

# ARIZONA DEPARTMENT OF REVENUE

## ARIZONA INDIVIDUAL INCOME TAX RULING

### ITR 94-10

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

#### **ISSUES:**

1. What itemized deductions are allowed to a part-year resident who did not have Arizona source income during the period of the year while an Arizona nonresident?
2. What itemized deductions are allowed to a part-year resident who had Arizona source income during the period of the year while an Arizona nonresident?

#### **APPLICABLE LAW:**

Arizona Revised Statutes (A.R.S.) § 43-1042 provides an itemized deduction for individual taxpayers in the amount allowable for the taxable year under the Internal Revenue Code.

A.R.S. § 43-1095(B) provides that in the case of a nonresident the deduction allowed under § 43-1042 shall be allowed in the percentage which the taxpayer's Arizona gross income is of his or her federal adjusted gross income.

A.R.S. § 43-1097 provides for allocation of items deductible in the year in which a taxpayer changes his or her residency status.

#### **DISCUSSION:**

The itemized deductions allowed for Arizona purposes are those itemized deductions that are allowable under the Internal Revenue Code. However, when Arizona residency is either commenced or terminated during the tax year, the individual must determine what portion of such itemized deductions are allowable on the part-year Arizona income tax return.

Since the individual is a resident for a portion of the year and also a nonresident for a portion of the year, the individual is required to allocate and/or apportion deductions to Arizona.

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Under A.R.S. § 43-1097, a part-year resident may deduct those expenses which were incurred and paid during the part of the year in which the taxpayer was an Arizona resident.

For the period of the year in which the taxpayer was an Arizona nonresident, A.R.S. § 43-1097 also provides that a taxpayer may deduct Arizona source deductions (i.e., those deductions which relate to Arizona source income and those non-income related itemized deductions derived from Arizona sources). Arizona source deductions may include (but are not limited to) such items as a casualty loss on property located in Arizona, Arizona property taxes paid on Arizona property, amounts donated to Arizona charities, or medical expenses incurred in Arizona.

A.R.S. § 43-1095(B) also provides for the apportionment of a nonresident's itemized deductions. This section provides that a nonresident will be allowed itemized deductions in the percentage which the taxpayer's Arizona gross income is of his or her federal adjusted gross income.

### **RULING:**

**1. Itemized deductions allowed to a part-year resident who did not have Arizona source income during the period of the year while an Arizona nonresident.**

A part-year resident who has no Arizona source income during the portion of the year while an Arizona nonresident can deduct: (1) those expenses which were incurred and paid during their part of the year while an Arizona resident plus (2) Arizona source itemized deductions incurred and paid during the period of nonresidency.

**Example:**

An individual moves to Arizona on June 30, 1994, establishing Arizona residency.

During 1994 the taxpayer took the following itemized deductions on the 1994 federal income tax return.

<u>Item</u>	<u>Total</u>
Interest on home mortgage	\$ 8,000
Property taxes	800
Charitable contributions	1,000 *
Employee business expenses	<u>4,200</u>
Total	\$14,000

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Of the above itemized deductions, the taxpayer accrued and paid the following after June 30, 1994.

<u>Item</u>	<u>Total</u>
Interest on home mortgage	\$ 5,000
Property taxes	400
Charitable contributions	500
Employee business expenses	<u>1,100</u> **
Total	\$ 7,000

\* \$500 of the \$1,000 in contributions was a contribution to an Arizona charity prior to the taxpayer's Arizona residency. The other \$500 in contributions was made after Arizona residency as indicated above.

\*\* The Arizona portion of the 2% federal adjusted gross income limitation applicable to the Arizona employee business expenses is reflected in the \$1,100 figure.

This taxpayer will be allowed to deduct \$7,500 of itemized deductions on the 1994 part-year Arizona income tax return (\$7,000 incurred and paid while an Arizona resident and \$500 of Arizona source itemized deductions incurred and paid during the period of nonresidency).

## **2. Itemized deductions allowed to a part-year resident who had Arizona source income during the period of the year while an Arizona nonresident.**

A part-year resident who also had Arizona source income during the portion of the year while an Arizona nonresident can deduct: (1) those expenses which were incurred and paid during the part of the year while an Arizona resident plus (2) Arizona source itemized deductions incurred and paid during the period of nonresidency plus (3) a portion of all other itemized deductions paid during the period of nonresidency.

### Example:

An individual moves to Arizona on June 30, 1994, establishing Arizona residency. The taxpayer's federal adjusted gross income for the year was \$50,000. The taxpayer's Arizona gross income for the period of the year while an Arizona resident was \$30,000. The taxpayer's Arizona gross income for the period of the year while an Arizona nonresident was \$10,000.

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During 1994 the taxpayer took the following itemized deductions on the 1994 federal income tax return.

<u>Item</u>	<u>Total</u>
Interest on home mortgage	\$ 8,000
Property taxes	800
Charitable contributions	1,000 *
Employee business expenses	<u>4,200</u>
Total	\$14,000

Of the above itemized deductions, the taxpayer accrued and paid the following after June 30, 1994.

<u>Item</u>	<u>Total</u>
Interest on home mortgage	\$ 5,000
Property taxes	400
Charitable contributions	500
Employee business expenses	<u>1,100 **</u>
Total	\$ 7,000

\* \$500 of the \$1,000 in contributions was a contribution to an Arizona charity prior to the taxpayer's Arizona residency. The other \$500 in contributions was made after Arizona residency as indicated above.

\*\* The Arizona portion of the 2% federal adjusted gross income limitation applicable to the Arizona employee business expenses is reflected in the \$1,100 figure.

Once the taxpayer determines what deductions were incurred and paid during the part of the year while an Arizona resident (\$7,000) plus the Arizona source itemized deductions (\$500) which were incurred and paid during the period of nonresidency, the taxpayer may then apportion all other itemized deductions as follows:

1. Determine the amount of itemized deductions subject to apportionment.

Total federal itemized deductions	\$ 14,000
Less deductions incurred and paid during the part of the year while an Arizona resident.	< 7,000 >

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Less Arizona source itemized deductions paid and incurred during the period of nonresidency. < 500 >

Deductions subject to apportionment \$ 6,500

2. Determine the Arizona percentage for the period of nonresidency.

$$\frac{\$ 10,000}{\$ 50,000} \text{ (AZ gross income for period of nonresidency)} = .20$$

(federal adjusted gross income)

3. Multiply the itemized deductions subject to apportionment by the recalculated Arizona percentage.

Itemized deductions subject to apportionment \$ 6,500  
    x .20

Other itemized deductions apportioned to Arizona \$ 1,300

This taxpayer will be allowed to take \$8,800 of itemized deductions on the 1994 part-year Arizona income tax return (\$7,000 incurred and paid while an Arizona resident plus \$500 of Arizona source itemized deductions accrued and paid during the period of nonresidency plus \$1,300 of the remaining itemized deductions apportioned to Arizona).

Harold Scott, Director

Signed: February 10, 1995

Explanatory Notice

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law which are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement which provides interpretation, details or supplementary information concerning the application of the law. **Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling.** See GTP 92-1 for more detailed information regarding documents issued by the Department of Revenue.