

Taxpayers in the Military

Pub 704
Revised: Feb. 2020

This publication is designed to provide general information with respect to the Arizona income tax treatment of taxpayers in the military. For complete details, refer to the Arizona Revised Statutes. In case of inconsistency or omission in this publication, the Arizona Revised Statutes will prevail. For information about the Arizona income tax treatment of spouses of members of the Armed Forces, see the department's publication, Pub 705, "*Spouses of Active Duty Military Members*."

To clarify in this publication, the department is using the term "residence" not only in places where the usage is consistent with the standard legal definition of that term but also in places where the term "domicile" would be more technically accurate.

Arizona Tax Treatment of Members of the Armed Forces, Reservists and National Guard Active Duty Military

Q1. Does Arizona tax active duty military pay?

Beginning with the 2006 tax year, Arizona does not tax active duty military pay. Members of the U.S. Armed Forces may subtract the amount of pay received for active duty military service, including pay received for active service in a combat zone or an area given the treatment of a combat zone, to the extent included in Arizona gross income and subject to Arizona tax. A full year Arizona resident may take this subtraction on Form 140 only. A full year resident may not take this subtraction if filing Form 140A or 140EZ. A part-year resident military member may take this subtraction on Form 140PY.

Arizona Withholding

Q2. I am an active duty military member who is an Arizona resident. Is Arizona income tax required to be withheld from my military pay?

Arizona tax is not required to be withheld from compensation received for active duty military service as a member of the U.S. Armed Forces.

Arizona Income Tax Returns

Q3. Who must file an Arizona income tax return?

An individual is required to file an Arizona income tax return if he or she has for the taxable year:

- An Arizona adjusted gross income of \$5,500 or more if single, unmarried head of household or married filing a separate return.

- An Arizona adjusted gross income of \$11,000 or more if married filing a joint return.
- Gross income of \$15,000 or over, regardless of the amount of taxable income.

For filing purposes, figure your gross income the same as you would figure your gross income for federal income tax purposes. Then, you should exclude income Arizona law does not tax. For example, income Arizona law does not tax includes interest from U.S. government obligations and active duty military pay. Starting with the 2009 tax year, in some cases, income earned for services performed in Arizona by an Arizona nonresident spouse of an active duty military member may not be subject to Arizona tax.

Q4. When is income earned for services performed in Arizona by an Arizona nonresident spouse of an active duty military member not subject to Arizona income tax?

Starting with the 2009 tax year, income earned for services performed in Arizona by an Arizona nonresident spouse of an active duty military member will not be subject to Arizona income tax if all of the following apply:

- The active duty military member is present in Arizona in compliance with military orders.
- The spouse is in Arizona solely to be with the active duty military member.
- The spouse maintains residence in another state, which is the same state of residence as the military member.

For more information about the Arizona income tax treatment of spouses of members of the Armed Forces, see the department's brochure, Pub 705, "*Spouses of Active Duty Military Members*."

Q5. May a taxpayer complete a photocopied tax form in lieu of an original?

Yes.

Q6. Do you have to file if you are in the military?

You must file if you meet the Arizona filing requirements unless all the following apply to you:

- You are an active duty member of the United States armed forces.
- Your only income for the taxable year is compensation received for active duty military service.

- There was no Arizona tax withheld from your active duty military pay.

If Arizona tax was withheld from your active duty military pay, you must file an Arizona income tax return to claim any refund you may be due from that withholding.

You must also file an Arizona income tax return if you have any other income besides compensation received for active duty military pay and you meet the filing requirements.

Residency for Arizona Income Tax Purposes

Q7. I was an Arizona resident when I joined the service and am now stationed outside of Arizona. Will I continue to be an Arizona resident for income tax purposes?

Yes. For Arizona purposes, an individual who was an Arizona resident when entering the service is considered to be an Arizona resident regardless of where the individual is stationed. That individual would continue to be an Arizona resident until a change of residence is established.

Q8. Can an Arizona resident in the armed forces change his or her residency to another state? If so, how?

Yes, it is possible for an individual in active military service to change residency.

The question of residency for state income tax purposes cannot be answered by a general rule but depends largely on the circumstances of each case.

An individual who enters the military from Arizona continues to be a resident for state income tax purposes, even when temporarily absent from the state by reason of military orders. However, it is possible for an individual in active military service to change residency by showing evidence of definite intent to change. Examples of actions that are considered in determining a person's change of residency are:

- physical presence of yourself, and your spouse and children, if any, in the new locality,
- registering to vote in the location of the new residence and notifying voter registration officials in the old locality of your change of residence,
- location of bank accounts and business connections in new locality,
- purchase of a home in new locality and/or sale of an old home in former locality,
- payment of personal or real property taxes in new locality,
- payment of state income taxes in new locality,
- registration of automobile in the new locality,
- applying for or renewing a driver's license in new location and relinquishing your old one, and
- consistent use of new location permanent address on all appropriate records and correspondence.

Military persons claiming a change of residence from Arizona to another state should also complete the appropriate military forms necessary for formalizing such a change. However, completing such forms is only one indication of the intent of an individual to abandon an existing residency and to establish a new one.

The determination of residency is dependent on physical presence and an intent to abandon the former residence and remain in the new residence for an indefinite period of time. A new residence can only come into being when both of these criteria coexist. For more information about residency for Arizona income tax purposes, see Arizona Department of Revenue individual income tax procedure ITP 92-1.

Arizona Resident Active Duty

Single Active Duty Military Member

Q9. I am single and an active duty military member who is an Arizona resident stationed in Arizona. What income tax form should I file, and what income should I report on that form?

If you are required to file an Arizona income tax return, you should file an Arizona resident return, Form 140. You should report all of your income, including your active duty military income.

Because Arizona does not tax your active duty military pay, you should subtract the amount of active duty military pay that you included in your federal adjusted gross income.

Q10. I am single and an active duty military member who is an Arizona resident stationed outside of Arizona. What income tax form should I file, and what income should I report on that form?

If you are required to file an Arizona income tax return, you should file an Arizona resident return, Form 140. You should report all of your income, including your active duty military income.

Because Arizona does not tax your active duty military pay, you should subtract the amount of active duty military pay that you included in your federal adjusted gross income.

Married Arizona Resident Active Duty Military Member Stationed in Arizona - Spouse Arizona Resident Living in Arizona

Q11. I am married and an active duty military member who is an Arizona resident stationed in Arizona. My spouse is also an Arizona resident who is living in Arizona. What income tax form should we file, and what income should we report on that form?

You do not have to file an Arizona income tax return if your only income for the taxable year is compensation received for active duty military service and there was

no Arizona income tax withheld from that pay. If you or your spouse had any other income, and meet the Arizona filing requirements, you must file an Arizona return using Form 140. Only one return is required if you file as married filing jointly. You must report all income from all sources, including your active duty military pay. Because Arizona does not tax your active duty military pay, you should subtract the amount of active duty military pay that you included in your federal adjusted gross income. If filing separate returns, each spouse must report his or her separate income (if any) and one-half of community income.

Married Arizona Resident Active Duty Military Member Stationed Outside Arizona - Spouse Arizona Resident Living Outside of Arizona with Military Member

Q12. I am married and an active duty military member who is an Arizona resident stationed outside of Arizona. My spouse is also an Arizona resident living outside of Arizona. What income tax form should we file, and what income should we report on that form?

You do not have to file an Arizona income tax return if your only income for the taxable year is compensation received for active duty military service and there was no Arizona income tax withheld from that pay. If you or your spouse had any other income, and meet the Arizona filing requirements, you must file an Arizona return using Form 140. Only one return is required if you file as married filing jointly. You must report all income from all sources, including your active duty military pay and any income your spouse may have earned while working in another state. Because Arizona does not tax your active duty military pay, you should subtract the amount of active duty military pay that you included in your federal adjusted gross income. If filing separate returns, each spouse must report his or her separate income (if any) and one-half of community income.

Married Arizona Resident Active Duty Military Member Stationed in Arizona – Spouse Arizona Nonresident Living in Arizona to be with Military Member

Q13. I am married and an active duty military member who is an Arizona resident stationed in Arizona in compliance with military orders. My spouse is a resident of another state who is living in Arizona solely to be with me. What income tax form should we file, and what income should we report on that form?

You do not have to file an Arizona income tax return if your only income for the taxable year is compensation you received for active duty military service and there was no Arizona income tax withheld from that pay. If you had any other income, or if your spouse had any income from an Arizona source, you must file an Arizona income tax return to report that income,

if you meet the Arizona filing requirements. Any income earned by your spouse for services performed in Arizona would be subject to Arizona income tax since you and your spouse are residents of different states. If you are required to file an Arizona income tax return and you want to file a joint Arizona income tax return, you must file using Form 140NR. On page 2 of Form 140NR, you must report all income from everywhere. Report all of your income in the “federal” column. In the “Arizona” column you must include your military income and your spouse’s Arizona source income, including any income your spouse earned from personal services performed in Arizona. Because Arizona does not tax your active duty military pay, you should subtract the amount of active duty military pay that you included in your Arizona gross income (the amount included in the “Arizona” column) as an “other subtraction from income” on Form 140NR, page 2, Part D. If filing separate returns, you must file using Form 140 and your spouse must file using Form 140NR. On these returns, each spouse must report his or her separate income (if any) taxable to Arizona and one-half of community income taxable to Arizona.

Arizona Resident Active Duty Stationed Overseas

Q14. I was an Arizona resident when I joined the service and am now stationed overseas. Do I still need to file Arizona tax returns?

If you were an Arizona resident when you entered the service, you continue to be a resident of Arizona regardless of where you are stationed, unless you establish a change of residence. You do not have to file an Arizona income tax return if your only income for the taxable year is compensation received for active duty military service and there was no Arizona income tax withheld from that pay. If you have any other income, and meet the Arizona filing requirements, you must file an Arizona return using Form 140. You must report all income from all sources, including your active duty military pay. Because Arizona does not tax your active duty military pay, you should subtract the amount of active duty military pay that you included in your federal adjusted gross income.

Q15. Are military personnel stationed overseas allowed additional time to file tax returns? If so, what are the time extensions?

When a taxpayer is granted a federal extension, Arizona will recognize the federal extension for Arizona purposes for the same period of time.

If an individual requires an extension for Arizona purposes only, the taxpayer may request an Arizona filing extension. To request an extension of time to file until October 15, file Form 204 on or before April 15. Ninety percent of the tax due must be paid on or

before April 15 and should accompany the extension request. The department will automatically grant this extension.

When an individual is outside of the United States and it is impossible or impractical to file or pay Arizona taxes by reason of being outside the country, the interest or penalties that might otherwise be assessed may be waived. In such a case, the taxpayer should submit a written request to the tax audit section of the Arizona Department of Revenue explaining the circumstances for failing to file and request a waiver of any interest or penalties. This request should be made as soon as practical after returning to the United States. The request and returns should be filed separately. Also, a copy of the request should be submitted with the return.

Part-Year Resident Active Duty

Q16. I established Arizona residency part way through the tax year. Which income tax form should I file, and what income should I report on that form?

You do not have to file an Arizona income tax return if your only income for the taxable year is compensation received for active duty military service and there was no Arizona income tax withheld from that pay. If you have any other income, and meet the Arizona filing requirements, you must file an Arizona return using Form 140PY. You must report on Form 140PY all income, including your military income, for the period you were an Arizona resident. You also must report any **nonmilitary** income earned in Arizona prior to establishing residency. Because Arizona does not tax your active duty military pay, you should subtract the amount of active duty military pay that you included in your Arizona gross income.

Nonresident Active Duty

Q17. Is a legal resident of another state who is stationed in Arizona on military orders liable for Arizona income taxes on military pay?

No. However, this person is liable for Arizona income taxes on any other income earned from employment or property in Arizona.

Q18. I am an Arizona nonresident stationed in Arizona and have a part-time job off-base; do I need to file an Arizona income tax return?

Yes, if your Arizona income meets Arizona's filing requirement threshold. Any **nonmilitary** income earned in Arizona must be reported on Form 140NR.

Arizona Nonresident Single Active Duty Military Member

Q19. I am single and an active duty military member who is an Arizona nonresident stationed in Arizona. What income tax form should I file, and what

income should I report on that form?

You should file an Arizona nonresident return, Form 140NR, only if you have **nonmilitary** income from an Arizona source. Arizona will not tax your military income. If your only income is military income, you should not file an Arizona income tax return.

Arizona Nonresident Military Stationed in Arizona with Arizona Nonresident Spouse Living in Arizona - Both Residents of the Same State

Q20. I am married and an active duty military member who is an Arizona nonresident stationed in Arizona in compliance with military orders. My spouse is also an Arizona nonresident who is living in Arizona solely for the purpose of being with me. My spouse and I are both residents of the same state. What income tax form should we file, and what income should we report on that form?

You should file an Arizona nonresident return, Form 140NR, only if you or your spouse had **nonmilitary** income from an Arizona source. Starting with the 2009 tax year, wages earned in Arizona by your Arizona nonresident spouse are not considered to be Arizona source income if your spouse is present in Arizona solely to be with you because you are stationed in Arizona in compliance with military orders and your spouse has the same state of residence as you. In this case, Arizona will not tax your spouse's Arizona wages. However, if your spouse is in Arizona for any other reason, Arizona will tax your spouse's wages earned in Arizona. Additionally, Arizona will not tax your military income. If your only income is military income or your spouse's wage income earned in Arizona, you should not file an Arizona income tax return, unless there has been Arizona tax withheld from your spouse's wages. In this case you will need to file an Arizona Form 140NR to claim a refund of the amount withheld. If you or your spouse had any other type of Arizona income, you must file Form 140NR to report that income, if you meet the Arizona filing requirements.

Arizona Nonresident Military Stationed in Arizona with Arizona Nonresident Spouse Living in Arizona - Residents of two Different States

Q21. I am married and an active duty military member who is an Arizona nonresident stationed in Arizona in compliance with military orders. My spouse is also an Arizona nonresident living in Arizona solely for the purpose of being with me. My spouse and I are residents of two different states. What income tax form should we file, and what income should we report on that form?

You should file an Arizona nonresident return, Form 140NR, only if you or your spouse had **nonmilitary** income from an Arizona source. Any income earned by your spouse for services performed in Arizona would

be income from an Arizona source and be subject to Arizona income tax since you and your spouse are residents of different states and do not meet the exemption criteria for that income. If your only income is military income, you should not file an Arizona income tax return. However, if you or your spouse had any other Arizona source income (including income from services your spouse performed in Arizona), you must file an Arizona Form 140NR to report this income, if you meet the Arizona filing requirements.

Arizona Nonresident Military (resident of non-community property state) Stationed in Arizona with Arizona Resident Spouse Living in Arizona

Q22. I am married and an active duty military member who is an Arizona nonresident (a resident of a non-community property state) stationed in Arizona. My spouse is an Arizona resident living in Arizona. What income tax form should we file, and what income should I report on that form?

If filing separate returns, the military member should file an Arizona nonresident return, Form 140NR, reporting one-half of community income derived from Arizona sources, not including military income. The **nonmilitary** spouse should file an Arizona resident return, Form 140 or 140A, reporting all separate income and one-half of community income, but not including any military income. If filing “married filing jointly”, you must file an Arizona nonresident return, Form 140NR. The joint return must reflect the same income required to be reported for separate returns.

Arizona Nonresident Military (resident of community property state) Stationed in Arizona with Arizona Resident Spouse Living in Arizona

Q23. I am married and an active duty military member who is an Arizona nonresident (a resident of a community property state) stationed in Arizona. My spouse is an Arizona resident living in Arizona. What income tax form should we file, and what income should I report on that form?

If filing separate returns, the military member should file an Arizona nonresident return, Form 140NR, reporting one-half of community income derived from Arizona sources, not including military income, and any separate income from Arizona sources. The **nonmilitary** spouse should file an Arizona resident return, Form 140 or 140A, reporting all separate income and one-half of community income from all sources, excluding military income. If filing “married filing jointly”, you must file an Arizona nonresident return, Form 140NR. The joint return must reflect the same income required to be reported for separate returns.

Reservists

Q24. How does Arizona tax reservists?

Beginning with the 2007 tax year, Arizona law allows a reservist to subtract the compensation received for active service as a member of the reserves during the taxable year, to the extent the income is included in the reservist’s Arizona gross income. For the purpose of this subtraction, the term active service as a reservist has been interpreted to include all pay received by the reservist for services performed as a reservist, including weekend duty and the two weeks a year “active duty.”

Q25. Is Arizona income tax required to be withheld from my reservist’s pay?

Arizona tax is not required to be withheld from compensation received for active service as a reservist.

Q26. Do you have to file if you are a reservist?

You must file if you meet the Arizona filing requirements unless all the following apply to you:

- You are in active service as a reservist.
- Your only income for the taxable year is compensation received for active service as a reservist.
- There was no Arizona tax withheld from your Reserve pay.
- If Arizona tax was withheld from your Reserve pay, you must file an Arizona income tax return to claim any refund you may be due from that withholding.

You must also file an Arizona income tax return if you have any other income besides compensation received for active service in the Reserves and you meet the filing requirements.

National Guard

Q27. How does Arizona tax members of the National Guard?

Beginning with the 2007 tax year, Arizona law allows a member of the National Guard to subtract the compensation received for active service as a member of the National Guard during the taxable year, to the extent the income is included in the member’s Arizona gross income. For the purpose of this subtraction, the term active service as a member of the National Guard has been interpreted to include all pay received by the National Guard member for services performed as a National Guard member, including weekend duty and the two weeks a year “active duty”. The law also includes Arizona National Guardsmen activated in a state capacity.

Q28. Is Arizona income tax required to be withheld from my National Guard pay?

If you are a National Guard member activated in a federal capacity, Arizona tax is not required to be

withheld from compensation received for active service as a National Guard Member. If you are a National Guard member activated in a state capacity, Arizona tax must be withheld for compensation for services performed in Arizona as a National Guard member. However, a National Guard member activated in a state capacity who is performing services in Arizona may elect to have no Arizona tax withheld if the member had no tax liability for the prior year and expects to have no tax liability for the current year. The National Guard member would make this election using Form A-4.

Q29. Do you have to file if you are in the National Guard?

You must file if you meet the Arizona filing requirements unless all the following apply to you:

- You are in active service as a National Guard member.
- Your only income for the taxable year is compensation received for active service as a National Guard member.
- There was no Arizona tax withheld from your National Guard pay.

If Arizona tax was withheld from your National Guard pay, you must file an Arizona income tax return to claim any refund you may be due from that withholding.

You must also file an Arizona income tax return if you have any other income besides compensation received for active service in the National Guard and you meet the filing requirements.

For Additional Information, call:

Phoenix..... (602) 255-3381
Toll free from area codes 520 & 928 800-352-4090

Email:

For specific information you can send an email to
AskTaxPolicy@azdor.gov

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