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## ARIZONA INDIVIDUAL INCOME TAX RULING ITR 11-3

(This Ruling Supersedes Arizona Individual Income Tax Ruling ITR 93-12)

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:

What is the Arizona income tax treatment of issues unique to retired members of the Uniformed Services of the United States?

### APPLICABLE LAW:

A.R.S. § 43-1001(2) provides that the Arizona gross income of a resident individual is his or her federal adjusted gross income for the taxable year, computed pursuant to the Internal Revenue Code.

A.R.S. § 43-1022(2) allows a \$2,500 subtraction from Arizona gross income for qualifying public pension income received from one or more sources, which includes retired or retainer pay of the uniformed services of the United States.

10 U.S.C. § 101(a)(4) provides that the term "armed forces" means the Army, Navy, Air Force, Marine Corps, and Coast Guard.

10 U.S.C. § 101(a)(5) provides that the term "uniformed services" means the armed forces, the commissioned corps of the National Oceanic and Atmospheric Administration, and the commissioned corps of the Public Health Service.

### DISCUSSION:

The purpose of this ruling is to clarify the Arizona income tax treatment of certain issues unique to individuals who have served in the uniformed services.

### **Retired or Retainer Pay of the Uniformed Services of the United States, and Survivors' Benefit Plan (SBP) Benefits**

Since the starting point for the Arizona income tax computation for a resident individual is the federal adjusted gross income, uniformed services retired pay and SBP benefits that

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are included in a taxpayer's federal adjusted gross income will likewise be included in the taxpayer's Arizona gross income.

Arizona statutes provide a specific income tax treatment for uniformed services retirement benefits included in a taxpayer's Arizona gross income. Under A.R.S. § 43-1022(2), up to \$2,500 for amounts received from U.S. government pensions may be subtracted from Arizona gross income. Therefore, Arizona allows a subtraction of up to \$2,500 for uniformed services retired pay and SBP benefits.

### **Survivors' Benefit Plan (SBP) Contributions, and Disability Retired Pay**

Arizona has no specific treatment of SBP contributions, or disability retired pay. Therefore, to the extent SBP contributions, and disability retired pay are excluded from a taxpayer's federal adjusted gross income, such amounts will similarly be excluded from the taxpayer's Arizona gross income.

#### **RULING:**

To the extent included in Arizona gross income, Arizona allows a taxpayer a subtraction of up to \$2,500 for qualifying public pension income received from specified sources, which includes uniformed services retired pay and SBP benefits.

To the extent SBP contributions and disability retired pay are excluded from a taxpayer's federal adjusted gross income, such amounts will similarly be excluded from the taxpayer's Arizona gross income.

Gale Garriott, Director

Signed: June 22, 2011

#### **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

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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.