

## 2024 Credit for Taxes Paid to Another State or Country

### For information or help, call one of the numbers listed:

Phoenix (602) 255-3381  
From area codes 520 and 928, toll-free (800) 352-4090

### Tax forms, instructions, and other tax information

If you need tax forms, instructions, and other tax information, go to the department's website at [www.azdor.gov](http://www.azdor.gov).

### Income Tax Procedures and Rulings

These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our website select the *About* tab on the home page and select *Legal Research* from the drop-down menu and then click on *Procedures* or *Rulings* from the drop-down menu. Using the Category box, select the tax type and then scroll down to find the *Document ID* or use the *Search Keyword* function to locate the document.

### Publications

To view or print the department's publications, go to our website select the *About* tab on the home page and select *Legal Research* from the drop-down menu and then click on *Publications* from the drop-down menu.

### Purpose of Form

Use Arizona Form 309-SBI to figure your credit for taxes paid to Arizona and another state or country on the same small business income. If claiming a credit for more than one state or country, complete a separate Form 309-SBI for **each** state or country.

**NOTE:** *If you are claiming a credit on Form 301 or 301-SBI for taxes paid to another state or county for the amount of taxes paid by a partnership or S corporation that elected to pay taxes at the entity level, the allowable tax credit on Form 309-SBI may not exceed the amount that would have been allowed if the income were taxed at the individual level and not taxed at the entity level. For more information, see Arizona Revised Statute § 43-1071(G).*

If you are claiming a credit for taxes paid to more than one foreign country for small business income received from an investment in a regulated investment company (RIC) including, but not limited to, mutual funds, exchange trade funds (ETF), and real estate investment trusts (REITS), see Income Tax Procedure (ITP) 20-1, *Procedure for Calculating Credit for Taxes Paid to Another Country by Arizona Resident Individuals*, for additional instructions.

**NOTE:** *Individuals claiming this credit must also complete Arizona Form 301-SBI, Nonrefundable Individual Tax Credits and Recapture, and include Form 301-SBI and Form(s) 309-SBI with your tax return to claim this credit.*

If you are not sure what amounts you should enter on Form 309-SBI, see the department's procedure, ITP 08-1, *Procedure for Calculating Credit for Taxes Paid to Another State or Country by Arizona Resident Individuals*.

**NOTE:** *You must notify the department immediately if the other state or country credits or refunds taxes for which you have received an Arizona credit. In this case, you must file an amended return.*

Complete this form only if you meet the following:

1. You are filing a 2024 Arizona small business income tax return.
2. You paid a **net** income tax related to small business income to another qualified state or country for 2024.

If you are claiming a credit for small business income taxes paid to another country, a net income tax paid to another country includes those taxes that qualify for a credit under Internal Revenue Code (IRC) §§ 901 and 903.

**NOTE:** *To claim a credit for taxes paid to a foreign country, you must complete Form 309-SBI. You must complete Form 309-SBI even if you did not have to complete federal Form 1116 to claim a credit on your federal return.*

### You may **not** claim this credit for the following:

- income taxes paid to any city or county, and
- interest or penalties paid to another state or country.

**NOTE:** *If you file an amended return after you claim this credit, be sure to recalculate the credit, if required.*

### Application of Credit

Claim this credit only if the small business income was subject to tax in both Arizona and the other state or country in the same tax year.

You cannot apply this credit against interest or penalties payable to Arizona.

**NOTE:** *You may use this credit only in the year incurred. You cannot carry the credit forward to the next year. You also cannot carry the credit back to a prior year.*

### Are You Claiming Other Arizona Tax Credits?

A.R.S. § 43-1731 provides that residents shall be allowed a credit against the taxes imposed by Title 43, Chapter 17, for net income taxes imposed by and paid to another state or county on income taxable under this chapter.

“Taxes payable under this chapter” means the income tax imposed by this state on the taxpayer's taxable income as defined under section 43-1001 minus any tax credit amount claimed for the taxable year under this article but not including the credit amount under this section.

Therefore, Arizona will only allow a taxpayer to claim the credit for taxes paid to another state or country *after* applying all other available credits.

To determine if you have any remaining tax liability in which to apply the credit for taxes paid to another state or country, use the following rules when applying other tax credits.

- First, apply any credits that cannot be carried over or refunded.
- Second, apply any credits that can be carried over for a limited duration.
- Third, apply refundable credits

If there remains an income tax liability after applying those credits, then you may apply the credit for taxes paid to another state or country.

## Arizona Resident

Arizona residents are allowed a credit against Arizona income taxes for net small business income taxes imposed by and paid to another state or country if the following apply:

- The small business income taxed in Arizona is derived from sources within another state or country. This income is subject to a net income tax in the other state or country regardless of your residence.
- The other state or country does not allow Arizona residents a credit for taxes imposed on small business income subject to tax in both Arizona and the other state or country.

**As an Arizona resident, nonresident returns filed with the following states qualify for the credit:**

Alabama, Arkansas, Colorado, Connecticut, Delaware, District of Columbia (see note below), Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, West Virginia and Wisconsin.

**NOTE:** *Only income tax paid under the District of Columbia's Unincorporated Business Franchise Tax qualifies for the credit. The tax must be paid by an individual and not the business entity for the credit to qualify.*

**For tax year 2024, as an Arizona resident, nonresident returns filed with the following states qualify for the credit for the pass-through taxes paid on behalf of the Arizona resident.**

Alabama, Arkansas, Colorado, Connecticut, District of Columbia, Georgia, Idaho, Illinois, Kansas, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri (beginning in 2024), New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina, Utah, and Wisconsin.

**Important:** As an Arizona resident, nonresidents returns filed with the following states DO NOT QUALIFY for the PTE tax credit on the Arizona return:

California, Oregon and Virginia.

You may be able to claim a credit for taxes paid to Arizona on the nonresident return filed with any of those states listed above.

## Nonresident

A credit against Arizona small business income taxes is allowed for Arizona nonresidents who are not allowed a credit by their state or country of residence for taxes paid to Arizona if either:

- The other state or country does not tax Arizona nonresidents on income derived from sources within the other state or country.
- The other state or country allows Arizona nonresidents credit for taxes paid on income subject to tax by the other state or country and Arizona.

**Arizona nonresidents who file resident returns with the following states qualify for the credit.**

- California, Indiana, Oregon, and Virginia

**NOTE:** *This list is subject to change at any time.*

**Arizona nonresidents who file resident returns with the following states qualify for the PTE credit.**

- California, Oregon, and Virginia

**NOTE:** *This list is subject to change at any time.*

## Part-Year Residents

For that part of the year you were a resident of Arizona, follow the instructions for residents.

For that part of the year you were an Arizona nonresident, follow the instructions for nonresidents.

## Dual Resident

You may be eligible to claim the credit if you are a full-year Arizona resident filing Arizona Form 140 and you are also considered to be a resident of another state under the laws of that other state. Figure your credit for taxes paid to Arizona and that other state on the same small business income that is taxable by both Arizona and the other state, but only on income that would be sourced to the other state if you had to report that income as a nonresident.

You may claim the credit as a dual resident if you meet the following:

1. You are filing a 2024 full-year Arizona resident income tax return.
2. You are considered to be a resident of another state under the laws of that other state.
3. You paid a **net** income tax to that other state.

An Arizona resident who is also considered to be a resident of another state under the laws of that state is allowed a credit against Arizona small business income taxes for net income taxes imposed by and paid to that other state if the following apply:

- The other state taxes the small business income of the Arizona resident and does not allow the Arizona resident a credit for taxes imposed on small business income subject to tax in both Arizona and the other state.
- The credit is allowed only for taxes imposed on income that would have been sourced to the other state if the Arizona resident had filed as a nonresident to the other state.

**NOTE:** *If you are an Arizona full-year resident and also considered to be a resident of another state under the laws of that other state, complete the Schedule of Income Allocation, on page 2 of Form 309-SBI before you complete page 1 of Form 309-SBI.*

## Required Forms

Upon request by the department, the taxpayer shall provide the following as proof for claiming the credit.

- Copy of other state or country's tax return.  
*If the other country does not require a taxpayer to file a tax return, provide documentation showing amount of tax imposed and paid.*
- Copy of brokerage statement, if applicable.
- Proof of payment.
- Statement showing conversion rate for taxes paid to other country.

## Line-by-Line Instructions

Enter your name and Social Security Number (SSN) as shown on Arizona Forms 140-SBI, Form 140NR-SBI, Form 140PY-SBI, or Form 140X-SBI.

Make sure that every return, statement, or document that you file with the department has your SSN. Failing to include the proper numbers may subject you or your preparer to a penalty. Make sure that all of the required identification numbers are clear and correct. Your return may take longer to process if identification numbers are missing, incorrect, or unclear.

*If your name appears first on the return, make sure your SSN is the first number listed.*

## Part 1 - Computation of Income Subject to Tax by Both Arizona and the Other State or Country During 2024

A. If you are claiming a credit for income taxes paid to another state, enter in the space provided, the two-letter abbreviation for that state. See the last page of these instructions for a list of state abbreviations.

B. If you are claiming a credit for income taxes paid to another country, enter the name of that country on the line provided. *See note on page 3.*

**NOTE:** *If you are claiming a credit for taxes paid to more than one foreign country for income received from an investment in a regulated investment company (RIC) including, but not limited to, mutual funds, exchange trade funds (ETF), and real estate investment trusts (REITS), enter "Various" in Part 1, on line B.*

In order for income to be taxed by both Arizona and another state or country, the following must exist.

### For an Arizona resident:

1. The same small business income must be taxed by both Arizona and the other state or country.
2. The small business income must have its source within the other state or country.

### For a nonresident:

1. The same small business income must be taxed by both Arizona and the other state or country.
2. The small business income must have its source within Arizona.

### Lines 1 through 6

Provide a breakdown of your small business income which is subject to tax in both Arizona and the other state or country. Complete lines 1 through 5 separately for each small business income item listed in columns (a) through (c). If you have more than three items of income from the other state or country for which you are claiming the credit, complete additional schedules.

**NOTE:** *If you are an Arizona resident who is also considered to be a resident of another state under the laws of that other state, complete the Schedule of Income Allocation, on page 2 of Form 309-SBI before you complete Part 1, lines 1 through 6 of Form 309-SBI.*

### Line 1

Identify the small business income item from which the income subject to tax in both Arizona and the other state or country is derived. If you have more than one income item, complete column(s) (b) and (c), as necessary. Examples of such income are business income, partnership income. Enter an item in column (a) only if your Arizona adjusted gross income and the adjusted gross income of the return filed with the other state or country includes the income from that item.

If you are an Arizona resident and also considered to be a resident of another state, enter the income item and amount from column (d) of the *Schedule of Income Allocation*.

If you are claiming a credit for taxes paid to another country, and that country withheld at the source, and you are not required to file a return with that country, enter the item of income from which the foreign taxes were withheld.

**Line 2**

Enter the amount of small business income from the item listed on line 1 reportable to both Arizona and the other state or country. This is the amount of income derived from that item which you must include in the income reported to both Arizona and the other state or country.

**NOTE:** *If you are claiming a credit for taxes paid to more than one foreign country for income received from an investment in a regulated investment company (RIC) including, but not limited to, mutual funds, exchange trade funds (ETF), and real estate investment trusts (REITS), enter the total amount of income received on line 2, column (a).*

**Line 3**

Enter that portion of small business income on line 2 included in your Arizona adjusted gross income. This amount is that portion of the amount of income included on line 2 that is also included in your Arizona gross income adjusted by any additions or subtractions related to that income required under Arizona law.

**For example,** during the tax year, Taxpayer A, a full-year Arizona resident, had Schedule C small business income of \$50,000 from State P. This \$50,000 of Schedule C income is reportable to both Arizona and to State P.

For federal purposes, Taxpayer A included the \$50,000 in federal adjusted gross income, but also reduced that Schedule C business income by ½ of the self-employment tax related to that income (\$3,532) and by the amount of self-employed health insurance deduction (\$6,000). Therefore, only \$40,468 [ $\$50,000 - (\$3,532 + \$6,000)$ ] of the \$50,000 Schedule C income is included in Taxpayer A’s Arizona gross income. Arizona law requires no further additions or subtractions related to this Schedule C income included in Taxpayer A’s Arizona gross income. Therefore, the amount of Schedule C income included in Taxpayer A’s Arizona adjusted gross income would be \$40,468. Taxpayer A would enter \$40,468 on line 3.

**Line 4**

Enter that portion of small business income on line 2 which is included in the other state or country’s equivalent of Arizona adjusted gross income. If you are a full-year Arizona resident filing a nonresident return to the other state or country, this would be the other state or country’s income computed under the equivalent of Arizona Revised Statute (A.R.S.) § 43-1094 (adjusted gross income of a nonresident). In other words, the income computed as if only source income were included, and then adjusted by any additions or subtractions related to that income required under the other state or country’s law.

**For example,** during the tax year, Taxpayer A, a full-year Arizona resident, had Schedule C small business income of \$50,000 from State P. This \$50,000 of Schedule C income is reportable to both Arizona and to State P.

For federal purposes, Taxpayer A included the \$50,000 in federal adjusted gross income, but also reduced that Schedule C business income by one-half of the self-employment tax

related to that income (\$3,532) and by the amount of self-employment and by the amount of health insurance deduction (\$6,000). Taxpayer A was required to make these same adjustments on the return filed to State P. Therefore, only \$40,468 [ $\$50,000 - (\$3,532 + \$6,000)$ ] of the \$50,000 Schedule C income is included in State P’s equivalent of Arizona gross income.

Additionally, State P law allows Taxpayer A to subtract an additional amount of \$2,000 of depreciation related to the Schedule C income. Therefore, the amount of Schedule C income included in State P’s equivalent of Arizona adjusted gross income would be \$38,468 ( $\$40,468 - \$2,000$ ). Taxpayer A would enter \$38,468 on line 4.

**Line 5**

Enter the smaller of the amount entered on line 3 or line 4. This is the amount of income from that item which is subject to tax by both Arizona and the other state or country.

**Line 6**

Add line 5, columns (a) through (c). This is the total small business income subject to tax in both Arizona and the other state or country.

If less than zero, enter “0.” In this case, there is no income that is subject to tax in both Arizona and the other state or country. You cannot claim a credit for taxes paid to the other state or country.

Enter the amount from Part 1, line 6, on Part 2, line 8, and also on Part 2, line 13.

**NOTE:** *The amounts on lines 2 through 5 may be the same. However, differences may occur due to the application of the other state’s law. See the example on page 5.*

**Part 2 - Computation of Other State or Country Tax Credit**

**Line 7**

Enter your Arizona tax liability less any credits. However, do not reduce your Arizona tax liability by the other state tax credit.

For 2024, your Arizona tax liability prior to tax credits can be found on the following line number.	
Arizona Form	Line Number
140-SBI	54
140PY-SBI	54
140NR-SBI	52
140X-SBI	54

**NOTE:** *If you are taking other tax credits, you must reduce your Arizona tax by the amount of those other tax credits. For the purpose of this computation, be sure to reduce your Arizona tax by both refundable and nonrefundable credits.*

If you received distributed income from a partnership and/or S Corporation (the Entity) reported on Schedule K-1 or K-1(NR) and the Entity elected to pay Entity-Level Income Tax on your

pro-rata share of the distributed income, enter the total taxes paid from the following:

- tax amount paid on your Arizona Small Business Income tax form (see box above); and
- your pro-rata share of the tax paid by the Entity on your behalf. This tax amount cannot exceed the amount of the Arizona individual income tax that would be paid if the taxpayer had opted out of paying tax at the entity-level.

#### Line 8

Enter amount from Part 1, line 6.

#### Line 9 - Entire Income Upon Which Arizona Tax is Imposed

Enter your entire small business income upon which Arizona tax is imposed.

#### Part-Year Residents With Arizona Source Income for the Period of the Year in Which You Were an Arizona Nonresident

If you have Arizona source small business income for the period of the year in which you were an Arizona nonresident, you must separately determine the amount of Arizona adjusted gross income for the period in which you were a resident and the small business amount for the period in which you were a nonresident. These figures are not separately stated on any particular line on your Arizona Form 140PY-SBI.

#### Lines 10 and 11

Follow the instructions on the form for lines 10 and 11.

#### Line 12

12a. Enter the name of the other state or country.

12b. Enter the amount of small business income tax paid to the other state or country. Do not include federal income taxes or any taxes paid to a city or county. Also, do not include any amount paid to the other state or foreign country for penalty or interest. Amounts of tax paid or accrued to a foreign country do not include amounts that are reasonably certain to be refunded, credited, rebated, abated, or forgiven.

If you received distributed income from a partnership and/or S Corporation (the Entity) reported on Schedule K-1 or K-1(NR) and the Entity elected to pay Entity-Level Income Tax on your pro-rata share of the distributed income, enter the total taxes paid by the Entity on your behalf. This tax amount is limited to the amount actually paid by the Entity or the amount of the other state's individual income tax had the Entity not elected to pay the tax at the entity level, whichever is less.

#### Line 13

Enter the amount from Part 1, line 6.

#### Line 14 - Entire Income Upon Which Other State or Country's Income Tax is Imposed

Enter the entire small business income upon which the other state or country's income tax is imposed. This is the other state or country's equivalent of Arizona small business income, such income must include items of income and loss. Such income must also be adjusted by any additions or subtractions required under the other state's law which relate to the income

from sources within the other state. This amount may not be shown on a specific line of the return filed with the other state.

If you are claiming a credit for taxes paid to another country, and that country withheld at the source, and you are not required to file a return with that country, enter the amount of income subject to tax in that foreign country.

**NOTE FOR ARIZONA RESIDENTS ONLY:** *Since the other state can only tax a nonresident on income which is sourced to that state, the entire income upon which the other state's income tax is imposed includes only income sourced to that other state under its income tax laws. Source income is generally income derived from property located within a state or from an activity carried on within a state when the income recipient is a nonresident.*

**NOTE:** *You may not be able to take the entire income upon which the other state or country's tax is imposed from a specific line on the return filed to the other state or country. If you must determine this amount, include a schedule.*

If you have questions concerning what amount to enter on line 14, call one of the phone numbers listed at the beginning of these instructions.

#### Lines 15 and 16

Follow the instructions on the form for lines 15 and 16.

#### Line 17

Enter the smaller of line 11 or line 16. If this is the only state or country for which you are claiming a credit, also enter this amount on Arizona Form 301-SBI, Part 1, line 2, column (a).

If you are claiming a credit for more than one state or country, make a separate computation for each. Enter the total from all Arizona Forms 309-SBI on Arizona Form 301-SBI, Part 1, line 2, column (a).

### Form 309-SBI, Page 2 – Schedule of Income Allocation Instructions

**NOTE:** *If you are a full-year Arizona resident that is also considered to be a resident of another state under the laws of that other state, you must complete the Schedule of Income Allocation on page 2 of Form 309-SBI before you complete page 1 of Form 309-SBI.*

Complete page 2, *Schedule of Income Allocation*, **only** if you are a full-year Arizona resident who is also considered a resident of another state under the laws of that other state.

All other taxpayers skip page 2, *Schedule of Income Allocation*.

Because the credit allowed for a full-year Arizona resident that is also considered to be a resident of another state is for taxes paid to that other state on income sourced to that other state, you must complete the *Schedule of Income Allocation*, before you can complete lines 1 through 6 (page 1) of Form 309-SBI.

This schedule allocates income between income sourced to the other state and income from everywhere else that is taxable to the other state. Complete column (a) before completing columns (b) through (d). On lines 1 through 7 of column (a), for each line, enter the amounts reported on your federal

income tax return. In column (b), enter the amounts listed in column (a) that are included in income reported on your Arizona return. In column (c), enter the amounts listed in column (a) that are included in income reported on the return filed with the other state. In column (d), enter the amounts listed in column (c) that would be sourced to the other state if you were a nonresident of that state filing a nonresident return to that state.

### List of State Abbreviations

State		State		State		State	
Alabama	<b>AL</b>	Indiana	<b>IN</b>	Missouri	<b>MO</b>	Pennsylvania	<b>PA</b>
Arkansas	<b>AR</b>	Iowa	<b>IA</b>	Montana	<b>MT</b>	Rhode Island	<b>RI</b>
California	<b>CA</b>	Kansas	<b>KS</b>	Nebraska	<b>NE</b>	South Carolina	<b>SC</b>
Colorado	<b>CO</b>	Kentucky	<b>KY</b>	New Jersey	<b>NJ</b>	Utah	<b>UT</b>
Connecticut	<b>CT</b>	Louisiana	<b>LA</b>	New Mexico	<b>NM</b>	Vermont	<b>VT</b>
Delaware	<b>DE</b>	Maine	<b>ME</b>	New York	<b>NY</b>	Virginia	<b>VA</b>
District of Columbia	<b>DC</b>	Maryland	<b>MD</b>	North Carolina	<b>NC</b>	West Virginia	<b>WV</b>
Georgia	<b>GA</b>	Massachusetts	<b>MA</b>	North Dakota	<b>ND</b>	Wisconsin	<b>WI</b>
Hawaii	<b>HI</b>	Michigan	<b>MI</b>	Ohio	<b>OH</b>		
Idaho	<b>ID</b>	Minnesota	<b>MN</b>	Oklahoma	<b>OK</b>		
Illinois	<b>IL</b>	Mississippi	<b>MS</b>	Oregon	<b>OR</b>		