



ARIZONA INDIVIDUAL INCOME TAX RULING ITR 16-1

Douglas A. Ducey
Governor

David Briant
Director

(This Ruling Supersedes ITR 96-1)

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.

ISSUE:

Are railroad retirement benefits, railroad disability benefits, railroad unemployment benefits and railroad sickness payments paid by the Railroad Retirement Board taxable by Arizona?

RULING:

Arizona does not tax tier 1 or tier 2 railroad retirement benefits or railroad disability benefits that are reported on federal Form RRB-1099 or federal Form RRB-1099-R. In addition, Arizona does not tax railroad unemployment benefits and railroad sickness payments paid by the Railroad Retirement Board. Therefore, to the extent that a taxpayer is required to include such railroad retirement benefits, railroad disability benefits, railroad unemployment benefits and railroad sickness payments in federal adjusted gross income, the taxpayer may take a subtraction for that amount on his or her Arizona income tax return. These amounts are subtracted in computing Arizona adjusted gross income to the extent they are included in an individual's Arizona gross income (federal adjusted gross income). A taxpayer may not take a subtraction for any amount excluded from federal adjusted gross income.

Annuities or benefits paid by a railroad company, rather than the United States Railroad Retirement Board under the Railroad Retirement Act, are subject to Arizona income tax.

DISCUSSION:

The starting point for the Arizona individual income tax computation for resident individuals is the federal adjusted gross income. This amount is then subject to certain additions and subtractions to arrive at Arizona taxable income. A.R.S. § 43-1022(12) provides, in part, for a subtraction from income for the amount included in federal adjusted gross income pursuant to I.R.C. § 86, relating to taxation of railroad retirement benefits.

ARIZONA INDIVIDUAL INCOME TAX RULING

ITR 16-1

(This Ruling Supersedes ITR 96-1)

Page 2

Pursuant to 45 U.S.C. § 231m, Arizona is prohibited from taxing annuities paid under the Railroad Retirement Act. Pursuant to 45 U.S.C. § 352, Arizona is prohibited from taxing railroad unemployment benefits and railroad sickness benefits. Therefore, to the extent that such payments are included in an individual's Arizona gross income (federal adjusted gross income), those amounts are subtracted in computing Arizona adjusted gross income.

The subtraction applies to both tier 1 and tier 2 benefits paid by the Railroad Retirement Board. Tier 1 railroad retirement benefits which are equivalent to social security benefits are reported on federal Form RRB-1099. Tier 1 benefits which are not equivalent to social security benefits and tier 2 benefits are reported on federal Form RRB-1099-R. These forms are furnished by the United States Railroad Retirement Board.

Unlike benefits paid under the Railroad Retirement Act which are exempted from Arizona income tax by both federal and Arizona law, there are no specific Arizona provisions exempting annuity payments derived from other deferred compensation arrangements or retirement plans established by a particular railroad company. These amounts are reported on federal Form 1099-R. Therefore, to the extent such income is included in federal adjusted gross income, it will likewise be included in Arizona gross income and be subject to Arizona income tax.

APPLICABLE LAW:

Arizona Revised Statutes (A.R.S.) § 43-1001(2) provides that the Arizona gross income of a resident individual is his or her federal adjusted gross income for the taxable year, computed pursuant to the Internal Revenue Code.

A.R.S. § 43-1022(12) provides a subtraction from Arizona gross income for the amount of railroad retirement benefits included in federal adjusted gross income pursuant to § 86 of the Internal Revenue Code.

Internal Revenue Code § 86 provides the calculation for tier 1 railroad retirement benefits to be included in federal adjusted gross income.

45 U.S.C. § 231m, provides that no annuity or supplemental annuity paid under the Railroad Retirement Act shall be subject to any tax except as provided under the Internal Revenue Code.

ARIZONA INDIVIDUAL INCOME TAX RULING

ITR 16-1

(This Ruling Supersedes ITR 96-1)

Page 3

45 U.S.C. § 352(e) provides that railroad unemployment benefits and railroad sickness payments paid under the Railroad Retirement Act shall not be subject to any tax imposed by states, except as provided under the Internal Revenue Code.

Grant Nülle, Deputy Director

Signed: May 31, 2016

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 that are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement that provides interpretation, detail, or supplementary information concerning 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 96-1 for more detailed information regarding documents issued by the Department of Revenue.