

**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 14.
- 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 30.
- 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 - 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 5**

Line 5 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 4 - 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 6**

Line 6, column (c), is your share of net long-term capital gain (loss) from assets acquired after December 31, 2011.

**Line 7**

Line 7, 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 6, column (c). *The amount on line 7 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 8**

Line 8, 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 6 column (c). *The amount on line 8, 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 6, line 7, column (c), and line 8, 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 6, line 7, column (c), and line 8, 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 6, line 7, column (c), and line 8, 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.