



Janice K. Brewer
Governor

John A. Greene
Director

ARIZONA INDIVIDUAL INCOME TAX PROCEDURE ITP 12-1

(Effective for taxable years beginning on or after January 1, 2012)

(Supersedes Arizona Individual Income Tax Procedure ITP 93-2)

ISSUE:

What documentation is required to establish an allowable income tax subtraction for agricultural crops contributed to charitable organizations?

PROCEDURE:

To establish an income tax subtraction for crops contributed to a charitable organization a taxpayer must be able to provide certain documentation. While the documentation is not required to be filed with the taxpayer's return, it must be maintained in the taxpayer's files subject to review by the Department of Revenue. Specifically, the taxpayer must be able to provide the following documentation:

1. A statement signed by the donee charitable organization(s) declaring that the use and disposition of the crop will comply with the requirements of Arizona Revised Statutes (A.R.S.) § 43-1025. The statement should also indicate the following:
 - a) The crop received.
 - b) Name of donor.
 - c) Amount of crop received.
 - d) Date(s) of donation.
2. Documentation supporting the wholesale market price or the most recent sale price used to determine the amount of the subtraction. This may include published market reports (such as reports published by the U.S. Department of Agriculture) and invoices or published reports evidencing the most recent sale price.

DISCUSSION:

A.R.S. § 43-1025 provides an income tax subtraction for qualified crop contributions to charitable organizations.

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A qualified crop contribution is any contribution of a crop, or portion of a crop:

1. Grown in Arizona;
2. By a taxpayer engaged in the business of farming or processing agricultural crops;
3. Contributed to a charitable organization located in Arizona that is exempt from Arizona income tax under A.R.S. § 43-1201.

Laws 2012, Ch 178 amended A.R.S. § 43-1025 to change how the subtraction is computed. Under A.R.S. § 43-1025, as amended, the amount of the subtraction cannot exceed the wholesale market price or the most recent sales price for the contributed crop, whichever is greater. Additionally, the amount of the subtraction cannot include any amount deducted under Internal Revenue Code (I.R.C.) § 170 with respect to the crop contribution that exceeds the cost of producing the contributed crop.

The conditions under which a contribution qualifies for the subtraction under A.R.S. § 43-1025 were also amended by Laws 2012, Ch 178. For taxable years beginning on or after January 1, 2012, the subtraction is allowed only under the following circumstances:

1. The use of the crop by the donee charitable organization is related to the purpose or function constituting the basis for the organization's tax-exempt status.
2. The crop is not transferred by the donee charitable organization in exchange for money, other property, or services.
3. The taxpayer receives from the donee charitable organization a written statement declaring that its use and disposition of the crop will be in accordance with A.R.S. § 43-1025.

For the purpose of the subtraction, the term "wholesale market price" means the average wholesale market price for the contributed crop in the nearest regional market during the month in which the contribution is made. The price is determined without consideration of the grade or quality of the crop and as if the quantity of the contributed crop was marketable.

For the purpose of the subtraction, the term "most recent sale price" means an amount equal to the price that the taxpayer would have received for the contributed crop if the crop had been sold by the taxpayer on the date of the most recent sale of such a crop. The amount is determined as if the taxpayer had sold the crop on that date at the same price per unit as the crop that was sold or at the price determined by an agricultural market service on the date the crop is contributed.

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APPLICABLE LAW:

A.R.S. § 43-1022 provides a subtraction from Arizona gross income of the amount allowed by A.R.S. § 43-1025 for contributions of agricultural crops to charitable organizations.

A.R.S. § 43-1025 provides that an income tax subtraction is allowed for qualified agricultural crop contributions made to charitable organizations exempt from Arizona income tax under A.R.S. § 43-1201.

A.R.S. § 43-1201 delineates those organizations exempt from Arizona income tax.

I.R.C. § 170, generally provides a deduction for charitable contributions made during the taxable year.

John A. Greene, Director

Signed: September 19, 2012

Explanatory Notice

The purpose of a tax procedure is to provide procedural guidance to the general public and to Department personnel. A tax procedure is a written statement issued by the Department to assist in the implementation of tax laws, administrative rules, and tax rulings by delineating procedures to be followed in order to achieve compliance with the law. Relevant statute, case law, or administrative rules, as well as a subsequent procedure, may modify or negate any or all of the provisions of any tax procedure. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.