
Instructions for Partners

Part 1 - Arizona Partnership Adjustment

The partnership is required to adjust its income from a federal to Arizona basis. Line 3 of Arizona Form 165 Schedule K-1, is your share of that adjustment. Report the amount from line 3 on your Arizona tax return following the instructions below.

Resident Individuals

- If line 3 is a positive number, enter the amount on Arizona Form 140, page 1, line 16.
- If line 3 is a negative number, enter the amount on Arizona Form 140, page 1, line 27.

Part-Year Resident Individuals

- If line 3 is a positive number, enter that portion of line 3 allocable to partnership income taxable by Arizona on Arizona Form 140PY, line 31.
- If line 3 is a negative number, enter that portion of line 3 allocable to partnership income taxable by Arizona on Arizona Form 140PY, line 44.

Resident Estates or Resident Trusts

- If line 3 is a positive number, enter the amount on Arizona Form 141AZ, Schedule B, line B3.
- If line 3 is a negative number, enter the amount on Arizona Form 141AZ, Schedule B, line B9.

Part 2 - Net Capital Gain (Loss) From Investment in a Qualified Small Business – Information Schedule

Arizona allows individuals, estates and trusts a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business if:

- The gain is included in:
 - The individual's federal adjusted gross income, or
 - The estate or trust's federal taxable income
- The business in which the partnership invested is determined to be a qualified small business by the Arizona Commerce Authority.

A partner that is a pass-through entity (estate or trust) will need this information to:

- Calculate the subtraction for the estate or trust, or
- Complete Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Line 4

Line 4, column (a) is your share of net capital gain (loss) from investment in a qualified small business. See the instructions for Forms 140, 140PY, or 141AZ to determine if you qualify to take this subtraction.

Part 3 – Gain or Loss on the Sale of Virtual Currency and Non-Fungible Tokens – Information Schedule

Arizona allows individuals, estates and trusts a subtraction to the extent not already excluded from Arizona gross income under the internal revenue code, the value of virtual currency and non-fungible tokens (NFT) the taxpayer received pursuant to an airdrop at the time of the airdrop. This paragraph may not be interpreted as providing a subtraction for any appreciation in value that occurs from holding the virtual currency after the initial receipt of the airdrop.

For the purpose of this subtraction, A.R.S. § 43-1028 defines the following:

- **Airdrop** as the receipt of virtual currency through a means of distribution of virtual currency to the distributed ledger addresses of multiple taxpayers.
- **NON-FUNGIBLE TOKENS (NFT)** as a non-fungible cryptographic asset on a blockchain that possesses unique identifiers or other metadata that distinguishes the asset from another token or asset in a manner that makes the asset irreplaceable and non-exchangeable for a similar token or asset.
- **Virtual currency** as a digital representation of value that functions as a medium of exchange, a unit of account and a store of value other than a representation of the U.S. dollar or a foreign currency.
- **Foreign currency** as the coin and paper money of a country other than the United States that is designated as legal tender, circulates and is customarily used and accepted as a medium of exchange in the country of issuance.

Line 5

Line 5 is your share of the value of virtual currency and non-fungible tokens received at the time of the airdrop.

Part 4 – Gain or Loss on the Sale of Virtual Currency and Non-Fungible Tokens - Gas Fees and Non-Fungible Tokens Basis – Information Schedule

Arizona allows individuals, estates and trusts a subtraction for gas fees not already included in the taxpayer's virtual currency or non-fungible tokens basis. For purposes of this subtraction, A.R.S. § 43-1028 defines "Gas Fees" as a fee paid to the operator of a virtual network for the use of the network to facilitate the purchase, sale or exchange of virtual currency or an NFT.

Line 6

Line 6 is your share of the gas fees included in virtual currency or non-fungible tokens basis.

Part 5 - Net Capital Gain (Loss) From the Exchange of Legal Tender – Information Schedule

For taxable years beginning from and after December 31, 2017, Arizona allows the exclusion from gross income the amount of net capital gain (loss) derived from the exchange of one kind of legal tender for another kind of legal tender.

- (a) “Legal tender” means a medium of exchange, including specie, that is authorized by the United States Constitution or Congress for the payment of debts, public charges, taxes and dues.
- (b) “Specie” means coins having precious metal content.

Line 7

Line 7 is your share of the net capital gain (loss) derived from the exchange of one kind of legal tender for another. A net capital gain is reported as a positive number. A net capital loss is reported as a negative number.

Part 6 - Net Long-Term Capital Gain Subtraction - Information Schedule

Arizona allows individuals, estates, and trusts a subtraction from Arizona gross income for a percentage of any net long-term capital gain if:

- The gain arises from assets acquired after December 31, 2011.
- The gain must be included in:
 - The individual’s federal adjusted gross income, or,
 - The estate or trust’s federal taxable income.

In addition:

- Only include net long-term gains if you can verify the asset was acquired after December 31, 2011.
- If you cannot verify the asset was acquired after December 31, 2011, treat it as a capital gain asset acquired before January 1, 2012.
- An asset acquired by gift or inheritance is considered acquired on the date it was acquired by the gift-giver, or the deceased.

A partner that is a pass-through entity (estate or trust) will need this information to:

- Calculate the subtraction for the estate or trust, or,
- Complete Arizona Form 141AZ, Schedule K-1, or Schedule K-1(NR), for each beneficiary.

Line 8

Line 8, column (c), is your share of net long-term capital gain (loss) from assets acquired after December 31, 2011.

Line 9

Line 9, column (c) is your share of the partnership’s net long-term capital gain from investment in a qualified small business that is included in the amount on line 8, column (c). *The amount on line 9 cannot be included in your subtraction for any net long-term capital gain from assets acquired after December 31, 2011.*

For more information, see the instructions for Arizona Form 140, Arizona Form 140PY, or Arizona Form 141AZ.

Line 10

Line 10, column (c) is your share of the partnership’s net long-term capital gain (loss) from the exchange of one form of legal tender for another that is included in the amount on

line 8 column (c). *The amount on line 10, column (c) cannot be included in your subtraction for any net long-term capital gain from assets acquired after December 31, 2011.*

Worksheet for Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011 (Worksheet)

To determine if you qualify to claim a subtraction from income on your Arizona tax return:

- **Full-year resident partners**, use the amounts on line 8, line 9, column (c), and line 10, column (c) to figure the allowable subtraction on the Worksheet included in the instructions for Arizona Form 140.
- **Part-year resident partners**, use the amounts on line 8, line 9, column (c), and line 10, column (c) that are included in your Arizona gross income to figure the allowable subtraction on the Worksheet included in the instructions for Arizona Form 140PY.
- **Resident estate or trust partners**, use the amounts on line 8, line 9, column (c), and line 10, column (c) to complete the Worksheet included in the instructions for Arizona Form 141AZ. If the resident estate or trust distributed the gain (loss) to the beneficiaries, the Worksheet will assist the estate or trust in completing the *Net Long-Term Capital Gain Subtraction – Information Schedule* on Arizona Form 141AZ, Schedule K-1, or Schedule K-1(NR) for each beneficiary.

Part 7 – Partner’s Portion of the Partnership’s Pass-Through Entity Election

If the Partnership is making the election to pay tax at the entity level on its pass-through income AND you as the resident or part-year resident individual or estate and trust shareholder did not opt out of that election, Part 7 provides you with your pro-rata share of the pass-through credit.

Line 11

Line 11 is your pro-rata share of the Partnership’s PTE Tax Credit.

Individuals, enter this amount on Credit Form 355, Part 1, line 1.

Estates and trusts, see the instructions for Form 141AZ, line 19 to claim this credit.

Line 12

Line 12 is your pro-rata share of the Partnership’s Arizona PTE Taxes paid in 2024 for taxable years prior to 2024.

Individuals that *did not make the Small Business Income election*, add this amount back on Form 140, page 5, line P, or Form 140PY, page 5, line O.

Individuals that **made the Small Business Income election**, add this amount back on Form 140-SBI, line 25, or Form 140PY-SBI, line 25.

Estates and trusts, add this amount back on Form 141AZ, Schedule B, line B3.

Line 13

Line 13 is your pro-rata share of the Partnership's Arizona PTE Taxes paid in 2024 for taxable year 2024.

Individuals that *did not make the Small Business Income election*, add this amount back on Form 140, page 5, line P, or Form 140PY, page 5, line O.

Individuals that **made the Small Business Income election**, add this amount back on Form 140-SBI, line 25, or Form 140PY-SBI, line 25.

Estates and trusts, add this amount back on Form 141AZ, Schedule B, line B3.

Line 14

Line 14 is your pro-rata share of comparable PTE Taxes from other states paid in 2024 for taxable years prior to 2023.

Individuals that *did not make the Small Business Income election*, add this amount back on Form 140, page 5, line P, or Form 140PY, page 5, line O.

Individuals that **made the Small Business Income election**, add this amount back on Form 140-SBI, line 25, or Form 140PY-SBI, line 25.

Estates and trusts, add this amount back on Form 141AZ, Schedule B, line B3.

Line 15

Line 15 is your pro-rata share of comparable PTE Taxes from other states paid in 2024 for taxable year 2024.

Individuals that *did not make the Small Business Income election*, add this amount back on Form 140, page 5, line P, or Form 140PY, page 5, line O.

Individuals that **made the Small Business Income election**, add this amount back on Form 140-SBI, line 25, or Form 140PY-SBI, line 25.

Estates and trusts, add this amount back on Form 141AZ, Schedule B, line B3.