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ARIZONA INDIVIDUAL INCOME TAX PROCEDURE ITP 14-1

Procedure for Determining Whether a Taxpayer Provided More than One-half of His or Her Qualifying Parent's or Grandparent's Support During the Taxable Year for the Purpose of the \$10,000 Exemption

ISSUE:

What criteria should an Arizona resident use to determine whether he or she provided more than one-half of his or her qualifying parent's or grandparent's (grandparent includes great grandparents) support during the taxable year for the purpose of the \$10,000 exemption allowed under A.R.S. § 43-1023(C)?

PROCEDURE:

Complete the *Worksheet for Figuring Support of Qualifying Parent or Grandparent* to help you determine if you provided more than one-half of your qualifying parent's or grandparent's support during the taxable year. If you complete the worksheet for any given tax year, you should keep a copy of the completed worksheet along with any documentation you may have establishing that you provided more than one-half of your parent's or grandparent's support.

Worksheet for Figuring Support of Qualifying Parent or Grandparent Funds Belonging to your Qualifying Parent or Grandparent

1.	Enter the total funds belonging to your parent or grandparent (for which you are claiming the exemption), including income received (taxable and nontaxable) and amounts borrowed during the year, plus the amount in savings and other accounts at the beginning of the year. Be sure to include social security payments that your parent or grandparent received during the year here. Do not include funds provided by the state; include those amounts on line 22 instead.	
2.	Enter the amount on line 1 that was used for your parent's or grandparent's support.	
3.	Enter the amount on line 1 that was used for other purposes.	
4.	Enter the total amount in your parent's or grandparent's savings and other accounts at the end of the year.	
5.	Add lines 2 through 4. (This amount should equal line 1.)	

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Expenses for Entire Household (where you and your qualifying parent or grandparent that you supported lived)

6.	Lodging (complete line 6a or 6b):	
	6a. Enter the total rent paid.	
	6b. Enter the fair rental value of the home. If your parent or grandparent (for which you are claiming the exemption) owned the home, also include this amount in line 20.	
7.	Enter the total food expenses.	
8.	Enter the total amount of utilities (heat, light, water, etc. not included in line 6a or 6b).	
9.	Enter the total amount of repairs (not included in line 6a or 6b).	
10.	Enter the total of other expenses. Do not include expenses of maintaining the home, such as mortgage interest, real estate taxes, and insurance.	
11.	Add lines 6a or 6b through 10. These are the total household expenses.	
12.	Enter total number of persons who lived in the household.	
13.	Divide line 11 by line 12. This is your parent's or grandparent's share of the household expenses.	
14.	Enter the total clothing expenses incurred during the taxable year for your parent or grandparent.	
15.	Enter the total medical and dental expenses incurred during the taxable year for your parent or grandparent that were not paid for or reimbursed by insurance.	
16.	Enter the total travel and recreation expenses incurred during the taxable year for your parent or grandparent.	
17.	Enter the total of other expenses incurred during the taxable year for your parent or grandparent.	
18.	Add lines 13 through 17. This is the total cost of your parent's or grandparent's support for the year.	

Did Your Parent or Grandparent Provide More than Half of His or Her Own Support?

19.	Multiply line 18 by 50% (.50)					
20.	Enter the amount from line 2, plus the amount from line 6b if your parent or grandparent owned the home. This is the amount your parent or grandparent provided for his or her own support.					
21.	Is line 20 more than line 19? If yes, Stop, you do not qualify to claim the \$10,000 exemption for your parent or grandparent. If no, complete lines 22 through 25.	<table border="1"> <tr> <td>Yes</td> <td>No</td> </tr> <tr> <td></td> <td></td> </tr> </table>	Yes	No		
Yes	No					

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Did You Provide More Than Half?

22.	Enter the amount others provided for your parent's or grandparent's support. Include amounts provided by state, local, and other welfare societies or agencies. Do not include any amounts included on line 1.		
23.	Add lines 20 and 22		
24.	Subtract line 23 from line 18. This is the amount you provided for your parent's or grandparent's support.		
25.	Is line 24 more than line 19? If yes, you meet the support test for claiming the \$10,000 exemption for your parent or grandparent. If no, Stop, you do not qualify to claim the \$10,000 exemption for your parent or grandparent.	Yes	No

Documentation You Should Keep to Prove that You Provided More than 50% of Your Qualifying Parent's or Grandparent's Support for the Taxable Year

You should keep receipts for food, clothing, rent, medical and dental care, recreation, and personal items. You should also keep copies of any utility bills. If you own your home, to show the cost of lodging, you may need to provide a statement of the fair rental value of your home.

You should keep copies of documents that establish your parent's or grandparent's income for the year, such as Forms 1099-R, SSA-1099, 1099-INT, 1099-DIV, or any other documentation showing funds your parent or grandparent earned or received during the taxable year. If your parent or grandparent was required to file a tax return, keep a copy of that tax return.

Also, keep copies of bank statements for both you and your parent or grandparent so you can show whose funds were used to pay for support.

You should keep your records on file for at least 4 years, for each year for which you are claiming the exemption, just in case the Arizona Department of Revenue conducts an audit of your tax records.

How to Figure the Fair Rental Value of Your Home for the Purpose of the \$10,000 Exemption

The fair rental value for the home is generally the amount of rent that a person who is not related to you would be willing to pay. The rent you charge is not a fair rental price if it is substantially less than the rents charged for other properties that are similar to your property in your area.

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Ask yourself the following questions when comparing another property with yours.

- Is it used for the same purpose?
- Is it approximately the same size?
- Is it in approximately the same condition?
- Does it have similar furnishings?
- Is it in a similar location?

If any of the answers are no, the properties probably are not similar.

DISCUSSION:

A.R.S. § 43-1023(C) provides that an Arizona resident taxpayer may claim a \$10,000 exemption for each of the taxpayer's parents or grandparents that meet the requirements set forth in A.R.S. § 43-1023(C).

To claim this exemption, the parent or grandparent must be at least 65 years old during the taxable year and must require assistance with two or more of the specified categories of activities of daily living. The taxpayer must have paid more than one-half of the support and maintenance costs for his or her parent or grandparent. The parent or grandparent must have lived in the taxpayer's principal residence for the entire taxable year. The fact that the parent or grandparent dies during the taxable year shall not deprive the taxpayer of the exemption if the parent or grandparent lived in the taxpayer's principal residence for the entire part of that taxable year prior to his or her death. Temporary absences by the parent or grandparent for special circumstances, such as a hospital stay or care in a hospice facility count as time lived in the taxpayer's principle residence.

APPLICABLE LAW:

A.R.S. § 43-1023(C) provides that an Arizona resident taxpayer may claim a \$10,000 exemption for each of the taxpayer's parents or grandparents that meet the requirements set forth in A.R.S. § 43-1023(C).

David Raber, Director

Signed: August 1, 2014

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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 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.

APPENDIX TO ARIZONA INDIVIDUAL INCOME TAX PROCEDURE ITP 14-1

For more information concerning criteria for qualifying to claim the \$10,000 exemption allowed under A.R.S. § 43-1023(C) see the following income tax ruling and procedure:

ITR 14-3 What the term “activities of daily living” means when determining an Arizona resident taxpayer’s eligibility for the \$10,000 exemption allowed under Arizona Revised Statutes (A.R.S.) § 43-1023(C)

ITP 14-2 Procedure for Determining Whether a Parent or Grandparent Requires Assistance with Activities of Daily Living for the Purpose of the \$10,000 Exemption