2014 Arizona Partnership Income Tax Return

Arizona Form 165

Obtain additional information or assistance by calling one of the numbers listed below:

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

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's website at www.azdor.gov.

General Instructions

Who Must Use Form 165

File Form 165 for every domestic partnership including syndicates, groups, pools, joint ventures, and every foreign partnership (syndicate, pool, etc.) doing business in Arizona.

NOTE: *A nonprofit medical marijuana dispensary (NMMD) under Arizona Revised Statutes Title 36, Chapter 28.1, is exempt from Arizona income tax in accordance with Arizona Revised Statutes (A.R.S.) § 43-1201(B). If the NMMD is organized or taxed as a partnership, it must file Form 165 to meet the filing requirements of A.R.S. § 43-306. The NMMD must also complete Arizona Form 165, Schedules K-1 and/or K-1(NR), as applicable, and provide copies to its partners, as the partners are not exempt from Arizona income tax.*

Entity Classification Under the Federal "Check-the-Box Rules"

The federal tax classification of an entity under the federal "check-the-box rules" determines the entity's classification for Arizona tax purposes. Refer to Arizona Partnership Tax Ruling PTR 97-1 for further information.

Limited Liability Companies

Under the provisions of the Arizona Limited Liability Company Act, a limited liability company is classified as a partnership, or as a corporation, or is disregarded as an entity as determined under the Internal Revenue Code (IRC) as defined in A.R.S. § 43-105. A limited liability company classified as a partnership for federal tax purposes must file Form 165. A limited liability company classified as a corporation for federal tax purposes must file Form 120. A limited liability company classified as a corporation for federal tax purposes that makes a valid federal election to be taxed as an S corporation must file Form 120S. A single member limited liability company that is disregarded as an entity for federal tax purposes is included in the Arizona return of its owner. Refer to Arizona Partnership Tax Ruling PTR 97-2 for further information.

Taxable Year Covered by Return

The partnership must have the same taxable year for Arizona purposes as it has for federal purposes. Indicate the period covered by the taxable year and whether the taxable year is a calendar year or a fiscal year.

Filing Original Returns

Returns are due by the 15th day of the fourth month following the close of the taxable year. If the partnership has a valid federal or Arizona extension, file the return by the extended due date. If the partnership files under an extension, the taxpayer must check box 82E, on page 1 of the return. Include a copy of the completed federal Form 1065 and supporting schedules with the Arizona return. Mail the return to:

Arizona Department of Revenue
PO Box 52153
Phoenix, AZ 85072-2153

The department generally determines the timeliness of a return by the postmark or other official mark of the U.S. Postal Service stamped on the envelope in which the return is mailed. Refer to Arizona General Tax Ruling GTR 93-1 for further information. The department will also accept proof of mailing from a private delivery service included in the Internal Revenue Service (IRS) list of designated private delivery services. Contact the private delivery service for information regarding how to obtain written proof of mailing.

Extension of Time to File a Return

The partnership can apply for an Arizona extension by filing a completed Form 120EXT by the original due date of the return. The partnership can substitute a valid federal extension for an Arizona extension.

NOTE: *Arizona's extension conforms to the federal extension, which allows partnerships an additional five months after the original due date to file the partnership's income tax return. See Arizona Partnership Tax Ruling PTR 09-1.*

Composite returns: Use Form 204 to request an extension of time to file a composite return on Form 140NR for qualifying nonresident individual partners.

Filing Amended Returns

Any taxpayer who files an amended return with the IRS must file an Arizona amended return on Form 165 within 90 days of its final determination by the IRS.

The taxpayer must report to the department changes or corrections of the taxpayer's taxable income by the IRS or as the result of renegotiation of a contract or subcontract with the United States. The taxpayer must, within 90 days after the final determination of the change or correction, either:

- File a copy of the final determination with the department, concede the accuracy of the determination or state any errors, and request the department to recompute the tax owed to Arizona; or
- File an amended return as required by the department.

The taxpayer must include additional schedules that provide sufficient information for the department to recompute the taxpayer's Arizona taxable income based on the Revenue Agent Report (RAR) changes. The department may require the taxpayer to file an amended return if the department does not have the necessary information to recompute the tax owed to Arizona.

NOTE: *File amended returns for prior taxable years on Form 165 for those taxable years. Use the 2014 Form 165 to amend only the taxable year 2014.*

Do not file an amended return until the original return has been processed. Mail the amended return to:

Arizona Department of Revenue
PO Box 52153
Phoenix, AZ 85072-2153

Records

The partnership should maintain books and records substantiating information reported on the return and keep these documents for inspection. Arizona General Tax Ruling GTR 96-1 discusses the general requirements for the maintenance and retention of books, records and other sources of information received, created, maintained or generated through various computer, electronic and imaging processes and systems. Refer to this tax ruling for further information.

Partnerships should complete three copies of Form 165, Schedule K-1 or Schedule K-1(NR) for each partner. File one copy of each partner's Schedule K-1 or Schedule K-1(NR) with the partnership's Form 165. Provide all partners with a copy of their Schedule K-1 or Schedule K-1(NR). Retain a copy of each Schedule K-1 or Schedule K-1(NR) for the partnership's records.

NOTE: *Use Form 165, Schedule K-1, for all resident and part-year resident individual partners, all resident estate partners, and all resident trust partners. Use Form 165, Schedule K-1(NR), for all other partners.*

OPTIONAL REPORTING FORMAT for Schedule K-1 and Schedule K-1(NR) required to be included with Arizona Form 165: The department will accept a hard copy spreadsheet that contains all the requested information or the information may be submitted on electronic media as a Microsoft Excel spreadsheet on a CD-ROM or DVD. The chosen media must be Microsoft Windows compatible.

Taxpayers submitting the information on CD-ROM or DVD should secure the CD-ROM or DVD in a hard case and include it with the tax return. The Schedule K-1 and Schedule K-1(NR) submitted on CD-ROM or DVD are part of the income tax return and are subject to the sworn statement on the return that they are correct to the best of the signer’s knowledge and belief.

The CD-ROM or DVD should be labeled with the partnership's name, employer identification number, taxable year and Form 165, Schedule K-1/K-1(NR). Partnerships may password protect the CD-ROM or DVD and email the password separately to MediaLibrarian@azdor.gov. Include “Form 165, Schedule K-1/K-1(NR)” in the subject line of the email. In the body of the email, include the same information that is on the CD-ROM or DVD label. If the CD-ROM or DVD is password protected, include the email address the password originated from on the label of the CD-ROM or DVD. The department **will not** return or copy any media.

CAUTION: The partnership substitutes the CD-ROM or DVD at its own risk and understands that the information may need to be provided to the department again at a later date if it is not accessible by the department for any reason.

The department is currently evaluating other methods of accepting the required schedules. Please contact the Process Administration Section at (602) 716-7095 for the most updated filing options.

Rounding Dollar Amounts

Taxpayers must round amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.

Penalties

This form is an information return. The penalty for failing to file, filing late (including extensions) or filing an incomplete information return is $100 for each month, or fraction of a month, that the failure continues, up to a maximum penalty of $500.

IRC § 7519 - Required Payments

Taxpayers cannot deduct the federal required payments on their Arizona tax returns as an ordinary and necessary business expense or otherwise.

Specific Instructions

Type or print the required information in the name, address, and information boxes on the top of page 1. If the partnership has a foreign address, enter the information in the following order: city, province or state, and country. Follow the country’s practice for entering the postal code. **Do not abbreviate the country’s name.** Indicate whether the taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the taxable year on the top of the return. Indicate whether this return is an original or an amended return.

Enter the partnership's employer identification number (EIN), which is the taxpayer identification number (TIN).

All returns, statements, and other documents filed with the department require a TIN. The TIN for a corporation, S corporation, or a partnership is the taxpayer's EIN. The TIN for an individual is the taxpayer's social security number or an IRS individual taxpayer identification number. The TIN for a paid tax return preparer is that individual's social security number or the employer identification number of the business. Taxpayers and paid tax preparers who fail to include their TIN may be subject to a penalty.

If the taxpayer has a valid federal or Arizona extension, file the return by the extended due date. If the taxpayer files under extension, the taxpayer must check box 82E on page 1 of the return.

Other Information (Page 1)

Answer all questions (A through N).

Line E: Enter the total number of entity partners (corporations, estates, exempt organizations, partnerships, S corporations, and/or trusts).

NOTE: *The total of the amounts entered for questions C, D, and E should equal the total number of partners.*

Line H: For taxable years beginning from and after December 31, 2013, a multistate service provider may elect to treat sales from services as being in Arizona based on a combination of income producing activity sales and market sales prescribed under A.R.S. § 43-1147(B). Taxpayers who want to make the election should check the applicable boxes on line H and include the completed Schedule MSP with the tax return. See the specific instructions for the apportionment formula on these instructions. Also refer to A.R.S. § 43-1147 and Schedule MSP instructions for more information.

Line M: Report any adjustments made by the IRS to any federal income tax return filed by the partnership not previously reported to the department. Mail these adjustments separately to:

Arizona Department of Revenue
PO Box 52153
Phoenix, AZ 85072-2153.

Adjustment of Partnership Income from Federal to Arizona Basis

Note: The 2004 Internal Revenue Code conformity bill (SB 1389) made changes affecting tax years beginning from and after December 31, 1999. Arizona conforms but makes specific additions and subtractions that have the effect of not conforming to the increased IRC § 179 expense limitation and the 30% and 50% bonus depreciation provisions of IRC § 168(k). Because depreciation is reported at the partnership level, adjustments will need to be made in the partnership additions and subtractions. Because IRC § 179 expenses are reported at the partner level, Form 165 requires no adjustments relating to those expenses. Partners must make the adjustments on their income tax returns (for example, on Form 140 or Form 120).

UPDATE to 2004 Conformity: In HB 2531 (2013), the statutory addition for IRC § 179 expenses conforms to federal for tax years beginning from and after January 1, 2013. The subtraction will continue to be allowed for taxable years prior to 2013.

Note: The 2009 Internal Revenue Code conformity bill (HB 2156) made changes affecting tax years beginning from and after December 31, 2008. Arizona conforms but makes specific additions and subtractions that have the effect of not conforming to the deferral of discharge of indebtedness (DOI) income under IRC § 108(i) and the deferral of original issue discount (OID) deduction under IRC § 108(i). Because the partnership can determine the amount of deferred DOI and OID to allocate to each partner in any manner, not necessarily based on ownership or profit percentage, Form 165 requires no adjustments relating to these deferrals. Partners must make the adjustments on their income tax returns (for example, on Form 140 or Form 120).

Line 1 - Federal Ordinary Business and Rental Income

Enter the total of ordinary income (loss) from trade or business activities, rental real estate activities, and other rental activities from the federal Form 1065, Schedule K. Include a copy of the federal Form 1065 and its component schedules.

Schedule A - Additions to Partnership Income

Line A1 - Total Federal Depreciation

Enter the total amount of depreciation deducted on the federal return.

Line A2 - Non-Arizona Municipal Bond Interest

Enter interest income received from any state or municipal obligations (other than Arizona) credited to or earned by the partnership during the taxable year. Reduce the amount of interest income by the amount of any interest on indebtedness and other related expenses incurred or continued to purchase or carry those obligations that were not otherwise deducted or subtracted in the computation of Arizona gross income. Do not include interest from obligations specifically exempt from Arizona income tax, nor any related expenses.

Line A3 - Additions Related to Arizona Tax Credits

Enter on line A3 the following additions to partnership income that are related to Arizona tax credits. Include a schedule detailing these additions.

A. Environmental Technology Facility Credit

These adjustments apply to partnerships that elected to claim a tax credit under A.R.S. §§ 43-1080 or 43-1169 and have sold or otherwise disposed of the facility or any component of the facility during the taxable year.

- **Excess Federal Depreciation or Amortization**

  Enter the excess of depreciation or amortization computed on the federal basis of the facility over depreciation or amortization computed on the Arizona adjusted basis of the facility.

- **Excess in Federal Adjusted Basis**

  Enter the amount by which the federal adjusted basis of the facility exceeds the Arizona adjusted basis of the facility.

B. Pollution Control Credit

- **Excess Federal Depreciation or Amortization**

  Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the partnership elected to claim a tax credit under A.R.S. §§ 43-1081 or 43-1170.

- **Excess in Federal Adjusted Basis**

  Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the partnership elected to claim a tax credit under A.R.S. §§ 43-1081 or 43-1170 was sold or otherwise disposed of during the taxable year.

C. Credit for Taxes Paid for Coal Consumed in Generating Electrical Power in Arizona

Enter the amount of expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed the credit for taxes paid for coal consumed in generating electrical power in Arizona. The addition is required for the amount of Arizona transaction privilege taxes and Arizona use taxes included in the computation of federal taxable income for which the Arizona credit is claimed under A.R.S. § 43-1178.

D. Credit for Solar Hot Water Heater Plumbing Stub Outs or Electric Vehicle Recharge Outlets

Enter the amount of expenses deducted in computing Arizona taxable income for the installation of solar hot water heater plumbing stub outs or electric vehicle recharge outlets for which the taxpayer claimed the credit under A.R.S. §§ 43-1090 or 43-1176.

E. Credit for Employment of Temporary Assistance for Needy Families (TANF) Recipients

Enter the amount of wage expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed the TANF credit under A.R.S. §§ 43-1087 or 43-1175.

F. Agricultural Pollution Control Equipment Credit

- **Excess Federal Depreciation or Amortization**

  Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the partnership elected to claim a tax credit under A.R.S. §§ 43-1081.01 or 43-1170.01.

- **Excess in Federal Adjusted Basis**

  Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the partnership elected to claim a tax credit under A.R.S. §§ 43-1081.01 or 43-1170.01 was sold or otherwise disposed of during the taxable year.

G. Credit for Donation of School Site

Enter the amount deducted pursuant to the Internal Revenue Code representing a donation of a school site for which the taxpayer claimed the credit for donation of school site under A.R.S. §§ 43-1089.02 or 43-1181.

H. Motion Picture Credits

This credit is in lieu of any allowance for deduction of expenses related to the production or related to a transferred credit. Enter the amount of any such expenses that were deducted in computing federal taxable income for which the credit was claimed or transferred under former A.R.S. §§ 43-1075 or 43-1163.

I. Credit for Corporate Contributions to School Tuition Organizations

Enter the amount deducted in computing federal taxable income as contributions for which a credit is claimed under A.R.S. § 43-1183.

J. Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students With Disabilities

Enter the amount deducted in computing federal taxable income as contributions for which a tax credit is claimed under A.R.S. § 43-1184.

K. Credit for Qualified Health Insurance Plans

Enter the amount deducted in computing federal taxable income for health insurance premiums or contributions to a health savings account for which a tax credit is claimed under A.R.S. §§ 43-1087.01 or 43-1185.

Line A4 - Other Additions to Partnership Income

Enter the following "other additions" to the partnership income reported on line 1. Include a schedule listing each item separately.

A. Excess of a Partner's Share of Partnership Taxable Income or Loss

Make this adjustment if the partnership is a partner of another partnership. Enter the excess of a partner's share of partnership taxable income or loss included under A.R.S. §§ 43-1401 through 43-1413 over the income reported under IRC § 702(a)(8).

B. Income Recognized Because of Difference in Adjusted Basis of Property

Enter the amount by which the adjusted basis of property described in A.R.S. § 43-1021(6), computed according to the Internal Revenue Code, exceeds the adjusted basis according to Arizona law. Basis computed according to Arizona law means according to Title 43 of the Arizona Revised Statutes effective January 1, 1979, and the Income Tax Act of 1954, as amended. This adjustment applies to all property, held for the production of income, sold, or otherwise disposed of during the taxable year. This adjustment does not apply to depreciable property used in a trade or business.

C. Federal Depreciation of Child Care Facilities

Arizona's statutes, which allow special amortization for the cost of day care facilities, are no longer applicable to partnerships. However, if the partnership elected to claim the special amortization under Arizona's former statutory provisions, the partnership must continue to amortize these items in accordance with those provisions. Therefore, the partnership must make the same additions to and subtractions from Arizona gross income that Arizona's former statutory provisions required. If this applies to the partnership, enter the amount of depreciation deducted for these items on the federal partnership return.

Line 2 - Total Additions to Partnership Income

Add lines A1 through A4. Enter the total.

Line 3 - Subtotal

Add lines 1 and 2. Enter the total.

Schedule B - Subtractions From Partnership Income

Line B1 - Recalculated Arizona Depreciation For Current Year

NEW Arizona Bonus Depreciation: *If you had assets placed in service in taxable years beginning from and after December 31, 2012 and you claimed the bonus depreciation on your federal tax returns, see the department's individual income tax procedure, ITP 14-3, before completing line B1.*

For assets placed in service in taxable years beginning before December 31, 2012, enter the total amount of depreciation allowable pursuant to IRC § 167(a) for the taxable year calculated as if the taxpayer had elected not to claim bonus depreciation for eligible properties for federal purposes.

For assets placed in service in taxable years beginning from and after December 31, 2012 through December 31, 2013, the amount of the subtraction for these assets depends on the method used to compute the depreciation for assets. See the department's income tax procedure, ITP 14-3, for more information. ***Note: Do not include the adjustment for the 2013 Arizona bonus depreciation on line B1. Line B1 is for the current year depreciation. Report this adjustment separately on line B6. See the specific instructions for line B6 (F).***

For assets placed in service in taxable years beginning from and after December 31, 2013, enter the total amount of depreciation allowable pursuant to IRC § 167(a) for the taxable year calculated as if the bonus depreciation is 10% of the amount of federal bonus depreciation pursuant to IRC § 168(k). See the department's income tax procedure, ITP 14-3, for more information.

Add all amounts together and enter the total on line B1.

Line B2 - Basis Adjustment for Property Sold or Otherwise Disposed of During the Taxable Year

With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer who has complied with the requirement to add back all depreciation with respect to that property on tax returns for all taxable years beginning from and after December 31, 1999, enter the amount of depreciation that has been allowed pursuant to IRC § 167(a) to the extent that the amount has not already reduced Arizona taxable income in the current or prior years. The effect of this is to allow a subtraction for the difference in basis for any asset for which bonus depreciation has been claimed on the federal return.

Line B3 - Interest from U.S. Government Obligations

Enter the interest income received from U.S. obligations included on the federal Form 1065, Schedule K, exempt from state income taxes under federal law.

NOTE: *Not all obligations associated with the federal government are obligations of the federal government. Obligations of the Government National Mortgage Association (GNMA) or the Federal National Mortgage Association (FNMA) are not obligations of the U.S. government and, therefore, are taxable to Arizona.*

Line B4 - Difference in Adjusted Basis of Property

Enter the amount by which the adjusted basis of property described in this paragraph, computed according to Arizona law, exceeds the adjusted basis of such property computed according to the Internal Revenue Code. Basis computed according to Arizona law means according to Title 43 of the Arizona Revised Statutes, effective January 1, 1979, and the Income Tax Act of 1954, as amended. This adjustment applies to all property held for the production of income sold or otherwise disposed of during the taxable year. This adjustment does not apply to depreciable property used in a trade or business.

Line B5 - Agricultural Crops Charitable Contribution

Enter the amount of the allowable subtraction for qualified crop contributions made during the taxable year to one or more Arizona tax exempt charitable organizations for use in Arizona. Refer to Arizona Individual Income Tax Procedure ITP 12-1 for information on how to determine if the contribution qualifies for the subtraction.

Line B6 - Other Subtractions from Partnership Income

Enter the following "other subtractions" from partnership income; include a schedule listing each item separately.

A. Excess of Partner's Share of Partnership Income or Loss

Make this adjustment if the partnership is a partner in another partnership. Enter the excess of the partner's share of the income or losses included under IRC § 702(a)(8) over the income included under A.R.S. §§ 43-1401 through 43-1413.

B. Mine Exploration Expenses

Arizona no longer has special mine exploration expense provisions for partnerships. Arizona now conforms to the federal treatment of mine exploration expenses. However, if the partnership deferred exploration expenses under Arizona's former provisions, the partnership may subtract such deferred expenses. The partnership claims the subtraction on a ratable basis as the units of produced ores or minerals discovered or explored as a result of such expenditures are sold. Enter the amount of such deferred exploration expenses.

C. Interest on Federally Taxable Arizona Obligations Evidenced by Bonds

Enter the amount of interest income received on obligations of the State of Arizona, or any of its political subdivisions, evidenced by bonds, that is included on the federal Form 1065, Schedule K. Omit interest income received on obligations of the State of Arizona, or any of its political subdivisions, exempt from federal taxation and not included in the partnership's federal distributive income.

D. Wood Stoves, Wood Fireplaces or Gas-Fired Fireplaces

Enter the amount allowed by A.R.S. § 43-1027 for the cost of converting an existing wood fireplace to a qualified wood stove, wood fireplace, or gas-fired fireplace on property located in Arizona.

E. Expenses Related to Certain Federal Tax Credits

Enter the amount of wages or salaries paid or incurred by the taxpayer for the taxable year not deducted in the computation of Arizona gross income if the taxpayer received certain federal tax credits. The specific federal tax credits are the work opportunity credit, the empowerment zone employment credit, the credit for employer-paid social security taxes on employee cash tips, and the Indian employment credit.

F. 2013 Arizona Depreciation Adjustment for Assets Placed in Service in Taxable Year 2013

For an asset placed in service during taxable year 2013, Arizona law allows a taxpayer that claimed bonus depreciation for the asset on the federal income tax return, to make an election to claim 2013 Arizona bonus depreciation adjustment for that asset on the 2014 Arizona income tax return.

This election is made by taking a subtraction, on the 2014 Arizona income tax return, for Arizona bonus depreciation adjustment for the asset placed in service during tax year 2013. The Arizona bonus depreciation is 10% of the amount of bonus depreciation claimed on the federal income tax return.

Enter the amount of allowable Arizona depreciation adjustment for an asset placed in service during the 2013 taxable year. ***Note: For more information and examples of how to calculate Arizona bonus depreciation adjustment, see the department's Income Tax Procedure, ITP 14-3.***

Line 4 - Total Subtractions From Partnership Income

Add lines B1 through B6. Enter the total.

Line 5 - Partnership Income Adjusted to Arizona Basis

Subtract line 4 from line 3. Enter the difference. This is the partnership income adjusted to an Arizona basis.

Line 6 - Net Adjustment of Partnership Income From Federal to Arizona Basis

Subtract line 1 from line 5. Enter the difference. This is the adjustment of partnership income from federal to Arizona basis that will be reported on Form 165, Schedule K-1 or Schedule K-1(NR), for each partner.

Line 7 - Penalty

This form is an information return. An information return that is incomplete or filed after its due date (including extensions) is subject to a penalty of $100 per month, or fraction of a month, the failure continues, up to a maximum penalty of $500.

If the partnership files this return after its due date (including extensions), enter the amount of the penalty on this line. Payments can be made via check or money order.

Make checks payable to the Arizona Department of Revenue. Include the partnership's EIN on the front of the check or money order. Include the check or money order with the return.

Schedule C - Apportionment Formula

NOTE: *Qualifying multistate air carriers are required to use revenue miles, and cannot use Schedule C on this return. Multistate air carriers must use Schedule ACA, which is a separate form available on the department's website: www.azdor.gov. See Schedule ACA for more information.*

A.R.S. § 43-306 requires partnerships having nonresident partners to allocate and apportion their income under the Arizona Uniform Division of Income for Tax Purposes Act (A.R.S. §§ 43-1131 through 43-1150). The basis of the apportionment formula is property, payroll, and sales in Arizona as compared with everywhere. "Everywhere" means the property, payroll, and sales related to the whole business.

In addition to being required for partnerships with nonresident partners, all partnerships with corporate partners may use Schedule C to provide partners with information needed to accurately allocate and apportion Arizona source income.

Non-air carrier multistate partnerships have the opportunity to choose one of two apportionment formulae for calculating the apportionment ratio. Non-air carrier multistate partnerships may elect the enhanced apportionment formula. The standard apportionment formula must be used by partnerships not electing to use the enhanced apportionment formula.

The numerator of the fraction of the standard apportionment formula is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four. For tax years beginning from and after December 31, 2013, the numerator of the fraction of the enhanced apportionment formula is the sum of 7.5 times the property factor plus 7.5 times the payroll factor plus 85 times the sales factor. The denominator of the fraction is 100.

NOTE: *When computing the factors of the apportionment ratio, round amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.*

Option 1: Standard Apportionment Formula

Check the box for line G on page 1 of the return to indicate that the standard apportionment formula will be used to calculate the apportionment ratio on the partnership's return. The numerator of the fraction of the standard apportionment formula is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four. Use the number located on the left-hand side of line C3e, column A, to double weight the sales factor.

Line C1 - Property Factor

Refer to Arizona Administrative Code (A.A.C.) R15-2D-601 through R15-2D-607 and R15-2D-902. The value of tangible personal property and real property owned by the partnership is its original cost. The partnership normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period. Refer to Arizona Corporate Tax Ruling CTR 01-2 regarding the treatment of computer software in the property factor (whether to include it and attribution to particular state(s) in the numerator).

The value of tangible personal property and real property rented by the partnership is eight times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the partnership for the rented property less the aggregate annual subrental rates paid by subtenants of the partnership. The partnership automatically achieves averaging for rented property by the method of determining the net annual rental rate of such property.

Report real property situated in and tangible personal property permanently located in Arizona as property within Arizona, if connected with the business activity. Allocate the value of mobile property to Arizona based on the total time the property was within Arizona.

Compute the property factor on line C1e, by dividing column A by column B and entering the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The property factor on line C1e, column C, will never exceed 100 percent.

Line C2 - Payroll Factor

Refer to A.A.C. R15-2D-701 through R15-2D-705. Report salaries, wages, or other compensation of officers, employees, etc., as within Arizona if performance of the services occurs here. This rule applies regardless of where payment is made or control exercised. This rule also applies regardless of whether the performance of the services is partly or wholly in connection with the apportionable business carried on outside the state or in interstate or foreign commerce.

Allocate the compensation of officers and employees who perform services partly within and partly without Arizona to this state when:

- The services performed outside of Arizona are incidental to the employee's service within Arizona; or
- The employee's base of operation is in Arizona; or
- The employee has no base of operation in any state but the direction or control of the employee is from Arizona; or
- The employee has no base of operation in any state, and there is no direction or control from a state in which the employee performs some part of his services, but the employee's residence is in Arizona.

Compute the payroll factor on line C2c by dividing column A by column B and entering the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The payroll factor on line C2c, column C, will never exceed 100 percent.

Line C3 - Sales Factor

Refer to A.A.C. R15-2D-801 through R15-2D-807 and R15-2D-903. The term "sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income.

Determine sales within Arizona on a destination sales basis.

NEW: Line C3b is only for the multistate service providers who want to make the election under A.R.S. § 43-1147(B). Enter on line C3b, column A, the Arizona sales from services from the Schedule MSP, line B5.

For taxable years beginning from and after December 31, 2013, a multistate service provider may elect to treat sales from services as being in Arizona based on a combination of income producing activity sales and market sales prescribed under A.R.S. § 43-1147(B). Taxpayers who want to make the election should check the applicable boxes on line H on page 1 of the return and include the completed Schedule MSP with the tax return. See A.R.S. § 43-1147 and Schedule MSP instructions for more information.

Taxpayers who are not qualified for the election should use line C3c for the sales from services and are not required to include the Schedule MSP with the tax return.

NOTE: *Multiply the amount entered on line C3d, column A, of Schedule C (the total Arizona sales) by two (double weighted sales factor) on line C3e, column A. Enter the result on line C3f, column A. Do not multiply the amount entered on line C3d, column B, of Schedule C (the everywhere sales of the taxpayer) by two.*

EXAMPLE: The partnership has total Arizona sales of $100,000 and total everywhere sales of $1,000,000. On line C3f, column A, enter $200,000 of Arizona sales. On line C3f, column B, enter $1,000,000 of everywhere sales for the partnership.

The sales factor ratio on line C3f, column C, may, in certain circumstances, exceed 100 percent. However, since the total ratio (line C4) is divided by four, the average ratio (line C5) will not exceed 100 percent.

Line C5 - Average Apportionment Ratio

Divide the total ratio, line C4, column C, by four. Enter the average ratio here and on Form 165, Schedule K-1(NR), column (b), in Parts I, II, and III. Express the ratio as a decimal carried out to six places.

NOTE: *The partnership must exclude a factor if both the numerator and the denominator of a factor are zero. Do not exclude a factor from the total ratio if the numerator of a factor is zero and the denominator of a factor is greater than zero. If the property or payroll factor is excluded, determine the average ratio (line C5, column C) by dividing the total ratio by three. If the sales factor is excluded, determine the average ratio by dividing the total ratio by two. If two of the factors are excluded, the remaining factor, without respect to any weighting, is the apportionment ratio.*

Option 2: Enhanced Apportionment Formula

Check the box for line G on page 1 of the return to indicate that the enhanced apportionment formula will be used to calculate the apportionment ratio on the partnership's return. The enhanced apportionment formula is determined by adding 7.5 times the property factor plus 7.5 times the payroll factor plus 85 times the sales factor and dividing the total by 100. Use the numbers located on the right-hand side of Schedule C, lines C1d, C2b, and C3e, column A, to weight the property, payroll, and the sales factors respectively.

Line C1 - Property Factor

Refer to Arizona Administrative Code (A.A.C.) R15-2D-601 through R15-2D-607 and R15-2D-902. The value of tangible personal property and real property owned by the partnership is its original cost. The partnership normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period. Refer to Arizona Corporate Tax Ruling CTR 01-2 regarding the treatment of computer software in the property factor (whether to include it and attribution to particular state(s) in the numerator).

The value of tangible personal property and real property rented by the partnership is eight times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the partnership for the rented property less the aggregate annual subrental rates paid by subtenants of the partnership.

The partnership automatically achieves averaging for rented property by the method of determining the net annual rental rate of such property.

Report real property situated in and tangible personal property permanently located in Arizona as property within Arizona, if connected with the business activity. Allocate the value of mobile property to Arizona based on the total time the property was within Arizona.

Compute the property factor numerator by multiplying the total amount of Arizona property (on line C1c, column A) by 7.5. Enter the result on line C1d, column A. Do not multiply the property factor denominator (on line C1c, column B) by 7.5. Next, for line C1e, divide column A by column B and enter the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The property factor on line C1e, column C, may exceed 100 percent.

Line C2 - Payroll Factor

Refer to A.A.C. R15-2D-701 through R15-2D-705. Report salaries, wages, or other compensation of officers, employees, etc., as within Arizona if performance of the services occurs here. This rule applies regardless of where payment is made or control exercised. This rule also applies regardless of whether the performance of the services is partly or wholly in connection with the apportionable business carried on outside the state or in interstate or foreign commerce.

Allocate the compensation of officers and employees who perform services partly within and partly without Arizona to this state when:

- The services performed outside of Arizona are incidental to the employee's service within Arizona; or
- The employee's base of operation is in Arizona; or
- The employee has no base of operation in any state but the direction or control of the employee is from Arizona; or
- The employee has no base of operation in any state, and there is no direction or control from a state in which the employee performs some part of his services, but the employee's residence is in Arizona.

Compute the payroll factor numerator by multiplying the total amount of Arizona payroll (on line C2a, column A) by 7.5. Do not multiply the payroll factor denominator (on line C2a, column B) by 7.5. Next, for line C2c, divide column A by column B and enter the resulting ratio in column C. Express the ratio as a decimal carried out to six places. The property factor on line C2c, column C, may exceed 100 percent.

Line C3 - Sales Factor

Refer to A.A.C. R15-2D-801 through R15-2D-807 and R15-2D-903. The term "sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income.

Determine sales within Arizona on a destination sales basis.

NEW: Line C3b is only for the multistate service providers who want to make the election under A.R.S. § 43-1147(B). Enter on line C3b, column A, the Arizona sales from services from the Schedule MSP, line B5.

For taxable years beginning from and after December 31, 2013, a multistate service provider may elect to treat sales from services as being in Arizona based on a combination of income producing activity sales and market sales prescribed under A.R.S. § 43-1147(B). Taxpayers who want to make the election should check the applicable boxes on line H on page 1 of the return and include the completed Schedule MSP with the tax return. See A.R.S. § 43-1147 and Schedule MSP instructions for more information.

Taxpayers who are not qualified for the election should use line C3c for the sales from services and are not required to include the Schedule MSP with the tax return.

NOTE: *Multiply the amount entered on line C3d, column A, of Schedule C (the total Arizona sales) by 85 on line C3e, column A. Enter the result on line C3f, column A. Do not multiply the amount entered on line C3d, column B, of Schedule C (the everywhere sales of the taxpayer) by 85.*

EXAMPLE: The partnership has total Arizona sales of $100,000 and total everywhere sales of $1,000,000. On line C3f, column A, enter $8,500,000 of Arizona sales. On line C3f, column B, enter $1,000,000 of everywhere sales for the partnership.

The sales factor on line C3f, column C, may, in certain circumstances, exceed 100 percent. However, since the total ratio (line C4) is divided by 100, the average ratio (line C5) will not exceed 100 percent.

Line C5 - Average Apportionment Ratio

Divide the total ratio, line C4, column C, by 100. Enter the average ratio here and on Form 165, Schedule K-1(NR), column (b), in Part I, II, and III. Express the ratio as a decimal carried out to six places.

NOTE: *The partnership must exclude a factor if both the numerator and the denominator of a factor are zero. Do not exclude a factor from the total ratio if the numerator of a factor is zero and the denominator of a factor is greater than zero. If the property or payroll factor is excluded, determine the average ratio (line C5, column C) by dividing the total ratio by 92.5. If the sales factor is excluded, determine the average ratio by dividing the total ratio by 15. If two of the factors are excluded, the remaining factor, without respect to any weighting, is the apportionment ratio.*

ADMINISTRATIVE RELIEF REQUESTS

A.R.S. § 43-1148 provides administrative relief if the allocation and apportionment provisions do not fairly represent the extent of the taxpayer's business activity in Arizona. **The taxpayer may petition for, or the department may require,** in respect to all or any part of the taxpayer's business activity, if reasonable:

- Separate accounting.
- The exclusion of any one or more of the factors.
- The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state.

- The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

This section permits a departure from the allocation and apportionment provisions only in limited cases. A.R.S. § 43-1148 may be invoked only in specific cases where unusual fact situations produce incongruous results under the apportionment and allocation provisions.

Taxpayers seeking relief should submit a letter to the Corporate Income Tax Audit Section 60 days prior to the filing of the return setting forth the relief that is requested and the justification for the relief. The department normally makes such determinations only upon audit of the taxpayer. Such a detailed examination of the specific facts and circumstances reveals whether such unusual fact situations and incongruous results exist.

Schedule D - Business Information

If the partnership has income from business activity *taxable entirely within Arizona*, complete only the first part of the schedule.

If the partnership has income from business activity *taxable within and without Arizona*, complete both parts of the schedule.

Certification

One of the partners must sign the return. If receivers, trustees in bankruptcy, or assignees are in control of the property or business of the organization, such receivers, trustees, or assignees must sign the return.

Paid preparers: Sign and date the return. Complete the firm name and address lines (the paid preparer's name and address, if self-employed). Enter the paid preparer's TIN, which is the firm's EIN or the individual paid preparer's social security number.

Form 165 Schedule K-1 - Partnership Instructions

Use Form 165, Schedule K-1, for all resident or part-year resident individual partners, all resident estate partners, and all resident trust partners. Use Form 165, Schedule K-1(NR), for all other partners.

Type or print the required information in the name, address, and information boxes on the top of the Form 165, Schedule K-1. Indicate whether the partnership's taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the period covered by the taxable year on the schedule. Indicate whether this is an original or an amended schedule.

Part I: Arizona Partnership Adjustment

Complete Part I, lines 1 through 3 as instructed on the form.

Part II: Net Capital Gain from Investment in a Qualified Small Business – Information Schedule

For taxable years beginning from and after December 31, 2013, Arizona allows a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business that is included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate and trust. A qualified small business is determined by the Arizona Commerce Authority pursuant to A.R.S. §41-1518.

For resident or part-year resident individual partner, Part II of Arizona Form 165, Schedule K-1, provides information so each individual partner can calculate its subtraction for net capital gain from investment in a qualified small business.

For resident estate partner or resident trust partner, Part II of Arizona Form 165, Schedule K-1, provides information to the partner so the partner can (1) calculate its subtraction for net capital gain from investment in a qualified small business; and/or (2) provide information to each beneficiary so each beneficiary can calculate its subtraction for net capital gain from investment in a qualified small business.

The subtraction is only available to individuals, estates and trusts.

If the partner's federal Schedule K-1 (Form 1065) includes any net capital gain (loss) from investment in a qualified small business, the partnership should complete Part II, line 4, and Part III, line 6, for the partner. If Part III, line 6, is zero, put zero on line 6. If the partner's federal Schedule K-1 (Form 1065) does not include any net capital gain (loss) from investment in a qualified small business, the partnership is not required to complete Part II, line 4, and Part III, line 6.

Part III: Net Long-Term Capital Gain Subtraction – Information Schedule

Arizona allows a subtraction from Arizona gross income for a percentage of any net long-term capital gain from assets acquired **after** December 31, 2011, and included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate or trust. Although the subtraction is only available to individuals, estates and trusts, 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 the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Complete Part III, line 5 and line 6 (if line 6 is applicable) as instructed on the form. If the partner's federal Schedule K-1 (Form 1065) does not include any capital gain (loss), the partnership is not required to complete Part III.

For the resident or part-year resident individual partner, Part III of Arizona Form 165, Schedule K-1, provides information so each individual partner can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

For the resident estate partner or resident trust partner, Part III of Arizona Form 165, Schedule K-1, provides information to the partner so the partner can (1) calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011; and/or (2) provide information to each beneficiary so each beneficiary can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

The subtraction is only available to individuals, estates, and trusts.

A worksheet is provided at the end of these instructions that may assist the partnership in determining the amounts to include in Part III, line 5 for each partner's Form 165, Schedule K-1.

For 165 Schedule K-1(NR) - Partnership Instructions

Any partnership that has income from business activity that is taxable both within and without Arizona must allocate and apportion its net income. The partnership must allocate and apportion its net income according to the Uniform Division of Income for Tax Purposes Act (UDITPA), A.R.S. §§ 43-1131 through 43-1150. A partnership that has income from business activity taxable in more than one state is a *multistate partnership*. A partnership that has income from business activity taxable entirely within Arizona is a *wholly Arizona partnership*.

Type or print the required information in the name, address, and information boxes on the top of the Arizona Form 165, Schedule K-1(NR). Indicate whether the partnership's taxable year is a calendar year or a fiscal year; if a fiscal year, indicate the period covered by the taxable year on the schedule. Indicate whether this is an original or an amended schedule.

Part I and Part II: Distributive Share Items

Column (a) - Distributive Share Amount

Wholly Arizona partnerships - In column (a), enter the distributive share amount for each line item from the federal Form 1065, Schedule K-1. On Part II, line 17, enter the adjustment of partnership income from federal to Arizona basis (Form 165, page 1, line 6) multiplied by the partner's percentage of gain or loss.

NOTE FOR CORPORATE PARTNERS: *Leave Part I blank. Complete Part II, Part III and Part IV of Form 165, Schedule K-1(NR).*

Multistate partnerships - Apportion all business income of a multistate partnership by the use of the apportionment formula. Nonbusiness income of a multistate partnership is nonapportionable and specifically allocable to a particular state.

"Business income" under the transactional test means income arising from transactions and activity in the regular course of the taxpayer's trade or business. Business income under the functional test includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. (A.R.S. § 43-1131(1))

"Nonbusiness income" means all income other than business income. (A.R.S. § 43-1131(4))

In column (a), enter the partner's distributive share of the multistate partnership's income (loss) that is subject to apportionment.

The multistate partnership must compute the partner's distributive share of the partnership's income that is subject to apportionment. Make this computation by subtracting the partner's distributive share of the multistate partnership's nonbusiness income from the partner's total distributive share amount of the partnership's income. The multistate partnership must attach a computation schedule that details the following, for each line item:

- The partner's distributive share amount from the federal Form 1065, Schedule K-1, or from the adjustment of partnership income from federal to Arizona basis (Form 165, page 1, line 6).
- The partner's distributive share amount of the partnership's nonapportionable or allocable income.
- The partner's distributive share of the partnership's income that is subject to apportionment. Refer to A.R.S. §§ 43-1134 through 43-1138 for the methods of allocating certain types of nonbusiness income.

NOTE: *For corporate partners, apply this computation only for the amount to be entered on Part II, line 17. Do not complete Part I for a corporate partner.*

Column (b) - Arizona Apportionment Ratio

Wholly Arizona partnerships - Enter 100 percent.

Multistate partnerships - Enter the average ratio amount from Form 165, Schedule C, line C5, column C, or from Schedule ACA, line 3. (Refer to Schedule ACA or Schedule C instructions.)

Column (c) - Arizona Source Income

Wholly Arizona partnerships - Multiply column (a) by column (b). Enter the result in column (c).

Multistate partnerships - Attach a schedule that details (for each line item) the following computation:

1. The partner's distributive share of the partnership's income subject to apportionment multiplied by the average ratio in column (b).
2. The partner's distributive share of the partnership's income (loss) which is specifically allocable to Arizona.
3. The total of the amounts computed in steps 1 and 2 that is to be entered in column (c).

NOTE: *A.R.S. §§ 43-1134 through 43-1138 specify the methods for allocating certain types of income to Arizona. Do not include the amount of any nonbusiness income allocable to another state in the total entered in column (c).*

All partnerships - Column (c) is the partner's Arizona source income from the partnership. Partners should refer to Form 165, Schedule K-1(NR), instructions for information on completing their Arizona returns.

Part III: Net Capital Gain from Investment in a Qualified Small Business – Information Schedule

For taxable years beginning from and after December 31, 2013, Arizona allows a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business that is included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate and trust. A qualified small business is determined by the Arizona Commerce Authority pursuant to A.R.S. §41-1518.

For resident or part-year resident individual partner, Part III of Arizona Form 165, Schedule K-1(NR), provides information so each individual partner can calculate its subtraction for net capital gain from investment in a qualified small business.

For resident estate partner or resident trust partner, Part III of Arizona Form 165, Schedule K-1(NR), provides information to the partner so the partner can (1) calculate its subtraction for net capital gain from investment in a qualified small business; and/or (2) provide information to each beneficiary so each beneficiary can calculate its subtraction for net capital gain from investment in a qualified small business.

The subtraction is only available to individuals, estates and trusts.

If the partner's federal Schedule K-1 (Form 1065) includes any net capital gain (loss) from investment in a qualified small business, the partnership should complete Part III, line 18, and Part IV, line 20. If Part IV, line 20, is zero, put zero on line 20.

If the partner's federal Schedule K-1 (Form 1065) does not include any net capital gain (loss) from investment in a qualified small business, the partnership is not required to complete Part III, line 18, and Part IV, line 20.

Part IV: Net Long-Term Capital Gain Subtraction – Information Schedule

Arizona allows a subtraction from Arizona gross income for a percentage of any net long-term capital gain from assets acquired after December 31, 2011, and included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate or trust. Although the subtraction is only available to individuals, estates and trusts, a partner that is a pass-through entity (estate, partnership, S corporation or trust) will need this information to calculate the subtraction for the estate or trust or complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary; or Arizona Form 120S, Schedule K-1 or Schedule K-1(NR), for each shareholder; or Arizona Form 165, Schedule K-1 or Schedule K-1(NR), for each partner.

If the partner's federal Schedule K-1 (Form 1065) includes capital gain (loss), complete Part IV, line 19 and line 20 (if line 20 is applicable). If the partner's federal Schedule K-1 (Form 1065) does not include any capital gain (loss), the partnership is not required to complete Part IV.

For the nonresident individual partner, Form 165, Schedule K-1(NR), Part IV, provides information so the partner can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

For the nonresident estate partner or nonresident trust partner, Form 165, Schedule K-1(NR), Part IV, provides information so the partner can (1) calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011; and/or (2) provide information to each beneficiary so each beneficiary can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

The subtraction is only available to individuals, estates, and trusts.

For the partnership partner or S corporation partner, Form 165, Schedule K-1(NR), Part IV, provides information so the partner can provide information to each partner or shareholder to provide to lower tiered partners or shareholders.

For the C corporation partner, Form 165, Schedule K-1(NR), Part IV, is informational only.

A worksheet is provided at the end of these instructions that may assist the partnership in determining the amounts to include on each nonresident partner's Arizona Form 165, Schedule K-1(NR), Part IV, line 19.

Complete three copies of Arizona Form 165, Schedule K-1(NR), for each partner. File one copy of each partner's Arizona Form 165, Schedule K-1(NR), with the partnership's Arizona Form 165. Provide all partners with a copy of their Arizona Form 165, Schedule K-1(NR). Retain a copy for the partnership's records.

Information on Filing Composite Returns on Arizona Form 140NR for Qualifying Nonresident Partners

Arizona law requires an individual resident or nonresident to file his or her own income tax return. The Arizona Department of Revenue will accept a composite return on Arizona Form 140NR for qualifying nonresident individual partners of a partnership.

NOTE: *A composite return cannot be filed with fewer than ten participating members.*

Refer to Arizona Individual Income Tax Ruling ITR 13-2 for information regarding the requirements for filing a composite return on Arizona Form 140NR.

The *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011,* is on the next page.

Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired <u>After</u> December 31, 2011

☐ Original return ☐ Amended return

Net long-term capital gain (loss) as reported on federal Schedule D (or other form/schedule) <u>and</u> included in the distributive share amount. Enter the total net long-term capital gain (loss) from the following forms in each applicable column. See instructions below the worksheet.			(a) Net long-term capital gain (loss)	(b) Net long-term capital gain (loss) included in column (a) from assets acquired **before** January 1, 2012	(c) Net long-term capital gain (loss) included in column (a) from assets acquired **after** December 31, 2011
1	Long-term capital gain (loss) reported on federal Schedule D from Form(s) 8949. Combine the amounts and enter the total.	1			
2	Form(s) 6252 *Installment Sale Income*	2			
3	Form(s) 8824 *Like-Kind Exchanges*	3			
4	Pass-through from Estate, Partnership, and/or Trust – from Arizona Form 141AZ or Form 165, Schedule K-1 or Schedule K-1(NR).	4			
5	Any other long-term capital gain (loss)	5			
6	Subtotal: add lines 1 through 5 in each column, and enter the total.	6			
7	Available long-term capital loss carryover. Enter the amount, if any, in each column.	7			
8	**Net long-term capital gain (loss).** Subtract line 7 from line 6 and enter the difference in each column. For each partner, enter the distributive share of the amounts from line 8 on Arizona Form 165, Schedule K-1 or Schedule K-1(NR).	8			

Worksheet Instructions

Purpose of the Worksheet

Beginning in 2013, a subtraction is available for a percentage of any net long-term capital gain that is from an investment in an asset acquired after December 31, 2011, and included in an individual taxpayer's federal adjusted gross income or the federal taxable income of an estate or trust.

To take the allowable subtraction, the taxpayer must know whether the capital gain (loss) is considered short-term or long-term. Only the net long-term capital gain from assets acquired after December 31, 2011, is used to compute the allowable subtraction. For more information about determining whether a gain (loss) is short-term or long-term, see federal *Publication 544* at www.irs.gov.

Who Should Complete the Worksheet?

The partnership can use this worksheet to calculate each partner's distributive share of the net long-term capital gain (loss) included in Schedule K of federal Form 1065 for assets purchased after December 31, 2011.

Do not complete this worksheet if any of the following apply:

- The partnership does not have any capital gain (loss) to report for the current tax year; or
- The partnership does not have any net capital gain (loss) from asset(s) acquired after December 31, 2011, to report for the current tax year; or
- All of the partners are C corporations that have not made an election to be taxed under Subchapter S of the Internal Revenue Code.

Keep the completed worksheet for the partnership's records.

Columns (a) through (c)

- Column (a) is the total amount of net long-term capital gain (loss) reported on federal Schedule D or other federal forms/schedules.
- Column (b) is the amount of the net long-term capital gain (loss) included in column (a) for assets acquired **before** January 1, 2012.
- Column (c) is the amount of the net long-term capital gain (loss) included in column (a) for assets acquired **after** December 31, 2011.

Lines 1 through 5 - Capital Gain (Loss) Reported on Federal Schedule D

Enter the long-term capital gain (loss) from each federal form listed that was reported on the partnerhsip's federal Schedule D and included on Schedule K of federal Form 1065.

Line 6 - Subtotal

For each column, add the amounts on lines 1 through 5 and enter the total.

Line 7 - Long-Term Capital Loss Carryover

If the partnership used a long-term capital loss carryover from a previous tax year to reduce its long-term capital gain for the current taxable year, enter the amount used to apply to gains from assets acquired before January 1, 2012, in column (b).

Line 8 - Net Long-Term Capital Gain (Loss)

Subtract line 7 from line 6 and enter the difference in each column.

For each partner, enter the distributive share of the amounts in each column on line 8 of the worksheet on Part II of Arizona Form 165, Schedule K-1 or on Part III of Arizona Form 165, Schedule K-1(NR).