

ARIZONA DEPARTMENT OF REVENUE

ARIZONA INDIVIDUAL INCOME TAX RULING

ITR 93-3

(On 7/26/2011 the Arizona Administrative Code rule reference was updated to use the rule's new number. No substantive changes were made.)

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:

Are Arizona resident individuals who participate in the filing of a composite income tax return with another state entitled to a tax credit for taxes paid to that state?

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 43-1071 sets forth the conditions under which residents are allowed an Arizona income tax credit for income taxes paid to another state.

Arizona Administrative Code (A.A.C.) rule R15-2C-501 further defines the requirements for an Arizona income tax credit allowed under A.R.S. § 43-1071.

DISCUSSION:

For individual income tax filing purposes, several states allow certain entities to file composite income tax returns on behalf of some or all of the filing entity's nonresident individuals. This type of return is generally a single income tax return which reflects the aggregate income and tax liabilities of the participating members. Partnerships or S corporations are generally the type of entities that can file a composite income tax return. Some states also allow trusts to file such returns.

For the purpose of a composite income tax return, a participating member must be a nonresident of the state for which the composite return is filed and must be either: (1) a partner of the partnership filing the composite return, (2) a shareholder of the S corporation filing the composite return, or (3) a beneficiary of the trust filing the composite return.

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When an Arizona resident individual is a participating member in the filing of a composite income tax return with another state, that individual will generally not file his or her own separate income tax return with that state. The participating member's income and tax liability will be reflected in the aggregate amounts reported on the composite return. Therefore, even though the participating member does not file a separate nonresident individual income tax return with the other state, he or she will generally have paid income taxes to both that state and Arizona on income derived from the entity filing the composite return.

When another state imposes income taxes on an Arizona resident individual, A.R.S. § 43-1071 will allow that individual a credit against the Arizona taxes for net income taxes imposed by and paid by that individual to that state if:

1. the income was derived from sources within the other state and is taxable to the other state regardless of the residence of the recipient;
2. the other state does not allow Arizona residents a tax credit against income taxes imposed by the other state; and
3. the tax imposed by the other state is imposed on the same income being taxed by Arizona.

Taxes paid to the other state will be considered to be **paid directly** by the individual if such payment is made by:

- (1) direct remittance to the state by the participating member;
- (2) remittance to the entity filing the composite return; or
- (3) a charge against the participating member's loan account.

RULING:

A resident individual who participates in the filing of a composite income tax return to another state is entitled to claim a tax credit for taxes paid to the other state, providing all of the requirements of A.R.S. § 43-1071 are met and the tax paid to the other state is **paid directly by the individual**.

The credit is not allowed when the taxes are paid by the entity on behalf of the participating member.

Harold Scott, Acting Director

Signed: April 8, 1993

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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 which are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement which provides interpretation, details or supplementary information concerning the application of the law. **Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling.** See GTP 92-1 for more detailed information regarding documents issued by the Department of Revenue.