

# ARIZONA DEPARTMENT OF REVENUE

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## ARIZONA INDIVIDUAL INCOME TAX RULING ITR 02-3

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### **ISSUE:**

How should joint estimated tax payments be allocated when the spouses subsequently file separate returns?

### **APPLICABLE LAW:**

Arizona Revised Statutes (A.R.S.) § 25-211 provides that all property acquired by either husband or wife during marriage is community property, except that which is acquired by gift or inheritance.

A.R.S. § 43-581 requires certain individuals to make estimated income tax payments and allows voluntary payments by individuals not required to make mandatory payments.

Internal Revenue Service (IRS) Treasury Regulation (Treas. Reg.) § 1.6015(b)-1(b) provides for allocation of joint estimated tax payments between spouses that subsequently file separate returns.

IRS Letter Ruling 200011047 provides that the IRS shall allocate joint estimated tax payments between spouses in accordance with the formula set out in Treas. Reg. § 1.6015(b)-1(b) when the spouses who have made joint estimated tax payments subsequently file separate returns and cannot agree on how to divide the payments.

### **DISCUSSION:**

For federal estimated tax payment purposes, former Internal Revenue Code § 6015(c) permitted the division of estimated tax payments by spouses who had

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filed a joint estimated tax declaration but then chose not to file joint returns. Treas. Reg. § 1.6015(b)-1(b) sets forth rules for dividing the joint estimated tax payments. Under Treas. Reg. § 1.6015(b)-1(b), joint estimated tax payments may be treated as payments on account of the tax liability of either the husband or wife for the taxable year, or may be divided between them in such manner as they agree. Therefore, if the spouses agree to an allocation of the payments, as evidenced by their claiming the payments on their respective separate tax returns, the IRS will accept that allocation. However, if the spouses do not agree to an allocation of the payments, IRS Letter Ruling 200011047 provides that the IRS will allocate the payments in proportion to their separate tax in accordance with the formula provided in Treas. Reg. § 1.6015(b)-1(b), even though this may ignore local law. Under this regulation, the amount allocated to each spouse is determined using the following formula:

$$\frac{\text{tax imposed on husband's OR wife's return}}{\text{total tax imposed on both returns}} \times \text{the estimated payment}$$

For example: H and W made joint estimated payments of \$19,500 for the taxable year. The amount of tax shown on H's return is \$12,000. The amount of tax shown on W's return is \$8,000. Based on the foregoing formula, H would be allowed estimated payments of \$11,700 ( $\$12,000/\$20,000 \times \$19,500$ ) and W would be allowed estimated payments of \$7,800 ( $\$8,000/\$20,000 \times \$19,500$ ).

For Arizona income tax purposes, A.R.S. § 43-581(C) requires the department to prescribe rules for payments of estimated tax that provide for estimated payments in a manner similar to the manner prescribed in the Internal Revenue Code. Therefore, when spouses are unable to agree on separate allocation for estimated tax payments that were made jointly, Arizona will apply the formula prescribed in Treas. Reg. § 1.6015(b)-1(b).

### **RULING:**

When spouses make estimated tax payments jointly and later file separate income tax returns, the spouses may allocate the estimated tax payments between their returns in whatever manner they agree by claiming the payments on their respective returns.

When spouses who made joint estimated tax payments and later file separate income tax returns do not agree on the allocation, the following formula will be

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used to determine the amount of estimated tax allocated to each spouse without regard to community property:

$$\frac{\text{tax imposed on husband's OR wife's return}}{\text{total tax imposed on both returns}} \times \text{the estimated payment}$$

Mark W. Killian, Director

Signed: July 15, 2002

### 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 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.