



J. Elliott Hibbs
Director

ARIZONA FIDUCIARY INCOME TAX RULING FTR 04-1

(This ruling rescinds Arizona Fiduciary Income Tax Ruling FTR 99-1)

(Note: The ruling information for completing Form 141AZ was modified on August 4, 2020, to conform to a change to Form 141AZ. See footnote 1 on page 2 of this ruling. No substantive change was made to this ruling.)

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

ISSUE:

May the trustee of more than one qualified funeral trust (QFT) file a composite fiduciary Arizona income tax return rather than a separate fiduciary income tax return for each trust when the trustee files a composite federal income tax return for the QFTs?

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 42-1004(A)(1) authorizes the Department to formulate policies, plans and programs to effectuate the missions and purposes of the Department.

A.R.S. § 43-304 sets forth the trust filing requirements.

A.R.S. § 43-1301 defines the “Arizona gross income” and “Arizona taxable income” of a trust.

Internal Revenue Code § 685(f) authorizes the Secretary of the Treasury to prescribe rules for the simplified reporting of all QFTs having a single trustee.

DISCUSSION:

The Internal Revenue Code provides simplified filing for QFTs. For federal purposes, a trustee may file a single, composite Form 1041-QFT for all of its QFTs.

Arizona laws do not directly address the issue of composite returns for QFTs. Nevertheless, authority for the Department to allow and to accept such composite returns is implied in the general powers and duties statutorily granted to the Department.

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The laws cited under the Applicable Law section above provide the statutory bases for requiring certain information to be included in a composite return.

RULING:

The trustee of more than one QFT may file a composite Arizona fiduciary income tax return rather than a separate fiduciary income tax return for each trust when the trustee files a composite federal income tax return for the QFTs.

The following limitations and conditions shall apply to those trusts included in the composite return:

1. A composite return filed by a trustee may be on behalf of some or all of the QFTs that participated in the filing of the federal composite return.
2. Any refund of overpayment of income taxes made on a composite basis must be remitted to the trustee for distribution to the participating trusts.
3. A composite return may not be changed or corrected except by an amended composite return filed by the trustee.

The filing of the form itself shall consist of the following:

1. The form for filing purposes is the Arizona Fiduciary Income Tax Return, Form 141AZ.
2. The trustee must check the appropriate box on Form 141AZ indicating that it is a QFT composite return.¹
3. The trustee must indicate the number of trusts participating in the filing of the QFT composite return.
4. The taxpayer's name and address shown on the front of Form 141AZ must be the same name and address the trustee used on the federal composite return.
5. The taxpayer's federal employer identification number shown on the front of Form 141AZ must be the same federal employer identification number the trustee used on the federal composite return.

¹ Originally this ruling required the trustee to write "Composite QFT Return" on top of the front page of Form 141AZ. For taxable years beginning after December 31, 2016, a check box was added to Form 141AZ to indicate that a composite QFT return is being filed.

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6. The trustee must attach a comprehensive schedule that shows the names, addresses, federal employer identification numbers, and mathematical calculations for the Arizona tax liability for each trust included in the composite return.
7. The trustee or the trustee's authorized representative must sign the composite return.

Each trust's liability shall be computed separately in the following manner:

1. Each trust's tax liability shall be computed separately based on the separate taxable income using the appropriate tax rate for that taxable income.
2. The aggregate amounts for income, fiduciary adjustments, and tax liabilities for all of the participating trusts are to be carried forward to the front of the return.

Composite returns are due on the 15th day of the fourth month following the close of the taxable year for the participating trusts. Extension of time to file will be granted on a composite basis only. To obtain an extension, the trustee may file a federal extension (federal Form 8736) or apply for a state extension (Arizona Form 204). The extension request must be filed under the trustee's federal employer identification number and payment of 90 percent of the composite tax liability must accompany the extension request.

Individual trusts are liable for any proposed assessment resulting from an audit, even though a composite return has been filed.

Gale Garriott, Deputy Director
for J. Elliott Hibbs, Director

Signed: June 21, 2004

Explanatory Notice

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law that are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement that provides interpretation, detail, or supplementary information concerning application of the law. Relevant statute, case law, or administrative rules, as well as a

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subsequent ruling, may modify or negate any or all of the provisions of any tax ruling. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.