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ARIZONA INDIVIDUAL INCOME TAX PROCEDURE ITP 08-1

Procedure for Calculating Credit for Taxes Paid to Another State
or Country by Arizona Resident Individuals

(Effective for taxable years beginning on or after January 1, 2008)

(This procedure supersedes ITP 07-1)

This procedure is intended to compliment Arizona Form 309 and provide guidance with respect to determining the amounts required to be entered on Arizona Form 309.

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 43-1071, as amended by Laws 2008, Ch 220, sets forth the conditions under which residents are allowed an Arizona income tax credit for income taxes paid to another state or country.

Arizona Revised Statutes (A.R.S.) § 43-1071.D sets forth the conditions under which an Arizona resident who is also considered to be a resident of another state is allowed an Arizona income tax credit for income taxes paid to that other state.

Arizona Administrative Code (A.A.C.) rule R15-2C-501 further defines the requirements for an Arizona income tax credit allowed under A.R.S. § 43-1071.

Shaffer v. Carter, 252 U.S. 37, 40 S.Ct. 221 (1920) held that states can only tax nonresidents on income sourced within that state.

DISCUSSION:

Arizona resident taxpayers are permitted a credit against Arizona income taxes for net income taxes imposed by and paid to another state (country) when all of the following criteria are met:

1. The income is derived from sources within the other state and is taxable to the other state regardless of the residence of the recipient.
2. The other state does not allow Arizona residents a tax credit against income taxes which are imposed by the other state.

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3. The tax imposed by the other state is on the same income which is also taxed by Arizona.

The credit is limited to the lesser of the Arizona tax imposed on income taxed by both Arizona and the other state or the other state's tax imposed on income sourced to the other state that is also taxed by Arizona.

PROCEDURE:

To compute this credit, the taxpayer must take the following steps:

1. Determine the amount of income subject to tax by both Arizona and the other state.
2. Determine the amount of the Arizona income tax liability imposed on the income subject to tax by both Arizona and the other state.
3. Determine the amount of the net income tax liability of the other state imposed on income subject to tax by both Arizona and the other state.
4. Determine the amount of the credit.

Step 1

Determining the amount of income subject to tax by both Arizona and the other state.

Income subject to tax by both Arizona and the other state is the portion of income included in Arizona adjusted gross income that is also included in the other state's equivalent of Arizona adjusted gross income. The Arizona adjusted gross income is Arizona gross income defined under A.R.S. § 43-1001 increased by related additions under A.R.S. § 43-1021 and reduced by related subtractions under A.R.S. § 43-1022, but does not include exemptions allowable under A.R.S. § 43-1023. The other state's equivalent of Arizona adjusted gross income is the other state's income computed under the equivalent of A.R.S. § 43-1094, but does not include exemptions allowable under the equivalent of A.R.S. § 43-1023. This is the other state's income computed under the equivalent of A.R.S. § 43-1091 increased by related additions under the other state's equivalent of A.R.S. § 43-1021 and reduced by the other state's equivalent of A.R.S. § 43-1022, but not including exemptions under the equivalent of A.R.S. § 43-1023. The income subject to tax by both Arizona and the other state is the smaller of the two.

The following examples illustrate how to calculate the amounts entered on lines 1 through 6 of Arizona form 309 in different situations.

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Example 1:

Facts: Mr. and Mrs. M are Arizona residents. Mr. M is an active duty military member who is stationed in State X. Mr. M receives wages from the military and from a part-time job in State X. Mrs. M receives wages from part-time employment in State X. State X allows Mr. and Mrs. M to subtract \$1,000 of wages from State X income as a two-earner deduction. Mr. and Mrs. M also have Arizona rental property. During the taxable year, Mr. and Mrs. M received the following income.

Mr. M's military wages	\$ 15,000
Mr. M's part-time employment wages	\$ 5,000
Mrs. M's part-time employment wages	\$ 5,000
Rental income from AZ property	<u>\$ 20,000</u>
Total income	<u>\$ 45,000</u>

As Reported on State X Return		As Reported on Arizona Return	
Federal adjusted gross income	\$ 45,000	Federal adjusted gross income	\$ 45,000
Less non-State X income (military and rental income)	(35,000)	Less subtractions from income (military income \$15,000 and dependent exemption \$2,300)	(17,300)
Less subtraction for two-earner income	(1,000)	Arizona adjusted gross income	\$ 27,700
State X adjusted gross income	\$ 9,000		

Mr. and Mrs. M would complete lines 1 through 6 of Arizona Form 309 as follows:

	(a)	(b)
1. Description of income item(s)	wages	
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$10,000	
3. Portion of income on line 2 included in Arizona adjusted gross income	\$10,000	
4. Portion of income on line 2 included in State X's equivalent of Arizona adjusted gross income.	\$ 9,000	
5. Income subject to tax by both Arizona and the other state or country. Enter the lesser of amount entered on line 3 or line 4.	\$ 9,000	
6. Total income subject to tax by both Arizona and the other state or country.		\$9,000

Mr. and Mrs. M must include Mr. M's part-time employment wages of \$5,000 and Mrs. M's part-time employment wages of \$5,000 in both the Arizona gross income and the State X's equivalent of Arizona gross income. Therefore, the amount of wage income reportable to both Arizona and State X is \$10,000. For Arizona purposes, there are no additions or subtractions related to the \$10,000 wage income included in Arizona gross income, so the entire \$10,000 of wage income is included in Arizona adjusted gross income. However, under

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State X law, \$1,000 of the \$10,000 wage income is subtracted from State X's equivalent of Arizona adjusted gross income, so only \$9,000 of that \$10,000 is included in State X's equivalent of Arizona adjusted gross income. The amount of part-time wage income included in both Arizona adjusted gross income and State X's equivalent of Arizona adjusted gross income is \$9,000.

Example 2:

Facts: Mr. and Mrs. D are residents of Arizona. Mr. D sold real estate located in State XYZ and realized a \$20,000 capital gain. Mr. and Mrs. D also had capital losses of \$3,000 which were not related to the real estate located in State XYZ. Therefore, for federal income tax purposes, Mr. and Mrs. D reported \$17,000 of capital gain income. During the taxable year, Mr. and Mrs. D had the following income.

Interest income	\$ 40,000
Dividend income	\$ 4,000
Capital gains from State XYZ	\$ 20,000
Capital losses	<u>\$ (3,000)</u>
Total income	<u>\$ 61,000</u>

As Reported on State XYZ Return		As Reported on Arizona Return	
State XYZ gross income	\$ 20,000	Federal adjusted gross income	\$ 61,000
Less State XYZ adjustments	(0)	Dependent exemption \$2,300	(2,300)
State XYZ adjusted gross income	\$ 20,000	Arizona adjusted gross income	\$ 58,700

Mr. and Mrs. D would complete lines 1 through 6 of Arizona Form 309 as follows:

	(a)	(b)
1. Description of income item(s)	Capital Gains	
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$20,000	
3. Portion of income on line 2 included in Arizona adjusted gross income	\$20,000	
4. Portion of income on line 2 included in State XYZ's equivalent of Arizona adjusted gross income.	\$ 20,000	
5. Income subject to tax by both Arizona and the other state or country. Enter the lesser of amount entered on line 3 or line 4.	\$ 20,000	
6. Total income subject to tax by both Arizona and the other state or country.		\$20,000

Mr. and Mrs. D must include the \$20,000 of capital gain from the sale of property located in State XYZ in Arizona adjusted gross income. (Note: For the purpose of computing the credit, the \$20,000 State XYZ capital gain is not offset by non-State XYZ capital losses included in federal adjusted gross income, since such losses are not included in State XYZ adjusted gross income). Mr. and Mrs. D must also include the \$20,000 capital gain from the sale of property located in State XYZ in State XYZ's equivalent of Arizona adjusted gross income.

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There are no additions or subtractions related to that income required under either Arizona law, or State XYZ law. Therefore, the amount of capital gain included in Arizona adjusted gross income and State XYZ's equivalent of Arizona adjusted gross income is \$20,000.

Example 3:

Facts: During the taxable year, Taxpayer A, a full-year Arizona resident, had Schedule C business income of \$50,000 from State P. Taxpayer A also had \$5,000 of interest income and \$4,000 of dividend income for the taxable year.

Interest income	\$ 5,000
Dividend income	\$ 4,000
Business Income From State P	<u>\$ 50,000</u>
Total income	<u>\$ 59,000</u>

For federal purposes, Taxpayer A included the \$50,000 of Schedule C income in federal adjusted gross income. However, Taxpayer A also reduced that Schedule C income by ½ of the self-employment tax related to that income (\$3,533) and by the amount of self-employed health insurance deduction (\$2,700).

As Reported on federal return

Interest income	\$ 5,000
Dividend income	\$ 4,000
Business Income	\$ 50,000
Total income	<u>\$ 59,000</u>
One-half self employment tax	\$ (3,533)
Self employed health insurance	\$ (2,700)
Total adjustments	<u>\$ (6,233)</u>
Federal adjusted gross income	<u>\$ 52,767</u>

As Reported on State P Return		As Reported on Arizona Return	
State P gross income	\$ 50,000	Federal adjusted gross income	\$ 52,767
Less federal adjustments related to State P gross income	(6,233)	Dependent exemption \$2,300	(2,300)
Less additional depreciation allowed for State P	(2,000)	Arizona adjusted gross income	\$ 50,467
Dependent exemption	<u>(1,500)</u>		
State P adjusted gross income	\$ 40,267		

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Taxpayer A would complete lines 1 through 6 of Arizona Form 309 as follows:

1. Description of income item(s)	Schedule C income	
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$50,000	
3. Portion of income on line 2 included in Arizona adjusted gross income	\$43,767	
4. Portion of income on line 2 included in State P's equivalent of Arizona adjusted gross income.	\$ 41,767	
5. Income subject to tax by both Arizona and the other state or country. Enter the lesser of amount entered on line 3 or line 4.	\$ 41,767	
6. Total income subject to tax by both Arizona and the other state or country.		\$41,767

Taxpayer A, was required to report \$50,000 of schedule C income to both Arizona and to State P. Therefore, in this case, Taxpayer A would enter \$50,000 on line 1 of Form 309.

Because the starting point for the Arizona return is the federal adjusted gross income, the adjustments for amounts paid for self employment tax (\$3,533) and self employed health insurance (\$2,700) are already reflected in Arizona adjusted gross income. Since these adjustments directly relate to the Schedule C income, Taxpayer A must reduce the amount of Schedule C income included on line 1 of Form 309 (\$50,000) by the amount of these adjustments (\$6,233). Arizona law requires no further additions or subtractions related to this Schedule C income included in Taxpayer A's Arizona gross income. Therefore, the amount of Schedule C income included in Taxpayer A's Arizona adjusted gross income would be \$43,767 [$\$50,000 - (\$3,533 + \$2,700)$]. Taxpayer A would enter \$43,767 on line 3 of Form 309.

On the return filed to State P, Taxpayer A was required to make the same adjustments to the Schedule C income as Taxpayer A made on the federal return (\$3,533 of self-employment tax and \$2,700 of self-employed health insurance deduction). Additionally, State P law allows Taxpayer A to subtract an additional \$2,000 of depreciation related to the Schedule C income. Therefore, the amount of Schedule C income included in State P's equivalent of Arizona adjusted gross income would be \$41,767 [$50,000 - (\$3,533 + \$2,700 + \$2,000)$]. Taxpayer A would enter \$41,767 on line 4 of Form 309.

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Example 4:

Facts: Mr. and Mrs. R are Arizona residents who are temporarily living and working in State Z. They will be there for one year and then they will return to Arizona. During the current taxable year, Mr. and Mrs. R have been living and working in State Z for 10 and one-half months. Because Mr. and Mrs. R have been living in State Z for more than 183 days during the tax year, State Z considers Mr. and Mrs. R to be residents of State Z and taxes all of their income from the time they moved to State Z. Because Mr. and Mrs. R are Arizona residents who are temporarily out of Arizona, they are still full-year Arizona residents for Arizona income tax purposes and must file a full-year Arizona income tax return and include all income for the taxable year, wherever derived. For the taxable year, Mr. and Mrs. R have the following income.

Mr. R's wages from employment in Arizona		\$ 15,000	
Mr. R's wages from employment in State Z		\$ 42,000	
Mrs. R's wages from employment in State Z		\$ 5,000	
Interest income		\$ 5,000	
Rental income from AZ property		\$ 20,000	
Total income		\$ 87,000	
As Reported on State Z Return		As Reported on Arizona Return	
Wages (Mr. R's State Z wages \$42,000 + Mrs. R's State Z wages \$5,000)	\$ 47,000	Federal adjusted gross income	\$ 87,000
Interest income received after moving to State Z	4,375	Less subtractions from income (dependent exemption \$2,300)	(2,300)
Rental income from Arizona property received after moving to State Z	17,500	Arizona adjusted gross income	\$ 84,700
State Z gross income	68,875		
Plus additions to income	0		
Less subtractions (dependent \$4,000)	(4,000)		
State Z adjusted gross income	\$ 64,875		

Before Mr. and Mrs. R can complete Arizona Form 309, they must complete the Schedule of Income Allocation on page 2 of Form 309. This will help Mr. and Mrs. R determine the income that is taxable to both Arizona and State Z that would be sourced to State Z if Mr. and Mrs. R were filing a nonresident return to State Z.

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Schedule of Income Allocation				
	(a) Reported on your 2008 Federal return	(b) Amount Entered in Column (a) Reported on Your 2008 Form 140	(c) Amount Entered in Column (a) Reported on Your Return Filed to Your Statutory State of Residence	(d) Amount Entered in Column (c) That Could be Sourced to Your Statutory State of Residence as Income of a Nonresident of that State
1. Wages, salaries, tips, etc	62,000	62,000	47,000	47,000
2. Interest	5,000	5,000	4,375	0
3. Dividends				
4. Business income (or loss) from federal Schedule C				
5. Gains (or losses) from federal Schedule D				
6. Rents, royalties, partnerships, estates, trusts, small business corporations from federal Schedule E	20,000	20,000	17,500	0
7. Other income reported on your federal return				
8. Total income: <i>Add lines 1 through 7</i>	87,000	87,000	68,875	47,000
9a. Other federal adjustments. <i>List</i>				
9b.				
9c.				
9d. Total adjustments. <i>Add lines 9a through 9c for each column.</i>	0	0	0	0
10. Adjusted gross income. <i>Subtract line 9d from line 8.</i>	87,000	87,000	68,875	47,000

If Mr. and Mrs. R had filed a nonresident return to State Z, they would have reported \$47,000 of wage income to State Z as State Z source income. Mr. and Mrs. R must report State Z wages of \$47,000 in Arizona gross income and \$47,000 of State Z wages in State Z's equivalent of Arizona gross income. There are no additions or subtractions related to the \$47,000 of State Z wages required under either Arizona law, or State Z law. Therefore, \$47,000 of State Z wage income is included in Arizona adjusted gross income and \$47,000 of State Z wage income is included in State Z's equivalent of Arizona adjusted gross income. Mr. and Mrs. R complete Form 309, they would complete lines 1 through 6 of Arizona Form 309 as follows:

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(a)	(b)	
1. Description of income item(s)	Wages	
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$47,000	
3. Portion of income on line 2 included in Arizona adjusted gross income	\$47,000	
4. Portion of income on line 2 included in State Z's equivalent of Arizona adjusted gross income.	\$ 47,000	
5. Income subject to tax by both Arizona and the other state or country. Enter the lesser of amount entered on line 3 or line 4.	\$ 47,000	
6. Total income subject to tax by both Arizona and the other state or country.		\$47,000

Step 2

Determining the amount of the Arizona income tax liability imposed on income subject to tax by both Arizona and the other state.

Because the credit cannot be more than the amount of Arizona tax imposed on the income subject to tax by both Arizona and the other state, the taxpayer must determine how much Arizona tax is imposed on the income subject to tax by both Arizona and the other state. This amount is calculated using the following formula:

$$\frac{\text{*Income subject to tax by both Arizona and the other state}}{\text{**Entire income upon which Arizona income tax is imposed}} \times \text{***Arizona income tax liability}$$

- * The amount computed for step 1 is the amount that is used in the numerator.
- ** The amount used in the denominator is Arizona adjusted gross income plus the amount of exemptions subtracted for dependents, blind, age 65 or over, and qualifying parents or ancestors.
- *** The Arizona tax liability is the Arizona income tax imposed on Arizona taxable income less the sum of the clean elections tax reduction and any Arizona income tax credits claimed for the taxable year, except the credit for taxes paid to another state or country.

The above formula is reflected on lines 7 through 11 of Arizona Form 309.

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Step 3

Determining the amount of the net income tax liability of the other state that is imposed on income subject to tax by both Arizona and the other state.

As an Arizona resident, the credit cannot be more than the amount of the other state's income tax imposed on income sourced to the other state. This applies to an Arizona resident filing a nonresident return to another state regardless of whether the other state computes its income on all income from everywhere and then prorates its tax or whether the other state computes its tax on source income only. This also applies to an Arizona resident who is considered to be a resident of another state under the laws of the other state, and filing a resident return to that other state. In either of these cases, the taxpayer must determine how much of the other state's income tax is imposed on income sourced to the other state that is also subject to tax in Arizona. This amount is calculated using the following formula:

$$\frac{\text{*Income subject to tax by both Arizona and the other state}}{\text{**Entire income upon which the other state's income tax is imposed}} \times \text{***net income tax liability of the other state}$$

- * The amount computed for step 1 is the amount used in the numerator.
- ** The amount used in the denominator is the other state's equivalent of Arizona adjusted gross income computed as if the taxpayer were an Arizona nonresident, plus the amount of the other state's equivalent of Arizona's exemptions for dependents, blind, age 65 or over, and qualifying parents or ancestors.
- ***The tax liability of the other state is the other state's income tax imposed on the other state's taxable income minus any tax credits claimed against the other state's income tax.

The above formula is reflected on lines 12 through 16 of Arizona Form 309.

Step 4

Determining the amount of the credit.

The amount of credit for taxes paid to another state is the lesser of the Arizona income tax liability that relates to the income subject to tax by both Arizona and the other state or the net income tax liability of the other state imposed on income sourced to that other state that is also subject to Arizona income tax. This amount is determined by comparing the amount computed under step 2 to the amount computed under step 3. The credit is the smaller of the two. This amount is reflected on line 17 of Arizona Form 309.

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The following example illustrates how to calculate the amounts entered on lines 1 through 17 of Arizona form 309.

Example 5:

Facts: Mr. and Mrs. F are Arizona residents who derive income from a farm in State XY. During the taxable year for which the credit is being claimed, Mr. and Mrs. F had the following income.

Interest income	\$ 38,000
Dividend income	\$ 4,000
Farm income from State XY	<u>\$ 16,000</u>
Total income	<u>\$ 58,000</u>

As Reported on Arizona Return	
Federal adjusted gross income	\$ 58,000
Less dependent exemption \$2,300	(2,300)
Arizona adjusted gross income	\$ 55,700
Itemized deductions	12,000
Personal exemption	6,300
Arizona taxable income	37,400
Arizona tax	1,020
Clean Elections Fund tax reduction	10
Balance of Arizona tax	1,010
Credit for Contributions to Public Schools	300
Tax Liability	710

As Reported on State XY Return		As Reported on State XY Income Allocation Schedule		
1. Federal adjusted gross income	\$ 58,000		Column A Income from federal return	Column B Income from Column A from State XY sources
2. Plus State XY additions	0	1. Wages		
3. Less State XY subtractions	0	2. Interest	38,000	
4. State XY adjusted gross income	<u>\$ 58,000</u>	3. Dividends	4,000	
5. Itemized Deductions	(11,000)	4. Farm Income	16,000	16,000
6. Exemptions	(3,000)	5. Capital Gains		
7. State XY taxable income	\$ 44,000	6. Rents, Sub S, Royalties, Partnership		
8. State XY tax	1,760	7. Other Income		
9. Percentage from Income Allocation Schedule	0.2759	8. Total income	58,000	16,000
10. State XY tax on income sourced to State XY. Multiply line 8 by line 9	\$ 485	9. Tax proration Divide line 8 Column B by Line 8 Column A	$16,000/58,000 = .2759$	

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Credit Computation:

Mr. and Mrs. F complete the Arizona Form 309 as follows:

Arizona Form 309

Part I - Computation of Income Subject to Tax by Both Arizona and the Other State or Country

	(a)	(b)
1. Description of income item(s)	Farm income	
2. Amount of income from item listed on line 1, reportable to both Arizona and the other state or country.	\$16,000	
3. Portion of income on line 2 included in Arizona adjusted gross income.	\$16,000	
4. Portion of income on line 2 included in State XY's equivalent of Arizona adjusted gross income.	\$16,000	
5. Amount of income from item listed on line 1 which is subject to tax by both Arizona and the other state or country. Enter the lesser of amount entered on line 3 or line 4.	\$16,000	
6. Total income subject to tax by both Arizona and the other state or country.		\$16,000

Part II - Computation of Other State or Country Tax Credit

7	Arizona tax liability less any credits (except other state tax credit).....	7	710	
8	Amount from Part 1, line 6.....	8	16,000	
9	Entire income upon which Arizona income tax is imposed.....	9	58,000	
10	Divide the amount on line 8 by the amount on line 9 (cannot be greater than 1).....	10	.2759	
11	Multiply the amount on line 7 by the decimal on line 10.....	11	196	
12	Income tax paid to State XY (tax less credits).....	12	485	
13	Amount from Part 1, line 6.....	13	16,000	
14	Entire income upon which State XY income tax is imposed.....	14	16,000	
15	Divide the amount on line 13 by the amount on line 14 (cannot be greater than 1).....	15	1.0000	
16	Multiply the amount on line 12 by the decimal on line 15.....	16	485	
17	Other state or country tax credit. Enter the lesser of line 11 or line 16.....	17	196	

Step 1

Lines 1 through 6 – Income subject to tax by both Arizona and State XY

Mr. and Mrs. F must report State XY farm income of \$16,000 in both Arizona gross income and State XY's equivalent of Arizona gross income. There are no additions or subtractions related to the \$16,000 farm income required under either Arizona law, or State XY law. Therefore, \$16,000 of farm income is included in Arizona adjusted gross income and \$16,000 of farm income is included in State XY's equivalent of Arizona adjusted gross income.

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Step 2

Lines 7 through 11 – Arizona tax imposed on income sourced to State XY and also subject to tax by Arizona

Mr. and Mrs. F compute the amount of Arizona tax imposed on the income subject to tax by both Arizona and other state, using the following formula.

$$\frac{\text{*Income subject to tax by both Arizona and State XY}}{\text{**Entire income upon which Arizona income tax is imposed}} \times \text{***Arizona tax liability}$$

For Mr. and Mrs. F, this formula is reflected as follows:

$$16,000/58,000 \times 710 = 196$$

* The numerator of \$16,000 is the income subject to tax by AZ and State XY. This is the amount computed on lines 1 through 6 of Form 309 (Step 1).

** The denominator of \$58,000 is the entire income upon which Arizona tax is imposed. This amount is computed as follows:

Mr. and Mrs. F's Arizona adjusted gross income	\$55,700
Plus dependent exemption claimed	<u>2,300</u>
Entire income upon Which AZ tax is imposed	<u>\$58,000</u>

*** The Arizona tax liability of \$710 is computed as follows:

Arizona tax	\$1,020
Less clean elections tax reduction	(10)
Less public school tax credit	<u>(300)</u>
Arizona tax Liability	<u>\$ 710</u>

Step 3

Lines 12 through 16 – State XY tax imposed on income sourced to State XY that is also taxable by Arizona

Mr. and Mrs. F compute the amount of State XY tax imposed on the income subject to tax by both Arizona and other state, using the following formula.

$$\frac{\text{*Income subject to tax by both Arizona and State XY}}{\text{**Entire income upon which State XY tax is imposed}} \times \text{***State XY tax liability}$$

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For Mr. and Mrs. F, this formula is reflected as follows:

$$16,000/16,000 \times 485 = 485$$

* The numerator of \$16,000 is the income subject to tax by AZ and State XY. This is the amount computed on lines 1 through 6 of Form 309 (Step 1).

** The denominator of \$16,000 is the entire income upon which State XY tax is imposed. This amount is computed as follows:

Mr. and Mrs. F's Farm income sourced to State XY (State XY'S equivalent of Arizona adjusted gross income computed under A.R.S. 43-1094)	\$16,000
Plus State XY's equivalent of Arizona's dependent exemptions	<u>0</u>
Entire income upon which State XY tax is imposed	<u>\$16,000</u>

*** XY's tax liability of \$485 is computed as follows:

State XY tax	\$485
Less State XY tax credits	<u>(0)</u>
State XY tax Liability	<u>\$485</u>

Step 4

Line 17 – The amount of credit

The amount of credit for taxes paid to State XY is \$196. This is the smaller of the Arizona income tax liability that relates to the income subject to tax by both Arizona and State XY (\$196) or the amount of State XY net income tax liability imposed on income sourced to State XY (\$485).

Gale Garriott, Director

Signed: October 22, 2008

Explanatory Notice

The purpose of a tax procedure is to provide procedural guidance to the general public and to Department personnel. A tax procedure is a written statement issued by the Department to

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assist in the implementation of tax laws, administrative rules, and tax rulings by delineating procedures to be followed in order to achieve compliance with the law. Relevant statute, case law, or administrative rules, as well as a subsequent procedure, may modify or negate any or all of the provisions of any tax procedure. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.