

# ARIZONA DEPARTMENT OF REVENUE

## ARIZONA INDIVIDUAL INCOME TAX RULING ITR 93-5

(On August 6, 2020, updated statute reference to reflect correct paragraph number. See footnotes for explanation. 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:**

Must the capital gain portion of a lump sum distribution from a qualified retirement plan be added to Arizona gross income?

### **APPLICABLE LAW:**

Arizona Revised Statutes (A.R.S.) § 43-1021.2<sup>1</sup> provides that an amount equal to the "ordinary income portion" of a lump sum distribution that was excluded from federal adjusted gross income under Internal Revenue Code (I.R.C.) § 402 must be added to Arizona gross income.

I.R.C. § 402 governs the federal income tax treatment of lump sum distributions from qualified retirement plans.

Public Law (P.L.) 99-514 § 1122 (Tax Reform Act of 1986) provides special transition rules with respect to the federal income tax treatment of lump sum distributions from qualified retirement plans.

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<sup>1</sup> The original cite was to A.R.S. § 43-1021.3 which was renumbered to A.R.S. § 43-1021.2.

**DISCUSSION:**

For federal income tax purposes, the general rule for a lump sum distribution from a qualified retirement plan for post-1986 distributions is that no portion of the distribution may be treated as a capital gain. There are, however, two elective exceptions where distributions are treated as capital gains for federal income tax purposes.

Under A.R.S. § 43-1021.2<sup>2</sup> a taxpayer is required to add to Arizona gross income only the "ordinary income portion" of a lump sum distribution from a qualified retirement plan that is excluded from federal adjusted gross income. There is no provision requiring the capital gain portion of a lump sum distribution to be added to Arizona gross income. Therefore, the only portion of a lump sum distribution which must be added to Arizona gross income is the "ordinary income portion."

**RULING:**

The capital gain portion of a lump sum distribution from a qualified retirement plan is not required to be added to Arizona gross income. The only portion of a lump sum distribution which must be added to the Arizona gross income is the "ordinary income portion."

Harold Scott, Acting Director

Signed March 29, 1993

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**

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<sup>2</sup> The original cite was to A.R.S. § 43-1021.3 which was renumbered to A.R.S. § 43-1021.2.

**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.