means the property, payroll, and sales related to the whole business.

Complete Arizona Form 165 Schedule K-1(NR) for:

- All nonresident individual partners,
- All nonresident estate partners,

- All part-year resident partners who did not opt out of the partnership's PTE election
- All nonresident trust partners (including IRA's and other retirement interests),
- All partnerships that are partners in the partnership, and
- All corporate partners (including exempt organizations)

All partnerships with partners that are corporations or other partnerships use Schedule C of Form 165 to provide those partners with information needed to accurately allocate and apportion Arizona source income.

**NOTE:** *A partnership share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the owner (of the grantor trust).*

*A partnership share that is owned by a grantor that elected to be taxed as a trust for federal income tax purposes is treated as owned by a trust.*

*A partnership share that is owned by an IRA (or other retirement plan interest) is treated as owned by a trust.*

*A partnership share that is owned by a single-member LLC that is disregarded for federal income tax purposes is treated as owned by the member.*

Type or print the required information in the name, address, and information boxes on the top of the Arizona Form 165, Schedule K-1(NR). Indicate whether the partnership's taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the period covered by the taxable year on the schedule. Indicate whether this is an original or an amended schedule.

**Partnerships not making the PTE Election or that have partners who are not participating in the PTE Election<sup>4</sup>:** *Complete Arizona Form 165 Schedule K-1(NR) for all nonresident individuals, all nonresident estate partners and all nonresident trust partners (including IRA's and other retirement interests) not participating in the PTE Election. Complete Arizona Form 165, Schedule K-1 for all other (resident) partners.*

**Partnerships making the PTE Election whose partners are participating in the PTE Election<sup>5</sup>:** *Complete Arizona Form 165 Schedule K-1(NR) for all nonresident individual partners, all nonresident estate partners and all nonresident trust partners (including IRA's and other retirement interests) who did not opt out of the partnership's PTE Election.*

*For all part-year resident individual partners who did not opt out of the partnership's PTE Election, complete Form 165, Schedule K-1 AND Form 165, Schedule K-1(NR) for each part-year individual partner.*

- *Complete Form 165, Schedule K-1 to report that partner's apportioned share of the partnership's adjustment of income from federal to Arizona basis, PTE tax credit and PTE tax paid while the partner was a resident of Arizona.*

<sup>4</sup> Partners not participating in the PTE Election include those partners who are not individuals or estate or trust partners, and those individuals, estates or trusts who opted out of the partnership's PTE Election.

<sup>5</sup> Partners who are participating in the PTE Election include those partners who are individual, estates or trusts who did NOT opt out of the partnership's PTE Election.

- *Complete Form 165, Schedule K-1(NR) to report that partner's share of the partnership's PTE income, the partnership's adjustment of income from federal to Arizona basis, PTE tax credit and PTE tax paid while the partner was NOT a resident of Arizona.*

### Truncating the partner's TIN on Schedule K-1(NR).

The partnership may truncate a partner's identifying number on the Arizona Form 165 Schedule K-1(NR) it sends to the partner. Truncation is not permitted on Schedule D of Arizona Form 165. The partnership cannot truncate its own TIN on any form. To truncate, where permitted, follow the guidelines established by the IRS.

### Pass-Through Entity Election

#### Line A

If the partnership made the PTE election check "Yes". Otherwise, check "No".

#### Line B

If the partnership made the PTE election, did this partner consent to that election (not opt out of the election)? If the partner did not opt out of the election, check "Yes". If this partner opted out of the PTE election, check "No".

**NOTE:** *If the partner is not eligible to make the PTE election, check "No" on Line B.*

### Part 1 and Part 2 - Distributive Share Items

#### Column (a) - Distributive Share Amount

**Wholly Arizona partnerships** - In column (a), enter the distributive share amount for each line item from federal Form 1065, Schedule K-1. On Part 2, line 15, enter the adjustment of partnership income from federal to Arizona basis (Arizona Form 165, page 1, line 6) multiplied by the partner's percentage of gain or loss.

**NOTE FOR CORPORATE PARTNERS:** *Complete Part 2 only, Leave Parts 1, and 3 through 8 blank.*

**Multistate partnerships** - Apportion all business income of a multistate partnership by the use of the apportionment formula. Nonbusiness income of a multistate partnership is nonapportionable and specifically allocable to a particular state.

"Business income" under the transactional test means income arising from transactions and activity in the regular course of the taxpayer's trade or business. Business income under the functional test 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.

"Nonbusiness income" means all income other than business income.

**In column (a)**, enter the partner's distributive share of the multistate partnership's income (loss) that is subject to apportionment.

The multistate partnership must compute the partner's distributive share of the partnership's income that is subject to apportionment. Make this computation by subtracting the partner's distributive share of the multistate partnership's nonbusiness income from the partner's total distributive share

amount of the partnership's income. The multistate partnership must attach a computation schedule that details the following, for each line item:

- The partner's distributive share amount from federal Form 1065, Schedule K-1, or from the adjustment of partnership income from federal to Arizona basis (Arizona Form 165, page 1, line 6).
- The partner's distributive share amount of the partnership's nonapportionable or allocable income.
- The partner's distributive share of the partnership's income that is subject to apportionment. Refer to A.R.S. §§ 43-1134 through 43-1138 for the methods of allocating certain types of nonbusiness income.

**NOTE:** For corporate partners, apply this computation only for the amount to be entered on Part 2, line 15. Do not complete Part 1.

**Column (b) - Arizona Apportionment Ratio**

**Wholly Arizona partnerships** - Enter 100 percent.

**Multistate partnerships** - Enter the average apportionment ratio amount from one of the following:

- For Standard Apportionment, Arizona Form 165, Schedule C, line C5, Column C;
- For Sales Factor Only Apportionment, Arizona Form 165, Schedule C, line C3f, Column C;
- Schedule ACA, line 3. (Refer to Schedule ACA or Schedule C instructions.)

**Column (c) - Arizona Source Income**

**Wholly Arizona partnerships** - Enter the amount from column (a).

**Multistate partnerships** - Attach a schedule that details (for each line item) the following computation:

1. The partner's distributive share of the partnership's income subject to apportionment multiplied by the average ratio in column (b).
2. The partner's distributive share of the partnership's income (loss) which is specifically allocable to Arizona.
3. The total of the amounts computed in steps 1 and 2 that is to be entered in column (c).

**NOTE:** A.R.S. §§ 43-1134 through 43-1138 specify the methods for allocating certain types of income to Arizona. Do not include the amount of any nonbusiness income allocable to another state in the total entered in column (c).

**All partnerships** - Column (c) is the partner's Arizona source income from the partnership. Partners should refer to Arizona Form 165, Schedule K-1(NR), instructions for information on completing their Arizona returns.

**Part 3 - 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

- The business in which the partnership invested is determined to be a qualified small business by the Arizona Commerce Authority.

A partner 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.

Complete Arizona Form 165, Schedule K-1(NR), Part 3 to provide information to:

- The nonresident individual partner to calculate its subtraction for net capital gain from investment in a qualified small business.
- The nonresident estate or trust partner to:
  - Calculate its subtraction for net capital gain from investment in a qualified small business, or,
  - Complete Arizona Form 141AZ, Schedule K-1, or Schedule K-1(NR) for each beneficiary so the beneficiary can calculate its subtraction for net capital gain from investment in a qualified small business.

Complete Arizona Form 165, Schedule K-1(NR), Part 3, line 16, and Part 7, line 21, if the partner's federal Schedule K-1 (Form 1065) includes any net capital gain (loss) from investment in a qualified small business. If Part 3, line 16, is zero, enter "0" on Part 7, line 21.

Do NOT complete Arizona Form 165, Schedule K-1(NR), Part 3, line 16, and Part 7, line 21 if the partner's federal Schedule K-1 (Form 1065) does not include any net capital gain (loss) from investment in a qualified small business.

**Part 4 - Gain or Loss on the Sale of Virtual Currency and Non-Fungible Tokens – Information Schedule**

**Line 17**

To the extent not already excluded from Arizona gross income under the internal revenue code, enter the value of virtual currency and non-fungible tokens the partnership received pursuant to an airdrop at the time of the airdrop on line 17.

**NOTE:** This paragraph may not be interpreted as providing a subtraction for any appreciation in value that occurs from holding the virtual currency after the initial receipt of the airdrop.

**If the value of the virtual currency and NFT has already been excluded from the partnership's Arizona gross income, or if the partnership has no virtual currency and/or NFT, do not complete Part 4.**

For the purpose of this subtraction, A.R.S. § 43-1028 defines the following:

- **Airdrop** as the receipt of virtual currency through a means of distribution of virtual currency to the distributed ledger addresses of multiple taxpayers.
- **Non-fungible tokens (NFT)** as a non-fungible cryptographic asset on a blockchain that possesses unique identifiers or other metadata that distinguishes the asset from another token or asset in a manner that makes the

asset irreplaceable and non-exchangeable for a similar token or asset.

- **Virtual currency** as a digital representation of value that functions as a medium of exchange, a unit of account and a store of value other than a representation of the U.S. dollar or a foreign currency.
- **Foreign currency** as the coin and paper money of a country other than the United States that is designated as legal tender, circulates and is customarily used and accepted as a medium of exchange in the country of issuance.

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

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

Complete Arizona Form 165, Schedule K-1(NR), Part 4 to provide information to:

- The nonresident individual partner to calculate their portion of the subtraction for the value of virtual currency and NFT that has not already been excluded from the partnership's Arizona gross income.
- The resident estate or trust partner to:
  - Calculate the subtraction for value of virtual currency and NFT that has not already been excluded from the partnership's Arizona gross income.; or,
  - Complete Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR) for each beneficiary.

**Part 5 – Gain or Loss on the Sale of Virtual Currency and Non-Fungible Tokens - Gas Fees and Non-Fungible Tokens Basis - Information Schedule**

**Line 18**

Enter the amount allowed as a subtraction by A.R.S. § 43-1028 for gas fees not already included in the basis of the partnership's virtual currency or non-fungible tokens on line 18.

*If the value of the gas fees has already been excluded from the partnership's Arizona gross income do not complete Part 5.*

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

- Calculate its portion of the subtraction of the partnership's gas fees, or,
- Complete Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 165, Schedule K-1, Part 5 to provide information to:

- The nonresident individual partner to report their portion of the subtraction of gas fees that have not already been excluded from the partnership's Arizona gross income.
- The nonresident estate or trust partner to:
  - Calculate its portion of the subtraction for value of the subtraction of gas fees that have not already been excluded from the partnership's Arizona gross income.; or,
  - Complete Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR) for each beneficiary.

**Part 6 - Net Capital Gain (Loss) From the Exchange of Legal Tender – Information Schedule**

For taxable years beginning from and after December 31, 2017, Arizona allows individuals, estates, trusts and corporations an exclusion for any net capital gain included in Arizona gross income that is derived from the exchange of one kind of legal tender for another kind of legal tender.

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

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

Complete Arizona Form 165, Schedule K-1(NR) Part 6, line 19, and Part 7, line 22 if the partner's federal Schedule K-1 (Form 1065) includes any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender. If Part 6, line 19, is zero, enter "0" on Part 7, line 22.

Do NOT complete Arizona Form 165 Schedule K-1(NR), Part 6, line 19 or Part 7, line 22 if the partner's federal Schedule K-1 (Form 1065) does not include any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender.

**Part 7 - Net Long-Term Capital Gain (Loss) 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 asset was 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 the partnership can verify the asset was acquired after December 31, 2011.
- If the partnership cannot verify the asset was acquired after December 31, 2011, treat it as a capital gain asset acquired before January 1, 2012.

A partner that is a pass-through entity (estate, trust, S corporation, or partnership) will need this information to:

- Calculate its subtraction, or,
- Complete:
  - Arizona Form 141AZ, Schedule K-1, or Schedule K-1(NR) for each beneficiary; or,
  - Arizona Form 120S, Schedule K-1, or Schedule K-1(NR) for each shareholder; or,
  - Arizona Form 165, Schedule K-1, or Schedule K-1(NR) for each partner.

Complete Arizona Form 165, Schedule K-1(NR), Part 7, lines 20 through 22 (if applicable) if the partner's federal Schedule K-1 (Form 1065) includes capital gain (loss).

Do NOT complete Arizona Form 165, Schedule K-1(NR), Part 7, lines 20 through 22 if the partner's federal Schedule K-1 (Form 1065) does not include any capital gain (loss).

Complete Arizona Form 165, Schedule K-1(NR), Part 7 to provide information to:

- The nonresident individual partner to calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.
- The nonresident estate partner or nonresident trust partner to:
  - Calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011,
  - Complete Form, 141AZ Schedule K-1, or Schedule K-1(NR) for each beneficiary so each beneficiary can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

For the partnership partner, Arizona Form 165 Schedule K-1(NR), Part 7, provides information so the partner can provide information to each partner or shareholder to provide to lower tiered partners or shareholders.

For the C corporation partner, Arizona Form 165, Schedule K-1(NR), Part 7, is informational only.

A worksheet is provided at the end of these instructions to assist the partnership in determining the amounts to include on each nonresident partner's Arizona Form 165, Schedule K-1(NR), Part 7, lines 20 through 22.

### Part 8 – Partner's Share of the Partnership's Pass-Through Entity Tax Credit

For taxable years beginning from and after December 31, 2021, Arizona allows partnerships to elect to become a Pass-Through Entity (PTE) and pay tax at the entity level on its pass-through income. Complete Part 8 if the partnership is making the election to pay tax at the entity level on its pass-through income.

Complete lines 23 through 27 for all nonresident individual or estate or trust partners that did not opt out of the partnership's election to pay tax at the entity level.

#### Line 23

Enter the partner's pro-rata share of the PTE tax credit.

#### Line 24

Enter the partner's pro-rata share of the Arizona PTE taxes paid in 2023 for taxable year 2022.

#### Line 25

Enter the partner's pro-rata share of the Arizona PTE taxes paid in 2023 for taxable year 2023.

#### Line 26

Enter the partner's pro-rata share of comparable PTE taxes from other states paid in 2023 for taxable year 2022.

#### Line 27

Enter the partner's pro rata share of comparable PTE taxes from other states paid in 2023 for taxable year 2023.

**NOTE for lines 24 and 26:** *If the partnership made the PTE election for taxable year 2022 and the partner did not opt out of the PTE election, any amounts of PTE tax paid in 2023 for taxable year 2022 MUST be added back to the calculation of the partner's Arizona taxable income for 2023, regardless of the PTE election for 2023.*

### Submitting Arizona Form 165, Schedule K-1(NR)

Complete three copies of Arizona Form 165, Schedule K-1(NR) for each partner. File one copy of each partner's Arizona Form 165, Schedule K-1(NR), with the partnership's Arizona Form 165. Provide all partners with a copy of their Arizona Form 165, Schedule K-1(NR). Retain a copy for the partnership's records.

### Information on Filing Composite Returns on Arizona Form 140NR for Qualifying Nonresident Partners

Arizona law requires an individual resident or nonresident to file his or her own income tax return. The Arizona Department of Revenue will accept a composite return on Arizona Form 140NR for qualifying nonresident individual partners of a partnership that opted out of the partnership's PTE election.

**NOTE:** *A composite return cannot be filed with fewer than ten participating members. A partnership making the PTE election cannot file a composite return on behalf of its nonresident partners that did not opt out of the Partnership's PTE election.*

Refer to the department's ruling, *ITR 16-2, Composite Individual Income Tax Returns* for information regarding the requirements for filing a composite return on Arizona Form 140NR.



The *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*, is below.

**Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011**

Original return  Amended return

<b>Net long-term capital gain (loss) as reported on federal Schedule D (or other form/schedule) and included in the distributive share amount.</b>  Enter the total net long-term capital gain (loss) from the following forms in each applicable column. See instructions below the worksheet.			(a)  Net long-term capital gain (loss)	(b)  Net long-term capital gain (loss) included in column (a) from assets acquired <b>before</b> January 1, 2012	(c)  Net long-term capital gain (loss) included in column (a) from assets acquired <b>after</b> December 31, 2011
1	Long-term capital gain (loss) reported on federal Schedule D from Form(s) 8949. Combine the amounts and enter the total.	1			
2	Form(s) 6252 <i>Installment Sale Income</i>	2			
3	Form(s) 8824 <i>Like-Kind Exchanges</i>	3			
4	Pass-through from Estate, Partnership, and/or Trust – from Arizona Form 141AZ or Arizona Form 165 Schedule K-1 or Schedule K-1(NR).	4			
5	Any other long-term capital gain (loss)	5			
6	<b>Net long-term capital gain (loss).</b> Add lines 1 through 5 in each column, and enter the total.  For each partner, enter the distributive share of the amounts from line 6 on Arizona Form 165 Schedule K-1 or Arizona Form 165 Schedule K-1(NR).	6			

## Worksheet Instructions

### Purpose of the Worksheet

A subtraction is available for a percentage of any net long-term capital gain that is from an investment in an asset acquired after December 31, 2011, and included in an individual taxpayer's federal adjusted gross income or the federal taxable income of an estate or trust.

To take the allowable subtraction, the taxpayer must know whether the capital gain (loss) is considered short-term or long-term. Only the net long-term capital gain from assets acquired after December 31, 2011, is used to compute the allowable subtraction. For more information about determining whether a gain (loss) is short-term or long-term, see federal Publication 544 at [www.irs.gov](http://www.irs.gov).

**NOTE:** *If you cannot verify that the capital gain is from the sale of an asset acquired after December 31, 2011, then the capital gain should be treated 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 individual.*

### Who Should Complete the Worksheet?

The partnership can use this worksheet to calculate each partner's distributive share of the net long-term capital gain (loss) included in Schedule K of federal Form 1065 for assets purchased after December 31, 2011.

Do not complete this worksheet if any of the following apply:

- The partnership does not have any capital gain (loss) to report for the current tax year; or
- The partnership does not have any net capital gain (loss) from asset(s) acquired after December 31, 2011, to report for the current tax year; or
- All of the partners are C corporations that have not made an election to be taxed under Subchapter S of the IRC.

Keep the completed worksheet for the partnership's records.

### Columns (a) through (c)

- Column (a) is the total amount of net long-term capital gain (loss) reported on federal Schedule D or other federal forms/schedules.
- Column (b) is the amount of the net long-term capital gain (loss) included in column (a) for assets acquired **before** January 1, 2012.
- Column (c) is the amount of the net long-term capital gain (loss) included in column (a) for assets acquired **after** December 31, 2011.

### Lines 1 through 5 - Capital Gain (Loss) Reported on Federal Schedule D

Enter the long-term capital gain (loss) from each federal form listed that was reported on the partnership's federal Schedule D and included on Schedule K of federal Form 1065.

### Line 6 - Net Long-Term Capital Gain (Loss)

For each column, add the amounts on lines 1 through 5 and enter the total.

For each partner, enter the distributive share of the amounts in each column on line 6 of the worksheet on Parts 2, 5, and 6 of Arizona Form 165, Schedule K-1, or on Parts 3, 6 and 7 of Arizona Form 165, Schedule K-1(NR).