

# STATE OF ARIZONA

Department of Revenue  
Office of the Director  
(602) 716-6090



*Doug Ducey*  
**Governor**

*David Raber*  
**Director**

## CERTIFIED MAIL

**The Director's Review of the Decision  
of the Hearing Officer Regarding:**

[Redacted]

**UTI No. [Redacted]**

**ORDER**

**Case No. 201500013-I**

On March 5, 2015, the Hearing Officer issued a decision regarding the protest of [Redacted] ("Taxpayers"). Taxpayers timely filed an appeal of the Hearing Officer's decision to the Director of the Department of Revenue ("Director"). As the appeal was timely, the Director reviewed the Taxpayers' appeal to determine whether a review of the Hearing Officer's decision was warranted.

The Individual Income Tax Section of the Audit Division ("Division") issued a deficiency assessment to Taxpayer for tax year 2006. The assessment allowed an exemption for three dependents that Taxpayers did not claim on line C16 of their Arizona return. The Division disallowed a portion of Taxpayers' Arizona itemized deductions. Taxpayers protested the assessment. The Division issued a modified assessment that corrected an error in the amount of the deduction Taxpayers' claimed on their return. The modified assessment allowed a total of \$51,294 in deductions, including all mortgage interest reported on 1098 forms, medical and dental expenses, gifts to charity, state and local taxes and real estate taxes. Some of these deductions exceeded the amount Taxpayers had claimed on their tax return. The Division continued to disallow \$42,308 that Taxpayers' claimed as a federal credit for mortgage interest on line 7 of their Arizona Schedule A.

Taxpayers argue in their appeal that the Hearing Officer erred in stating that Taxpayers took their mortgage interest deduction twice. Taxpayers assert that they merely followed the instructions on the Arizona form. In 2006 Taxpayers included the full amount of their mortgage interest, as set forth in two 1098 forms, on their Federal Schedule A. In addition, Taxpayers added the full amount of their mortgage interest as an adjustment on line 7 of their Arizona Schedule A. By doing this, Taxpayers incorrectly took the same mortgage interest deduction twice.

Taxpayers confuse the federal credit for mortgage credit certificates with the federal deduction for mortgage interest. On a Federal return, a taxpayer may claim a credit for a qualified mortgage credit certificate issued by a state or local governmental unit or agency under a qualified mortgage credit certificate program. *See* instructions to Form 8396. Taxpayers who claim this credit must reduce the amount of the mortgage interest reported on their Schedule A by the amount of the credit. *Id.* Because of this reduction, taxpayers who claim a credit on Federal Form 8396 do not include the full amount of their mortgage interest as a deduction on their Federal Schedule A.

The Arizona Schedule A allows taxpayers to add back the amount subtracted from the Federal Schedule A because they filed a credit on Form 8396. The Arizona Schedule A on line 7 explicitly states that line is for taxpayers who “received a federal credit for interest paid on mortgage credit certificates (from Federal Form 8396).” It further states that taxpayers should enter an amount “that is equal to the amount of your 2006 federal credit.” The Arizona Schedule A instructions note that taxpayers should skip line 7 if they did not claim a credit for interest paid on mortgage credit certificates on their federal return. The instructions state “If you claimed this credit on your federal return (using Form 8396), you may deduct the amount of mortgage interest you paid in 2006 that is equal to the amount of that credit.” The amount listed on line 7 of the Arizona Schedule A should match the amount on Form 8396. It should not match the amount already listed for mortgage interest on the Federal Schedule A.

In this case, Taxpayers did not claim a credit for interest paid on mortgage credit certificates on a Federal Form 8396. They included the full amount of their mortgage interest as an itemized deduction on their Federal Schedule A. Because their Schedule A already included the full amount of their mortgage interest, they could not add any more mortgage interest on Line 7 of their Arizona Schedule A. The Arizona Form and Instructions do not support the adjustment that Taxpayers attempted to make on their Arizona Schedule A.

A.A.C. R15-10-131.H.2 provides that the Director may issue a decision that summarily affirms the decision of the Hearing Officer. Because the Hearing Officer was correct, the Director finds that the decision of the Hearing Officer should be summarily affirmed.

**ORDER**

The Hearing Officer's decision is affirmed.

This decision is the final order of the Department of Revenue. Taxpayers may contest the final order of the Department by, within 60 days of the receipt of the final order, filing an appeal to the State Board of Tax Appeals, 100 North 15<sup>th</sup> Avenue, Suite 140 Phoenix, AZ 85007. For appeal forms and other information from the Board of Tax Appeals, call (602) 364-1102.

Dated this \_\_\_ day of April, 2015.

ARIZONA DEPARTMENT OF REVENUE

David Raber  
Director

Certified original of the foregoing  
mailed by certified mail to:

[Redacted]

cc: Individual Income Appeals  
Individual Income Audit