2025 Arizona S Corporation Income Tax Return

Arizona Form 120S

For information or help, call one of the numbers listed:

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

Tax forms, instructions, and other tax information
If you need tax forms, instructions, and other tax information, go to the department's website at **www.azdor.gov.**

Income Tax Procedures and Rulings
These instructions may refer to the department's income tax procedures and rulings for more information. To view or print these, go to our website and select *Reports & Legal Research*. On the next page, click on *Legal Research*. Select a Document Type and a Category from the drop down menus. If you know the document ID number you may enter it in the Search field and then press enter.

Publications
To view or print the department's publications, go to our website, scroll down, click on *Reports & Legal Research*, and click on *Publications* in the right hand column.

General Instructions

Who Must Submit Arizona Form 120S

Corporations taxed as S Corporations under Subchapter S of the Internal Revenue Code (IRC) must file Arizona Form 120S. Qualified subchapter S subsidiaries are not treated as entities separate from the parent corporation and would be included on a single Arizona Form 120S filed by the parent S Corporation.

Due Date for Arizona Form 120S

All S Corporation returns are due on or before the 15th day of the third month following the close of the S Corporation's taxable year. For example, an S Corporation whose taxable year ends on December 31st must file its S Corporation return by March 15th of the following year, or request a filing extension. If it does not file its return by the due date, or request an extension, its return will be considered to be filed late.

Disaster Relief for Out-of-State Businesses

If an out-of-state business is in Arizona on a temporary basis solely to perform disaster recovery from a declared disaster during a disaster period, it may not be required to file, remit, withhold or pay state or local income tax. See the department's publication, Pub. 720, *Disaster Recovery Tax Relief* to determine if the taxpayer qualifies for this relief.

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 the department's ruling, CTR 97-1, *Federal "Check-The-Box Rules" on Elective Tax Classification.*

Limited Liability Companies

A limited liability company (LLC) that makes a valid federal election to be taxed as an S Corporation must file Arizona Form 120S.

A single-member LLC that is disregarded as an entity for federal income tax purposes is treated as a branch or division of its owner, and is included in the tax return of its owner. Refer to the department's ruling CTR 97-2, *Limited Liability Companies,* for further information.

Marijuana Establishments, Marijuana Testing Facilities, Dual Use Licensees and Nonprofit Medical Marijuana Dispensaries

- An S Corporation licensed by the Arizona Department of Health Services (ADHS) as a Marijuana Establishment (Adult Use) or Marijuana Testing Facility (Adult Use), must file an Arizona S Corporation Income Tax Return – Arizona Form 120S to report the income and expenses of its operations for the taxable year.
- An S Corporation licensed by ADHS as a Dual Use Licensee (Dual Use) that elected to operate on a for-profit basis, must file an Arizona Form 120S to report the income and expenses of ALL its operations for the taxable year.
- An S Corporation licensed by ADHS as a Dual Licensee that did not elect to operate on a for-profit basis, must file Arizona Form 99M to report the income and expenses from the Nonprofit Medical Marijuana Dispensary (NMMD) portion of its operations, AND file Arizona Form 120S. The Dual Licensee that did not elect to operate on a for-profit basis must also complete Arizona Form 120S Schedules K-1 and K-1(NR) and provide copies of each shareholder's respective K-1 or K-1(NR) to the shareholder as the shareholders are not exempt from Arizona income tax
- An S Corporation registered by ADHS as an NMMD ***only,*** must file Arizona Form 99M ***and*** Arizona Form 120S to report the income and expenses from its operation as an NMMD. The NMMD must also complete Arizona Form 120S Schedules K-1 and K-1(NR) and provide copies of each shareholder's respective K-1 or K-1(NR) to the shareholder as the shareholders are not exempt from Arizona income tax.

The Pass-Through Entity Election (PTE)

For taxable years beginning from and after December 31, 2021, the shareholders of a business that is taxed at the federal level as an S Corporation may consent to have its flow-through (or pass-through) income taxed at the entity level in Arizona. The Arizona PTE income tax is assessed at a rate of 2.5% of the income attributable to the S Corporation's resident shareholders and the income derived from sources within Arizona attributable to the nonresident shareholders.

S Corporations Making the Pass-Through Entity Election

The PTE election must be made on the S Corporation Arizona income tax return, Arizona Form 120S.

An S Corporation[1,2] that intends to make this election must notify all shareholders who are individuals or estates and

[1] An S Corporation share that is owned by a grantor trust that is disregarded for federal income tax purposes may make the PTE election.

[2] An S Corporation share that is owned by a Single Member LLC that is disregarded to an individual for federal income tax purposes may make the PTE election.

trusts (eligible shareholders) of the intent to make this election. Each eligible shareholder has the right to opt out of this election. The notice must allow each eligible shareholder at least 60 days after receiving the notice to exercise the right to opt out of the election. If the eligible shareholder does not respond, that shareholder will be included in the election.

Shareholders that are not individuals or estates and trusts (ineligible shareholders) may not participate in this election. Shareholders who are individuals or estates and trusts who opt out of this election also may not participate in the PTE election.

If the S Corporation making this election does not pay the tax owed to the department, the department may collect the tax owed by the S Corporation from its eligible shareholders based on the proportionate share of income attributable to each eligible shareholder for Arizona tax purposes.

S Corporations whose taxable income for the previous year exceeds $150,000 must make payments of estimated tax. Estimated tax payments are due April 15th, June 15th, and September 15th of the current taxable year and January 15th of the year following the close of the taxable year. (For taxable years that do not begin January 1st, the due dates for estimated tax payments are the 15th day of the 4th, 6th, and 9th months of the current taxable year and the 15th day of the 1st month following the close of the taxable year.)

NOTE: *For additional information on the PTE election, refer to Publication 713,* The Arizona Pass-Through Entity Election, *available here:* https://azdor.gov/sites/default/files/2023-03/PUBLICATION_713.pdf. (Publication 713 has been updated as of September 2025.)

S Corporations Not Making the PTE Election After Making PTE Estimated Payments During the Year

S Corporations that make PTE estimated payments during the 2025 taxable year and then elect NOT to make the PTE election on their 2025 Arizona S Corporation Tax Return [Arizona Form 120S] ***MUST*** complete a $0 return for the 2025 taxable year. The S Corporation must complete Arizona Form 120S to report its earnings and its distributions to its shareholders [on Form 120S, Schedule K-1 for its resident shareholders, or Form 120S, Schedule K-1(NR) for its nonresident shareholders] to the department. The steps indicated below MUST be taken by the S Corporation to ensure it receives its refund of PTE estimated taxes paid during taxable year 2025.

NOTE: *If the S Corporation made any 2025 estimated tax payments for the PTE election and is* ***not*** *making the PTE election on its 2025 Arizona S Corporation Income Tax Return, it must file a S Corporation return for taxable year 2025 indicating it is* ***NOT*** *making the PTE election.* ***The payment(s) of estimated tax made during the year will be refunded to the S Corporation. This refund cannot be applied to the S Corporation's 2026 taxable year PTE estimated tax liability. It cannot be applied to an individual shareholder's tax liability.***

How to File a "0" S Corporation Return to Claim a Refund of the PTE Estimated Tax payments[3] if the S Corporation is NOT subject to income tax in Arizona:

- Line A, check the "No" box.
- Complete lines B through H and 1 through 17 as directed.
- Skip to Part 2 on page 2.
- Line 37, enter "0".
- Lines 46 through 48 and lines 50 through 52, enter "0".
- Return to Part 1, line 18 and enter "0".
- Line 19, enter "0".
- Line 21, enter the total of all extension payments made.
- Line 22, enter the total of all estimated payments made during the year.
- Line 23, enter "0".
- Line 24, add lines 20 through 23 and enter the total. Also, enter this amount on lines 26, 27, 29, 34, and 36.
- Line 36, this amount is refundable to the S Corporation.

How to File a "0" S Corporation Return to Claim a Refund of the PTE Estimated Tax payments[4] if the S Corporation is subject to tax in Arizona[5]:

- Line A, check the "No" box.
- Complete lines B through H and 1 through 17 as directed.
- Skip to Part 2 on page 2.
- Line 37, enter "0".
- Lines 46 through 48 and lines 50 through 52, enter "0".
- Return to Part 1, line 18 and enter "0".
- Line 19, add lines 17 and 18. Enter the total.
- Line 20, enter the amount of refundable credits being claimed (if any) by the S Corporation (on its Arizona corporate tax liability). If refundable credits are claimed, check the box(es) corresponding to the refundable credit(s) claimed.
- Line 21, enter the total amount of extension payments made.
- Line 22, enter the total of all estimated payments made during the year.
- Line 23, enter "0".
- Line 24, add lines 20 through 23. Enter the total.
- Line 25, enter "0".
- Line 26, subtract line 25 from line 24. Enter the difference. Also, enter this amount on line 27

[3] PTE Estimated Tax payments include amounts paid as PTE estimated taxes and any extension payments made with the intent that the extension payment was to be applied to the S Corporation's PTE Tax liability.

[4] PTE Estimated Tax payments include amounts paid as PTE estimated taxes and any extension payments made with the intent that the extension payment was to be applied to the S Corporation's PTE Tax liability.

[5] The S Corporation is subject to federal income taxes or the S Corporation is subject to the recapture of an Arizona income tax credit previously claimed.

- Line 28, if line 19 is larger than line 27, subtract line 27 from line 19. Enter the difference. This is the balance of Arizona corporate tax owed by the S Corporation.
- Line 29, if line 27 is larger than line 19, subtract line 19 from line 27. Enter the difference. This is the amount of the S Corporation's overpayment of Arizona corporate tax.
- Line 30, if the S Corporation is subject to penalties and interest, enter that amount here.
- Line 31, enter "0".
- Line 32, enter "0".
- Line 33, if the S Corporation has a balance due on line 28, add lines 28 through 30. Enter the total here.
- Line 34, if the S Corporation has an overpayment on line 29, subtract the total of lines 30 through 32 from line 29. If the difference is positive, enter that amount on line 34. This is the total overpayment.
- Line 35, enter "0".
- Line 36, subtract line 35 from line 34. Enter the difference. This amount of tax that is refundable to the S Corporation.

Records

Every S Corporation should maintain books and records substantiating information reported on the return and keep these documents for inspection. Refer to the department's General Tax Ruling (GTR) 96-1, *Electronic Data Processing* for more information about record retention requirements.

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.

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.

Examples:

Company A (A) reports federal taxable income of $15,000. A has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .326954. A multiplies the federal taxable income by the apportionment ratio. The result is $4,904.31. Company A rounds the result to $4,904.00.

Company W (W) reports a federal taxable loss of ($27,000). W has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .005946. W multiplies its federal loss of ($27,000) by the apportionment ratio. The result is an Arizona loss of ($160.54). Company W rounds the result to ($161.00).

Company Z (Z) reports a federal taxable loss of ($500). Z has no Arizona additions to, or subtractions from, federal taxable income. Its apportionment ratio is .075000. Z multiplies its federal loss of ($500) by the apportionment ratio. The result is an Arizona loss of ($37.50). Company Z rounds the result to ($38.00).

Timely Filing of Returns

- The department determines the timeliness of an electronically filed tax return by the date of the electronic postmark. If the taxpayer and the electronic return preparer or the electronic return transmitter are in different time zones, it is the taxpayer's time zone, as determined by the taxpayer's address, that controls the timeliness of the electronically filed return. When a return has been electronically received on the host system of more than one electronic return preparer or electronic return transmitter during its ultimate transmission to the department, the return shall be deemed filed and received by the department on the date of the earliest electronic postmark.
- The department determines the timeliness of a tax return by the postmark or other official mark of the United States mail stamped on the envelope in which the return is mailed. See the department's ruling, GTR 16-1, *Timely Filing of Income or Withholding Tax Returns Through the United States Mail.*
- The Department will 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.
- If the due date for the return falls on a Saturday, Sunday, or a legal holiday, the return is considered timely filed if it is postmarked the next business day. See the department's ruling, GTR 16-2, *Timely Filing of Income or Withholding Tax Return – Holidays and Weekends*.

IMPORTANT: ***All S Corporation returns are due on or before the 15th day of the <u>third</u> month following the close of the taxable year.***

Extension of Time to File a Return

- A request for an extension of time to file an Arizona corporate income tax return ***<u>must</u>*** be submitted by the original due date of the return.
- The extension request can be made by filing an Arizona extension request, Arizona Form 120/165EXT, or by filing a federal extension.
- You may file Form 120/165EXT electronically or by mail. If mailing, submit Form 120/165EXT to:

  Arizona Department of Revenue
  P O Box 29079
  Phoenix, AZ 85035-9079
- If the original return is filed under extension, do not include a copy of the extension with your return. However, make sure to check the extension box, 82F, on page 1 of your return.
- If the S Corporation has a tax liability of less than $500 for the year, Arizona Form 120/165EXT may be used to transmit extension payments by check or money order, regardless of how you request an Arizona extension (valid federal extension or Arizona Form 120/165EXT).
- S Corporations with a tax liability of $500 or more for the 2025 taxable year must pay their tax liability by Electronic Funds Transfer. (See *How to Make EFT Payments*, beginning on page 5 for details.)

- If you made extension payments electronically, or via AZTaxes.Gov, you are not required to file Arizona Form 120/165EXT unless you are requesting an Arizona filing extension.
- The Arizona extension and the federal extension provide an extension of time to file, but they do not provide an extension of time to pay tax.
  - You must pay 90% of your tax liability (including the $50 minimum tax) by the original due date of your return.
  - The department imposes the extension underpayment penalty on any late or underpaid extension requests.
- See the department's ruling, CTR 01-3, *Extensions*, for additional information.
- Submit the extension request to the department electronically or mail Form 120/165EXT to:

  Arizona Department of Revenue
  PO Box 29079
  Phoenix, AZ 85038-9079

S Corporations filing composite returns: Use Arizona Form 204 to request an extension of time to file a composite return on Arizona Form 140NR for qualifying nonresident individual shareholders.

Filing Original Returns

- *S Corporation returns are due by the 15th day of the 3rd month following the close of the taxable year.*
- *An S Corporation filing a short-period return must file the return by the 15th day of the 3rd month after the short-period ends.*
- If the S Corporation has a valid federal or Arizona filing extension, the return is due by the extended due date[6].
- If the return is filed under extension, check box 82F on page 1 of the return.
- If the original due date or extended due date for the return falls on a Saturday, Sunday, or a legal holiday, the return is considered timely filed if it is postmarked the next business day. See the department's ruling, GTR 16-2, *Timely Filing of Income or Withholding Tax Return – Holidays and Weekends*.
- The return must be signed by one or more of the officers of the S Corporation (President, Treasurer, or any other principal officer).
- Do not submit a blank Arizona return with a copy of the federal return. S Corporations must:
  - Furnish complete data,
  - Answer all questions on the return,
  - Complete all applicable schedules, and,
  - Include all appropriate supplementary schedules.
- You must electronically submit Arizona Form 120S unless you have one of the following:
  - A federal waiver from electronically filing your federal return.
  - You meet one of the federal exemptions from electronically filing your federal return.
  - You received an Arizona filing waiver.
  - You meet one of the Arizona exemptions from electronically filing your Arizona return.
  - You have been directed by the IRS or the department to paper file your return.
- If you have been granted a waiver from electronically filing Arizona Form 120S, or you are not required to e-file your return, mail the return to:

  Arizona Department of Revenue
  P.O. Box 29079
  Phoenix, AZ 85038-9079
- The department requests that S Corporations include a copy of their "as-filed" federal Form 1120-S and all its schedules and attachments with their Arizona return.

Taxable Year Covered by Return

The S Corporation must have the same taxable year for Arizona purposes as it has for federal purposes.

File the 2025 Arizona Form 120S for calendar year 2025 and fiscal years that begin in 2025 and end in 2026. Indicate whether the taxable year is a calendar year or a fiscal year. If the return is for a fiscal year, indicate the beginning and ending dates for the year in the space(s) provided at the top of page 1. If this is a short-period return, indicate the beginning and ending dates for the year in the space(s) provided at the top of page 1. Check the box is this fiscal year return is based on a 52/53 week taxable year.

The 2025 Arizona Form 120S can also be used if the S Corporation has a tax year of less than 12 months that begins and ends in 2026 and the 2026 Arizona Form 120S is not available at the time the S Corporation is required to file its return. The S Corporation must show its 2026 year on the 2025 Arizona Form 120S and take into account any tax law changes that are effective for tax years beginning after December 31, 2025. If submitting the 2025 Arizona Form 120S for a 2026 short-period return, submit a paper filed return. Do not submit this short-period return electronically.

Filing Amended Returns

Electronic filing of amended S Corporation returns for the 2025 taxable year is available.

- S Corporations that filed their amended federal return electronically, must submit their Arizona amended return electronically[7].
- S Corporations that filed their original return electronically may submit their Arizona amended return electronically.
- Any S Corporation that files an amended return with the IRS *must* file an Arizona amended return on Arizona Form 120S, for the tax year amended (i.e. 2025 Arizona Form 120S for tax year 2025) within 90 days of final determination of the federal amended return by the IRS. When filing an amended return, check the box labeled "Amended" in the upper right corner of the return.
- S Corporations *must* report to the department changes or corrections to their taxable income by the IRS or as a

[6] The extended due for an S Corporation return is six months from the original due date of the return.

[7] If the software vendor does not support the electronic filing of amended returns, the S Corporation may submit its amended return as a paper return.

result of renegotiation of a contract or subcontract with the United States.

- Within 90 days after the final determination of the change or correction, the S Corporation must:
  - File a copy of the final determination with the department, concede the accuracy of the determination or state any errors, and request that the department recompute the tax owed Arizona, or
  - File an amended return as required by the department.
- If your amended Arizona return is due to federal changes, either an amended federal return or a Revenue Agent Report (RAR), please include a copy of your amended federal return or RAR with your amended Arizona return.
- The S Corporation must provide sufficient information for the department to recompute the S Corporation's Arizona taxable income based on the RAR changes.
- The department may require the S Corporation to file an amended return if the department does not have this information.
- If your original or amended federal return was submitted electronically, you may submit the amended Arizona Form 120S to the department electronically. If your original federal return was filed as a paper return, or if electronic filing is unavailable, mail the amended Arizona Form 120S to:

  Arizona Department of Revenue
  PO Box 29079
  Phoenix, AZ 85038-9079
- If the S Corporation was required to make its tax payments for the 2025 taxable year by electronic funds transfer (EFT), it must pay any additional tax due from an amended return by EFT.

NOTE: *File amended returns for prior taxable years on the respective Arizona Form 120S for those taxable years. Use the 2025 Arizona Form 120S to amend only the taxable year 2025.*

Do NOT file an amended return until your original return has been processed.

Electronic Filing of S Corporation Income Tax Returns

Electronic filing of Arizona S Corporation income tax returns is required. Please see the department's website at: https://azdor.gov/e-services/approved-vendors for a list of approved software vendors.

Which S Corporations Are Not Required to Electronically File (e-file) Their Arizona Income Tax Returns?

- S Corporations that cannot e-file their federal return cannot e-file their Arizona return.
- Any S Corporation that was granted a federal waiver from filing its federal return is not required to e-file its Arizona return.
- Any S Corporation having a federal exemption from electronically filing its federal return is not required to e-file its Arizona return.
- Any S Corporation having an Arizona electronic filing waiver or an Arizona exemption is not required to e-file its Arizona return.
- An S Corporation submitting the 2025 Arizona Form 120S for a 2026 short period return, submit a paper filed return. Do NOT submit this short period return electronically.
- Any S Corporation that has been directed to file a paper return by the IRS or by the department
- Due to system constraints, the department's computer system can handle an electronically filed return up to 246MB is size. The department requests that returns in excess of 246MB be filed as a paper return.

Requesting an Electronic Filing Waiver

Any S Corporation taxpayer who is required to file its income tax return electronically may apply to the director for an annual waiver from the electronic filing requirement. The waiver may be granted if any of the following apply:

- The taxpayer has no computer.
- The taxpayer has no internet access.
- Any other circumstance considered to be worthy by the director.

Waivers are granted on an annual basis and expire at the end of the requested tax year. Waivers must be renewed each calendar year. If a waiver is not renewed, you will be subject to statutory electronic filing and payment requirements at the expiration of your waiver.

To request a waiver, submit Arizona Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Arizona Form 292 is available at: https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application.

A waiver is not required if the S Corporation income tax return cannot be electronically filed for reasons beyond the taxpayer's control, including situations in which the taxpayer was instructed by either the Internal Revenue Service or the Arizona Department of Revenue to file by paper.

Please contact the department at azefile@azdor.gov if you need assistance in electronically submitting your Arizona S Corporation income tax return. If your return has been rejected, please include the Arizona submission ID and the form type (i.e. 120S) in your correspondence.

Submitting Arizona Form 120S Schedule(s) K-1 and Arizona Form 120S Schedule(s) K-1(NR)

Schedules K-1 and K-1(NR) [Notice] are an integral part of the S Corporation return. File one copy of each shareholder's Notice with the S Corporation return. Provide each shareholder with a copy of their completed Notice. Retain a copy of each completed Notice for the S Corporation's records.

For calendar year filers, check the box, "calendar year 2025." For fiscal year filers, check the box, "fiscal year" and enter the beginning and ending dates for the fiscal year. If this is a short-period return, indicate the beginning and ending dates for the short period.

NOTE: *See pages 18 and 20 for instructions on completing Arizona Forms 120S, Schedule(s) K-1 and K-1(NR).*

S Corporations filing their S Corporation return electronically must submit Schedule(s) K-1 and Schedule(s) K-1(NR) to the department electronically.

S Corporations filing a paper return must submit Schedule(s) K-1 and K-1(NR) to the department by paper.

Payment of Tax, Penalties, and Interest

The entire amount of tax, penalties, and interest is due by the original due date of the return.

Payment by Electronic Funds Transfer

S Corporations with a tax liability of $500 or more for the 2025 taxable year must pay their tax liability by Electronic Funds Transfer (EFT).

NOTE: *If an S Corporation was required to pay its 2025 tax liability by EFT, it must also pay any additional tax due from an amended return by EFT.*

Requesting a Waiver From the EFT Requirement

An S Corporation may apply to the director for an annual waiver from the electronic payment requirement. The application must be received by December 31 of each year. The director may grant the waiver if any of the following applies:

- The S Corporation has no computer.
- The S Corporation has no internet access.
- Any other circumstance considered to be worthy by the director exists, including:
  - The S Corporation has a sustained record of timely payments, and,
  - No delinquent tax account with the department.

To request a waiver, submit Arizona Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Arizona Form 292 is available at: https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application.

NOTE: *A corporation who is required to pay by EFT but who fails to do so is subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).*

For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.

How to Make EFT Payments

S Corporations making an EFT payment from a checking or savings account or by credit card are no longer required to register with the department prior to making EFT payments. Visit AZTaxes.gov, click "Make a Corporation/S Corporation/Partnership Payment" and follow the prompts.

- ***Electronic payment from checking or savings account/ e-check/ACH Debit.***

  Payments can be made electronically from a checking or savings account. Go to: www.AZTaxes.gov, click "Make a Corporation/S Corporation/Partnership Payment", follow the prompts, and choose the e-check option. Follow the prompts to make your payment.

  There is no fee to use this method. This payment method will debit the amount from the specified checking or savings account on the date specified. **When an electronic payment is made from a checking or savings account, a confirmation number will be generated. Please keep this confirmation number as proof of payment.**

- ***Online credit card payment.***

  Payments can be made by American Express, Discover, MasterCard, or Visa credit cards. Go to www.AZTaxes.gov, click "Make a Corporation/S Corporation/Partnership Payment", follow the prompts, and choose the credit card option. This will take you to the website of the credit card payment service provider. Follow the prompts to make your payment.

  The service provider will charge a fee based on the amount of the tax payment. The service provider will disclose the amount of the fee during the transaction and you will be given the option to continue or cancel. **If you accept the fee and complete the credit card transaction, a confirmation number will be generated. Please keep this confirmation number as proof of payment.**

- ***S Corporations may also make EFT payment by ACH Credit.*** S Corporations wishing to pay by ACH credit must register with the department before their ACH payment will be accepted.

  To register to make ACH Credit payments, complete Arizona Form number 10366, Electronic Funds Transfer (EFT) Disclosure Agreement for ACH Credit filers, available here: https://azdor.gov/forms/other-forms/electronic-funds-transfer-eft-disclosure-agreement-ach-credit-filers. Complete the form as instructed. Submit the completed form at least ten business days before the first anticipated transaction as it may take that long to process the application.

  Fax the completed form to the department at (602) 771-9913. You may also email the completed form to the department at electronicfundstransfer@azdor.gov. If you have not received your approval within one week, you may direct follow-up inquiries to: electronicfundstransfer@azdor.gov. Once the application is processed, you will receive additional information to present to your bank to make the ACH Credit payment.

  Your payment will be electronically transferred into the department's account, normally the next business day. Consult with your bank for the timeframe required to make timely payments. You may be charged a service fee.

NOTE: ***S Corporations using a foreign bank account to make EFT payments cannot make EFT payments by ACH Debit. The department does not accept ACH Debit payments from a foreign bank account. If the S Corporation wishes to make payment from a foreign bank account by EFT, the payment MUST be made by ACH Credit. See the instructions for ACH Credit above to register and make ACH Credit payments.***

Estimated Tax Payments for 2026

S Corporations subject to tax at the federal level

S Corporations subject to tax at the federal level that expect an Arizona income tax liability for the taxable year of $1,000 or more must make Arizona estimated income tax payments. Compute the required minimum payment using the corporate tax rate, 4.9% of Arizona taxable income. All S Corporations required to make Arizona estimated payments must make those

payments by the 15th day of the 4th, 6th, 9th, and 12th months of their taxable year.

The Arizona required annual payment of estimated tax for an S Corporation is the **smaller** of:

A. Ninety percent of the S Corporation's Arizona tax liability for the *current* taxable year; or
B. An amount equal to the sum of:
   - Ninety percent of the portion of the *current* taxable year's Arizona tax liability attributable to built-in gains income or certain capital gains income, plus
   - One hundred percent of the portion of the *prior* taxable year's Arizona tax liability that is attributable to excess net passive income.

NOTE: *For the S Corporation to base its estimated tax payments on the tax liability described in B above, the S Corporation's return filed for the prior taxable year must have been for a period of twelve months.*

The estimated tax payment calculation should include any tax from the recapture of tax credits. This requirement applies whether or not the S Corporation itself is subject to tax at the corporate level.

S Corporations making the PTE election

S Corporations making the Pass-Through Entity election to pay tax on its pass-through income must make Arizona estimated payments if their PTE income for the previous year was in excess of $150,000. The amount of payments of estimated tax must be an amount that reasonably reflects the S Corporation's PTE tax liability that will be unpaid at the end of the taxable year. Compute the required payment using the PTE tax rate, 2.5% of Arizona taxable PTE income. The estimated payments must be made in 4 equal installments on or before the 15th day of the 4th, 6th, and 9th months of the taxable year; the 4th and final payment is due by the 15th day of the 1st month following the close of the taxable year.

The Arizona required annual payment of estimated tax for an S Corporation is the **smaller** of:

- Ninety percent of the S Corporation's Arizona PTE tax liability for the *current* taxable year; or
- One hundred percent of the tax due for the previous taxable year.

S Corporations subject to tax at the federal level AND making the PTE election

S Corporations having a tax liability at the federal level AND making the PTE election, must separately compute the required estimated payments for the income generating the federal tax liability and the income generating the PTE tax liability.

Separately compute the required minimum payment for the income generating the federal tax liability using the corporate tax rate, 4.9% of taxable income. Also, separately compute the required minimum payment for the income generating the PTE tax liability using the PTE tax rate, 2.5% of taxable income. Total those amounts. This is the total required minimum payment due.

The due dates for the total estimated payment are the due dates for the PTE required payments – the 15th day of the 4th, 6th, and 9th month of the taxable year, and the 15th day of the 1st month following the close of the taxable year.

When submitting the total estimated payment, there is no need to distinguish between the "corporate" payments and the "PTE" payments. The S Corporation may submit one payment that is the sum of both the "corporate" payment and the "PTE" payment.

For additional information, see the instructions for Arizona Form 120/PTE-W and for Arizona Form 220PTE.

Is the S Corporation subject to the Estimated Underpayment Penalty for the 2025 taxable year?
See the instructions for Arizona Form 220/PTE.

MAKING ESTIMATED TAX PAYMENTS

S corporations making estimated tax payments for 2026 that expect a 2026 income tax liability of $500 or more must make Arizona estimated income tax payments using EFT. See the Section *Payment Electronic Funds Transfer* on page 4 for details on making tax payments by EFT.

NOTE: *S Corporations that make estimated tax payments by EFT should not submit Arizona Form 120/165ES.*

S corporations making estimated payments for 2026 that expect a 2026 income tax liability of less than $500 may pay by check, e-check, money order, credit card, or they may elect to participate in EFT. See the Section, *Payment by Electronic Funds Transfer* on page 5 for additional information. If paying by check or money order, complete Arizona Form 120/165ES and include the check or money order with the form.

NOTE: *Taxpayers required to make estimated payments via EFT that fail to do so are subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).*

For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.

Penalties and Interest

NOTE: *If more than one of the penalties described in A, B, or C apply, the maximum combined penalty is 25%.*

A. Late Filing Penalty

Without a valid federal or Arizona extension, a return filed after the original due date is subject to the late filing penalty. A return filed after its extended due date is also subject to the late filing penalty. The late filing penalty is 4.5% (.045) of the amount of tax required to be shown on the return. The penalty period is each month or fraction of a month between the due date of the return and the date the taxpayer filed the return. The maximum penalty is 25% of the tax found to be remaining due.

B. Extension Underpayment Penalty

The S Corporation must pay 90% of the tax liability reported on its return by the original due date of the return. If it does not, the extension underpayment penalty is charged on any late or underpaid extension payments. The extension underpayment penalty is ½ of 1% (.005) of the tax not paid for each 30-day period or fraction of a 30-day period between the original due date and the date the tax is paid. The

maximum penalty is 25% of the unpaid tax. Taxpayers subject to the extension underpayment penalty are not subject to the late payment penalty described in C below.

C. Late Payment Penalty

The late payment penalty is charged on any amount shown as tax on a return that is not paid by the due date. The late payment penalty is ½ of 1% (.005) of the unpaid tax for each month or fraction of a month that the tax remains unpaid, not to exceed 10% of the unpaid tax.

NOTE Amended Return Filers: *If you voluntarily file an amended return and pay the additional tax due when you file your amended return, the department will not assess the late payment penalty. Exceptions are:*

- *The taxpayer is under audit by the department.*
- *The amended return was filed on demand or request by the department.*

Refer to the department's ruling, CTR 09-1*, When do Penalties Apply to an Income Tax Return Filed Under an Extension,* regarding the application of penalties to returns filed under extension.

D. Information Return Penalty

This form is an information return when no tax liability is due. 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.

E. Estimated Tax Underpayment Penalty

The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 220/PTE, *Underpayment of Estimated Tax by Corporations*, for further details.

- The S Corporation must complete Arizona Form 220/PTE if it made its estimated tax payments based on either the annualized income installment or adjusted seasonal installment methods, or if it is a large corporation that computed its first required installment based on the S Corporation's tax liability for the prior taxable year. This is required even if no penalty is due.
- The S Corporation does not have to complete Arizona Form 220/PTE if the S Corporation made its estimated tax payments in four equal installments based on an amount equal to either 90% of the current taxable year's tax liability or 100% of the prior year's tax liability. "Tax liability" means the liability reduced by any refundable tax credits and the claim of right adjustment, if applicable.

The department will compute the estimated tax underpayment penalty and notify the S Corporation of any amount due.

F. Failure to Pay by Electronic Funds Transfer

Corporations that anticipate a tax liability of $500 or more for the taxable year must pay their tax liability by Electronic Funds Transfer (EFT).

Corporations required to pay their tax liability by EFT that fail to do so may be subject to a penalty equal to five percent (5%) of the amount of the payment not made by EFT.

G. Interest

The department charges interest on any portion of the tax not paid by the due date. The department compounds interest annually and applies it in the same manner and at the same time as prescribed by the IRS. The Arizona rate of interest for both underpayments and overpayments *for all taxpayers* is the federal underpayment rate.

On January 1 of each year, the department adds any interest outstanding as of that date to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

NOTE: *The entire amount of tax, penalties, and interest is due by the original due date of the return.*

Arizona Apportionment Methods

There are three apportionment methods for multistate S Corporation income tax returns filed to Arizona: (1) air carrier apportionment; (2) standard apportionment; and (3) sales factor only apportionment.

Air carriers are required to use revenue miles. All other taxpayers may select either the standard or the sales factor only apportionment method.

1. Air Carrier Apportionment

An air carrier is required to use revenue miles to calculate its apportionment ratio. Check Box 1 on line C of page 1, complete Schedule ACA, and include it with your return. Do not complete Schedule A.

2. Standard Apportionment

All non-air carrier taxpayers are allowed to continue to use Arizona's standard apportionment formula, which double-weights the sales factor. Check Box 2 on line C of page 1 and complete Schedule A using the double-weighted sales factor (Arizona sales X 2)/Everywhere sales. Divide the total ratio by four.

3. Sales Factor Only Apportionment

All non-air carrier taxpayers may use Arizona's sales factor only apportionment formula, which is determined by dividing Arizona Sales by Everywhere Sales. Check Box 3 on line C of page 1, complete Schedule A, Section A3, "Sales Factor", lines a through f.

Specific Instructions

Calendar year filers, check the box "calendar year 2025". Fiscal year filers, check the box, "fiscal year" and enter the beginning and ending dates for the fiscal year. If this is a short-period return, indicate the beginning and ending dates of the short-period. Check the box if this fiscal year return is based on a 52/53 week taxable year.

Type or print the required information in the name, address, and information boxes on the top of page 1. Include the Business Telephone Number (with area code), and the Business Activity Code (NAICS Code) from the S Corporation's federal return.

If the taxpayer 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.**

Enter the S Corporation's employer identification number (EIN). S Corporations that fail to include their EIN may be subject to a penalty.

Box 68

- Check box A, "This is a first return" if this is the S Corporation's first return filed to Arizona.
- Check box B, "Name change", if the S Corporation changed its name during the tax year.
- Check box C, "Address change", if the S Corporation changed its address during the tax year.

Box 82F

Check box 82F if this return is filed under extension.

Line A

If the S Corporation is making the Pass-Through Entity (PTE) election to pay Arizona income tax on its flow-through income at the entity level, check "Yes". If the S Corporation is not making the PTE election, check "No".

Line B

If the S Corporation conducts business within and without Arizona check "Yes". If not, check "No".

Line C – *Multistate S Corporations only*:

If the S Corporation is a multistate S Corporation, check the box indicating its method of apportioning income to Arizona.

- Check Box 1 if the taxpayer used the Air Carrier Apportionment. Complete Arizona Form ACA and include it with this return.
- Check Box 2 if the taxpayer used the Standard Apportionment formula.
- Check Box 3 if the taxpayer used the Sales Factor Only Apportionment formula.

If the taxpayer is not a multistate corporation, or did not apportion its income to Arizona, leave this line blank.

Line D

Check this box only if the S Corporation elected to be treated as a multistate service provider (MSP) by completing Arizona Schedule MSP and including it with this return. If this box is checked, check the corresponding box, Yr 1 through Yr 5, to indicate the year of the S Corporation's MSP election cycle.

If the S Corporation did not elect MSP treatment, leave this line blank.

Line E

Is this the S Corporation's final Arizona income tax return using this EIN?

- If yes, check "Yes" and check the appropriate box.
  - Check Box 1 if the S Corporation is "Dissolved"; or
  - Check Box 2 if the S Corporation has "Withdrawn" from Arizona; or
  - Check Box 3 if the S Corporation "Merged/Reorganized." If there is a successor corporation, indicate the EIN of the successor corporation in the space provided.
- If this is not the S Corporation's final return under this EIN, check "No."

Line F

Will a composite return be filed on Arizona Form 140NR?

- If the S Corporation is not making the PTE election, it may file a composite return for its nonresident shareholders.
- If the S Corporation is making the PTE election and a portion of its nonresident shareholders opt out of its PTE election, it may file a composite return only for those nonresident shareholders provided all qualifying criteria for the composite return are met, including having a minimum of 10 nonresident shareholders included in the composite return.
- If the S Corporation is making the PTE election and all its nonresident shareholders do not opt out of the PTE election, it may not file a composite return.

Check "Yes" if a composite return will be filed on Arizona Form 140NR. If not, check "No."

NOTE: *For additional information, see the instructions for Form 140NR on how to complete a composite return.*

Marijuana Establishments Only

Only a marijuana establishment licensed or registered by ADHS should fill out line G or line H.

All other S Corporations, go to line 1.

Line G

- Check Box 1 if the S Corporation is licensed by ADHS as an Adult Use only establishment,
- Check Box 2 if the S Corporation is licensed by ADHS as a Dual Licensee that has elected to operate on a for-profit basis or
- Check Box 3 if the S Corporation is licensed by ADHS as a Dual Licensee that has not elected to operate on a for-profit basis.
- Check Box 4 if the S Corporation is registered with ADHS as an NMMD only.

Line H

If a box on Line G is checked, enter the registry identification number issued by the ADHS for that marijuana establishment.

Part 1 - Calculation of S Corporation Tax Due/Overpayment

Line 1 - Total Distributive Income (Loss)

Enter the net total of the pro rata share items of nonseparately computed income (loss) and separately stated income (loss) and deductions (from federal Form 1120S, Schedule K).

Income Subject to Federal and Arizona Corporate Income Taxes

Lines 2 through 4 - Excess Net Passive Income and Capital Gains/Built-in Gains

If the S Corporation was subject to the federal excess net passive income tax, capital gains tax, or built-in gains tax on its federal Form 1120S, it is subject to Arizona corporate income tax on the total of this income. Use the federal worksheet included in the instructions for federal Form 1120S to calculate the amount of excess net passive income and capital gains/built in gains that was subject to federal taxation.

Special Instructions for S Corporations that are Marijuana Establishments Subject to Tax at the Federal Level

- If an S Corporation licensed by ADHS as a Marijuana Facility or as a Marijuana Testing Facility is subject to corporate income tax at the federal level, it is also subject to Arizona corporate income tax. Complete lines 2 through 12 of Arizona Form 120S as instructed.
- If an S Corporation licensed by ADHS as a Dual Licensee that made the election to operate on a for-profit basis is subject to corporate income tax at the federal level, it is also subject to Arizona corporate income tax. Complete lines 2 through 12 of Arizona Form 120S as instructed.
- If an S Corporation licensed by ADHS as a Dual Licensee that has not made the election to operate on a for-profit basis is subject to corporate income tax at the federal level it is subject to Arizona corporate income on the portion of the net income attributable to its operations as an adult use facility. It is not subject to Arizona corporate income tax on the net income attributable to its operations as an NMMD.
  - If the source of the income subject to tax at the federal level is attributable to the operations of the Adult Use marijuana facility, complete lines 2 through 13 of Arizona Form 120S as instructed.
  - If the source of the income subject to tax at the federal level is attributable to the operations of the NMMD marijuana facility, do not complete lines 2 through 13. The S Corporation is not subject to Arizona corporate income tax on that income.
  - If the source of the income subject to tax at the federal level is attributable to the operations of the S Corporation as both an Adult Use facility and as an NMMD, complete lines 2 through 13.
    - For Lines 2 & 3 - Enter the ***total*** amount of income subject to tax at the federal level less the portion of the income attributable to NMMD operations.
- If an S Corporation registered as an NMMD ***only*** by ADHS is subject to corporate income tax at the federal level, it is not subject to Arizona corporate income tax. Do not complete lines 2 through 12 of Arizona Form 120S.

Line 2 - Excess Net Passive Income

Enter the amount of excess net passive income that was subject to federal corporate income tax.

Line 3 - Capital Gains/Built-In Gains

Enter the amount of capital gains/built in gains that was subject to federal corporate income tax.

Line 4 - Total Federal Income Subject to Corporate Income Tax

Add line 2 and line 3. Enter the total on line 4.

- 100% Arizona S Corporations, check box 4a. Skip to line 11.
- Multistate S Corporations, continue to line 5.

NOTE:

- *An S Corporation that has income from business activity that is taxable entirely within Arizona is a 100% Arizona S Corporation.*
- *An S Corporation that has income from business activity taxable in more than one state is a multistate S Corporation.*

Lines 5 through 10 - Apportionment Computation Multistate S Corporations Only

Any S Corporation that has income from business activity that is taxable both within and without Arizona (multistate S Corporation) 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. See the instructions beginning on page 10 for more detailed information regarding apportionment of income.

Line 5 - Nonapportionable or Allocable Income Multistate S Corporations Only

Nonbusiness income is nonapportionable and specifically allocable to a particular state. "Business income" under the transactional and functional tests means income arising from transactions and activity in the regular course of the taxpayer's trade or business, and 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.

"Nonbusiness income" means all income other than business income.

NOTE: *Refer to* A.R.S. §§ 43-1134 *through* 43-1138, and A.A.C. R15-2D-501 through R15-2D-508 *for the methods of allocating certain types of nonbusiness income.*

Enter the total amount of all income (loss) which is nonapportionable or specifically allocable to Arizona. Include a schedule that details the amount of nonapportionable income subtracted on page 1, line 5.

Line 6 – Apportionable Income

Multistate S Corporations Only

Subtract line 5 from line 4. Enter the difference. This is the amount of the multistate S Corporation's income that is apportionable to Arizona.

Line 7 - Arizona Apportionment Ratio

Multistate S Corporations Only

Compute the Arizona apportionment ratio on Schedule A (for non-air carrier S Corporations) or Schedule Air Carrier Apportionment (ACA) (for qualified air carrier S Corporations). Enter the apportionment ratio on line 7. Carry out the decimal to six places.

NOTE: *If line 7 is "0.000000", the S Corporation is considered to have no Arizona nexus.*

If line 7 is blank or 1.000000, the S Corporation's income is considered to be sourced entirely within Arizona.

Line 8 – Income Apportioned to Arizona

Multistate S Corporations Only

Multiply line 6 by line 7. Enter the result. This is the amount of the multistate S Corporation's income that is apportioned to Arizona.

Line 9 - Other Income Allocated to Arizona
Multistate S Corporations Only

Enter the total amount of all income (loss) that is specifically allocable to Arizona. DO NOT include the amount of any nonbusiness income which is allocable to another state on this line. Include a schedule that details the amount of income that is allocable to Arizona.

Line 10 – Total Income Attributable to Arizona
Multistate S Corporations Only

Add lines 8 and 9. Enter the total. This is the multistate S Corporation's total income that is attributable to Arizona.

Arizona Tax Liability Computation

If the S Corporation is subject to federal and Arizona corporate income tax, it must complete lines 2 through 25. If the S Corporation is subject to Arizona corporate income tax from the recapture of the Arizona credits for renewable energy industry or qualified facilities, it must complete lines 13 through 25, even if not required to complete lines 2 through 12.

Line 11 – Net income subject to Arizona income tax

- 100% Arizona S Corporations, enter the amount from line 4.
- Multistate S Corporations, enter the amount from line 10.

Line 12 - Arizona Tax

The S Corporation is subject to the tax computed on line 12 **only if** it has income subject to tax at the corporate level reported on federal Form 1120S, even if line 11 is zero or a negative amount. The amount of Arizona income tax is the greater of $50 or 4.9% of line 11.

Line 13 - Tax from Recapture of Tax Credits

Enter the amount of tax due from the recapture of tax credits from Arizona Form 300, Part 2, line 22.

Line 14 - Subtotal

Add lines 12 and 13. This is the amount of tax to which the total amount of tax credits claimed by the taxpayer may be applied.

Line 15 - Nonrefundable Tax Credits

Enter the allowable nonrefundable tax credit amount from Arizona Form 300, Part 2, line 40. This amount cannot be larger than the amount on line 14. Include the completed credit forms and Arizona Form 300 with the tax return.

- **Credit for Increased Research Activities** [8]

  This tax credit is for taxpayers who incur qualified research expenses for research conducted in Arizona. A portion of the excess credit claimed for taxable years beginning from and after December 31, 2009, may be refundable with approval from the Arizona Commerce Authority. Enter only the nonrefundable portion of this credit on line 15. Complete Arizona Form 308 to claim this tax credit.

- **Pollution Control Credit**

  This tax credit is for expenses incurred during the taxable year to purchase real or personal property used in the taxpayer's trade or business in Arizona to control or prevent pollution. Complete Arizona Form 315 to claim this tax credit.

  NOTE: *An S Corporation may claim this credit at the corporate level. An S Corporation may NOT pass this credit through to its shareholders.*

- **Credit for Taxes Paid for Coal Consumed in Generating Electrical Power**

  This tax credit is for a percentage of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona. Complete Arizona Form 318 to claim this tax credit.

- **Credit for Employment of TANF Recipients**

  This tax credit is for net increases in qualified employment for recipients of temporary assistance for needy families (TANF) who are residents of Arizona. Complete Arizona Form 320 to claim this tax credit.

- **Credit for Donation of School Site**

  This tax credit is for the donation of real property and improvements to an Arizona school district or Arizona charter school for use as a school or as a site for the construction of a school. Complete Arizona Form 331 to claim this tax credit.

- **Credit for Employing National Guard Members**

  This tax credit is for an employer who has an employee that is a member of the Arizona National Guard and the employee was placed on active duty. Complete Arizona Form 333 to claim this tax credit.

- **Credit for Corporate Contributions to School Tuition Organizations**

  This credit is for corporations who make contributions to school tuition organizations which provide scholarships and tuition grants to children attending qualified nongovernmental schools. Complete Arizona Form 335 to claim this tax credit.

- **Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students with Disabilities**

  This tax credit is for corporations who make contributions to school tuition organizations that provide scholarships and tuition grants to qualifying children attending qualified nongovernmental schools. Complete Arizona Form 341 to claim this tax credit.

- **Renewable Energy Production Tax Credit**

  This tax credit is for taxpayers that produce electricity using qualified energy resources. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Complete Arizona Form 343 to claim this tax credit.

[8] For taxable years beginning from and after December 31, 2022, taxpayers may claim the "regular" credit for Increased Research Activities or the Alternative Simplified Credit for Increased Research Activities. Please refer to the instructions for Form 308 for additional information.

- **Credit for New Employment**

  This tax credit is for taxpayers that have net increases in employment. The credit limit is administered by the Arizona Commerce Authority. Complete Arizona Form 345 to claim this tax credit.

- **Additional Credit for Increased Research Activities for Basic Research Payments**

  This tax credit is for taxpayers that make qualified basic research payments for research conducted in Arizona. Approval by the Arizona Department of Revenue is required prior to claiming this tax credit. Complete Arizona Form 346 to claim this tax credit.

- **Credit for Renewable Energy Investment and Production for Self-Consumption by International Operations Centers**

  This tax credit is for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy resources if the power will be used primarily for International Operations Centers. Complete Arizona Form 351 to claim this tax credit.

- **Healthy Forest Production Tax Credit**

  This tax credit is for the processing of qualifying forest products. Complete Arizona Form 353 to claim this credit.

- **Affordable Housing Tax Credit**

  This tax credit is for projects in this state that qualify for the federal low-income housing tax credit under section 42 of the Internal Revenue Code. Complete Arizona Form 354 to claim this credit.

Complete the appropriate credit form for each tax credit claimed on your return. Include the completed credit form and Arizona Form 300 with the tax return.

Amended Returns: Include the completed credit form(s) and Arizona Form 300 with the amended Arizona Form 120S, whether or not the amount claimed on line 15 has changed.

Line 16 - Credit Type

Indicate which nonrefundable tax credits were used on line 15 by entering the applicable form number(s) in the space provided.

Nonrefundable Income Tax Credit	Form
Credit for Increased Research Activities	308
Pollution Control Credit	315
Credit for Taxes Paid for Coal Consumed in Generating Electrical Power	318
Credit for Employment of TANF Recipients	320
Credit for Donation of School Site	331
Credit for Employing National Guard Members	333
Credit for Corporate Contributions to School Tuition Organizations	335
Credit for Corporate Contributions to School Tuition Organizations for Displaced Students or Students With Disabilities	341
Renewable Energy Production Tax Credit	343
Credit for New Employment	345
Additional Credit for Increased Research Activities for Basic Research Payments	346
Credit for Renewable Energy Investment and Production for Self-Consumption by International Operations Centers	351
Healthy Forest Production Tax Credit	353
Affordable Housing Tax Credit	354

Line 17 - Tax Liability

Subtract line 15 from line 14. If line 15 is more than line 14, enter zero “0”. Line 17 cannot be a negative amount.

Line 18 – PTE Tax Liability

S Corporations making the PTE election to pay tax at the entity level, enter the amount from Part 2, Line 48. Otherwise, leave blank.

Line 19 – Total Tax Due

Add line 17 and 18. Enter the total. **This is the total amount of tax owed by the S Corporation.**

Tax Payments and Refundable Credits

Line 20 - Refundable Tax Credits

Check the box(es) marked 308, 334, and/or 349 to indicate which of these refundable tax credits the taxpayer is claiming. Enter the total amount of the refundable credits claimed on line 20.

NOTE: *If the S Corporation is passing the refundable portions of the Credit for Increased Research Activities, The Credit for Motion Picture Production Costs, and/or the Credit for Qualified Facilities through to its shareholders,* ***do not enter an amount on this line, instead, enter “0”****.*

Credit for Increased Research Activities

A portion of this tax credit is refundable for qualified taxpayers. The refund is limited to 75% of the excess credit, which is the current year's credit less the current year's tax liability, not to exceed the amount approved by the Arizona Commerce Authority. Include a copy of your "Certificate of Qualification" from the Arizona Commerce Authority, Arizona Form 300, and Arizona Form 308 with your tax return. Enter the amount from Arizona Form 308, Part 7, line 42.

Credit for Motion Picture Production Costs

This credit is allowed against production costs paid by a motion picture production company in this state that are subject to taxation in Arizona and that are directly attributable to a motion picture production. Include a copy of your postapproval from the Arizona Commerce Authority, Arizona Form 300, and Arizona Form 334 with your return. Enter the amount from Arizona Form 334, Part 1, line 6.

Credit for Qualified Facilities

This tax credit is for expanding or locating a qualified facility in Arizona and is refundable in five equal installments. Pre-approval and post-approval are required through the Arizona Commerce Authority. Include a copy of your "Certification of Qualification" from the Arizona Commerce Authority and Arizona Form 349 with your tax return to claim this credit. Enter the amount from Arizona Form 349, Part 8, line 20.

If you are claiming more than one of the refundable tax credits,

check the appropriate boxes and add the amounts from the credit forms together and enter the total on line 20, or use the following worksheet to figure the amount to enter on line 20.

Refundable Credit Worksheet	
1. Enter the refundable credit from Arizona Form 308, Part 7, line 42.	
2. Enter the refundable credit from Arizona Form 334, Part 1, line 6.	
3. Enter the apportioned credit from Arizona Form 349, Part 8, line 20.	
4. Add the amounts on lines 1 and 2. Enter the total here and on Arizona Form 120S, line 20.	

Amended Returns: Include the completed credit form(s) with the amended Arizona Form 120S, with Arizona Form 300, if applicable, whether or not the amount claimed on line 20 has changed.

Line 21 - Extension Payments

Enter any payment made with the request for extension of time to file the income tax return or made online by the original due date from Schedule D, line D7, column (b).

NOTE: *S Corporations whose 2025 income tax liability is $500 or more, must make extension payments by EFT. See the instructions for Arizona Form 120/165EXT for additional information.*

Line 22 – Estimated Tax Payments

Enter the total of line D7, column (c), and line D7, column (d) from Schedule D.

Line 23 – Amended Returns

Enter the payment sent with the original return. Also include any additional payment(s) made after the original return was filed.

Line 24 – Subtotal of tax payments

Add lines 20 through 23. Enter the total.

Line 25 – Overpayments of Tax

Enter all refunds received from the original return, previous amended returns submitted, or later adjustments.

Line 26 - Total Tax Payments

Subtract line 25 from 24. Enter the difference.

Line 27 - Total Tax Payments from line 26

Enter the amount from line 26.

Line 28 - Balance of Tax Due

If line 19 is larger than line 27, subtract line 27 from line 19. Enter the difference. Skip Line 29.

Line 29 – Overpayment of Tax

If line 27 is larger than line 19, subtract line 19 form line 27. Enter the difference.

Line 30 - Penalty and Interest

The S Corporation may choose to calculate any penalty and interest due as a result of late filing, late payment of tax, or extension underpayment of tax. Interest is calculated on the amount shown on line 28 at the prevailing rate. The interest period is from the original due date of the return to the payment date. See the "Penalties and Interest" section beginning on page 3 of these instructions.

Do not include or enter the amount from the Estimated Tax Underpayment Penalty.

NOTE: *If the S Corporation chooses to calculate the penalty and interest amount(s) to be entered on this line, round the result to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents or less, round down.*

If the S Corporation chooses not to calculate interest and penalties, the department will calculate them, and include that amount in any refund, or bill the taxpayer, as appropriate.

Line 31 - Estimated Tax Underpayment Penalty

Original returns: The S Corporation DOES NOT HAVE TO COMPLETE Arizona Form 220/PTE, *Underpayment of Estimated Tax by Corporations and Pass-Through Entities*, if the S Corporation made estimated tax payments equal to 90% of the current taxable year's tax liability, and paid in four equal installments. The department will compute the underpayment of estimated tax penalty based on this method and notify the S Corporation of any amount due. If the S Corporation elects to have the department compute the penalty, do not check box **31A** or enter an amount on line 31.

The S Corporation MUST COMPLETE Arizona Form 220/PTE, even though no penalty is due, if it made its estimated tax payments based on any of the following methods:

- The annualized income installment method;
- The adjusted seasonal installment method; or
- An amount, paid in four equal installments, that is equal to the sum of:
  - Ninety percent of the portion of the current taxable year's Arizona tax liability that is attributable to built-in gains income or certain capital gains income; plus
  - One hundred percent of the portion of the prior taxable year's Arizona tax liability that is attributable to excess net passive income.

Enter the total penalty from Arizona Form 220/PTE, Part C, line 37. Include the completed Arizona Form 220/PTE with the return **and** check box **31A**.

Amended returns: Do not recompute the estimated tax underpayment penalty. Enter the amount from line 31 of the original return or the amount from an Arizona Department of Revenue correction notice.

Line 32 - Information Return Penalty

If this is an original return:

- ***S Corporations that did not make the PTE election,*** this is an information return. If it is incomplete or it is filed late (including extension) it is subject to a penalty of $100 per month or fraction of a month during which the failure continues, up to a maximum of $500. If this return is incomplete or it is filed late, enter the amount of the penalty on line 32.
- **S Corporations that made the PTE election,** this is not an information return. Do not enter an amount on line 32.

If this is an amended return:

Do not recompute the information return penalty. Enter the amount from line 32 of the original return or the amount from an Arizona Department of Revenue correction notice.

Line 33 - Total Due

If the S Corporation has a balance due on line 28, add lines 28 and 32. Enter the total. This is the total tax, penalties and interest due.

Payment of Tax, Penalties, and Interest

Full payment for all tax, penalties, and interest is due by the original due date of the return.

S Corporations required to make payments by EFT, see the Section, *Payment by Electronic Funds Transfer* on page 4 of these instructions for options to pay your tax liability by EFT.

S Corporations not required to make payment by EFT may elect to pay by EFT or they may pay by check or money order. Make the check or money order payable to the Arizona Department of Revenue. Include the S Corporation's EIN on the front of the check or money order.

- ***If the S Corporation's income tax return was submitted electronically***, submit the check or money order with Arizona Form 120/165V, available here: https://azdor.gov/forms/payment-vouchers/arizona-corporate-or-partnership-income-tax-payment-voucher
- Mail Form 120/165V and the check or money order to the address indicated on the form.
- *If the S Corporation is filing a paper return*, include the check or money order with the S Corporation's income tax return. Mail the check or money order and the return to:

  Arizona Department of Revenue
  PO Box 29079
  Phoenix, AZ 85038-9079

Line 34 - Overpayment

If the taxpayer has an overpayment of tax on line 29, subtract the total of lines 30 through 32 from line 29. Enter a positive difference on line 34. This is the total overpayment. If the difference is negative, enter the difference as a positive number on line 33.

Line 35 - Overpayment Applied to Estimated Tax

Original Returns: The taxpayer may apply part or all of an overpayment reported on line 34 as a 2026 estimated tax payment. Enter the amount of the overpayment to be applied as a 2026 estimated tax payment.

Amended Returns: The taxpayer may apply part or all of an overpayment reported on line 34 as a 2026 estimated tax payment, if this amended return is filed during the taxpayer's taxable year 2026. Enter the amount of the overpayment to be applied as a 2026 estimated tax payment.

Line 36 – Amount to be Refunded

Subtract line 35 from line 34. Enter the difference. This is the amount to be refunded to the S Corporation.

Part 2 - Calculation of S Corporation Tax to be Paid at the Entity Level

S Corporations required to complete Part 2:

- S Corporations making the PTE election, AND
- S Corporations that MADE PTE ESTIMATED PAYMENTS but are ***NOT*** making the PTE election.[9]

All others, leave blank and skip to Schedule A.

Calculation of the Income Attributable to Shareholders

NOTE for Lines 38, 40, 42, and 44: *Enter the amounts from Schedule C on these lines as a decimal carried out to 6 digits to the right of the decimal. An ownership percentage of 6.54% would be 0.065400. An ownership percentage of 100% would be 1.000000.*

Line 37

Enter the amount from line 1.

Line 38

Add lines C1 and C4 in column (c) of Schedule C. Enter the total. This is the ownership percentage for ALL resident individual shareholders and all resident trust and estate shareholders that did not opt out of the S Corporation PTE election to pay tax at the entity level on its pass-through income.

Line 39

Multiply line 37 by line 38. Enter the result. This is the S Corporation income attributable to resident individual shareholders and resident trust and estate shareholders that did not opt out of the S Corporation's election to pay tax at the entity level on its pass-through income.

Line 40

Add lines C2 and C5 in column (c) of Schedule C. Enter the total. This is the ownership percentage for ALL nonresident shareholders and nonresident trust and estate shareholders that did not opt out of the S Corporation's election to pay tax at the entity level on its pass-through income.

Line 41

Multiply line 37 by line 40. Enter the result. This is the S Corporation income attributable to nonresident shareholders and nonresident trust and estate shareholders that did not opt out of the S Corporation's election to pay tax at the entity level.

Line 42

Enter the percentage from line C3, column (c) of Schedule C. This is the ownership percentage for all part-year resident shareholders that did not opt out of the S Corporation's election to pay tax at the entity level on its pass-through income.

[9] See page 2 of these instructions for assistance in filing a $0 PTE return.

Line 43

Multiply line 37 by line 42. Enter the result. This is the S Corporation's income attributable to part-year resident shareholders that did not opt out of the S Corporation's election to pay tax at the entity level.

Line 43A

Enter the portion of line 43 that all part-year residents earned while residents of Arizona.

Line 43B

Enter the portion of line 43 that all part-year residents earned while nonresidents of Arizona.

NOTE: *The total of line 43A and 43B must equal the amount reported on line 43.*

Line 44

Enter the percentage from line C7, column (c) of Schedule C. This is the ownership percentage for all shareholders that opted out of the S Corporation's election to pay tax at the entity level on its pass-through income and all shareholders that are not eligible to make the election.

Line 45

Multiply line 37 by line 44. Enter the result. This is the S Corporation income attributable to shareholders that opted out of the S Corporation's election to pay tax at the entity level on its pass-through income and to shareholders that are not eligible to make the election.

NOTE: *The total of lines 39, 41, 43, and 45 must equal the amount on line 37.*

Calculation of the Tax Attributable to Shareholders That Did Not Opt Out of the PTE Election

Line 46

Add line 39 and line 43A. Enter the total. If the total is less than zero "0", enter "0".

Line 47

Multiply the amount on line 46 by the PTE tax rate 2.5% (0.0250). Enter the result. **This is the amount of the PTE tax attributable to resident shareholders and to part-year resident shareholders (during the period of residency) that did not opt out of the S Corporation election to pay tax at the entity level.** Distribute this amount to each resident shareholder that did not opt out of the S Corporation's PTE election based on that resident shareholder's share of the S Corporation income that is taxable in Arizona.

Line 48

Add line 41 and 43B. Enter the total. If the total is less than zero "0", enter "0".

Line 49

Enter the Arizona apportionment from Schedule A (for non-air carrier S Corporations) or Schedule ACA, Air Carrier Apportionment, (for qualified air carrier S Corporations).

NOTE: *The apportionment ratio entered on line 45 must be the same as the apportionment ratio entered on line 7.*

If line 49 is "0.000000", the S Corporation is considered to have no Arizona nexus.

If line 49 is blank or "1.000000", the S Corporation is considered to be 100% Arizona (taxable entirely within Arizona).

Line 50

Multiply the amount on line 48 by the decimal on line 49. Enter the result.

Line 51

Multiply the amount on line 50 by the PTE tax rate, 2.5%, (0.0250). Enter the result. ***This is the amount of the PTE tax attributable to nonresident shareholders and to part-year resident shareholders (during the period of nonresidency) that did not opt out of the S Corporation election to pay tax at the entity level.*** Distribute this amount to each resident shareholder that did not opt out of the S Corporation's PTE election based on that nonresident shareholder's share of the S Corporation income that is taxable in Arizona.

Line 52

Add line 47 and line 51. Enter the total here and on line 18. ***This is the PTE tax owed by the S Corporation***.

Schedule A – Apportionment of Income
(Multistate S Corporations Only)

A.R.S. §§ 43-1131 through 43-1150 govern the apportionment of income. An S Corporation that engages in activities both within and without Arizona must apportion its business income based on property, payroll, and sales in Arizona as compared with everywhere. "Everywhere" means the property, payroll, and sales factors related to the whole business.

NON-APPORTIONABLE INCOME

Apportionment factors generating non-apportionable or nontaxable (i.e. U.S. Interest) income are not to be included in the calculation of the apportionment ratio.

ADMINISTRATIVE RELIEF REQUESTS

A.R.S. § 43-1148 provides administrative relief if the allocation and apportionment provisions of UDITPA do not fairly represent the extent of the taxpayer's business activity in this state. 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, except with respect to an Arizona affiliated group, as defined in A.R.S. § 43-947.
- 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, other than disallowance of a properly elected consolidated return.

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

results under the apportionment and allocation provisions. Taxpayers seeking such 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. Please include a contact phone number and email address with your request.

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.

COMPUTING THE APPORTIONMENT RATIO

When computing the factors of the apportionment ratio, carry the result out to six places after the decimal. If the seventh place after the decimal is five or more, round the sixth decimal place up to the next higher digit. If the seventh place after the decimal is less than five, leave the sixth place decimal as it is.

Example #1:

Arizona Amount	123,456
Everywhere Amount	789,654
Factor	.1563418

The seventh digit after the decimal is "8". Since "8" is greater than "5," the sixth digit after the decimal is increased to the next higher digit, "2".

The factor rounded to six decimal places is .156342.

Example #2:

Total Ratio	.179865
Divided by	4
Apportionment Ratio	.0449662

The seventh digit after the decimal is "2". Since "2" is less than "5," the sixth digit after the decimal remains "6". No increase to the sixth digit after the decimal is made.

The apportionment ratio rounded to six decimal places is .044966.

Schedule ACA - Air Carrier Apportionment
(Multistate S Corporation Air Carriers Only)

A.R.S. § 43-1139(B) requires a taxpayer that is a qualifying air carrier to use revenue miles to apportion its business income to Arizona. The taxpayer must be engaged in air commerce. "Air commerce" means transporting persons or property for hire by aircraft in interstate, intrastate or international transportation. The taxpayer must complete Schedule ACA. Schedule ACA is available on the department's website. Check Box 1 on line C of Arizona Form 120S. Do not complete Schedule A.

NON-AIR CARRIER APPORTIONMENT FORMULA (MULTISTATE S CORPORATIONS ONLY)

Non-air carrier multistate S Corporations have the opportunity to choose one of two apportionment formulas for calculating the apportionment ratio:

- The sales factor only apportionment formula; or
- The standard apportionment formula.

Check the box on line C of page 1 of the return to indicate which apportionment formula, "STANDARD" or "SALES FACTOR ONLY," will be used to calculate the apportionment ratio on the S Corporation's return. Whichever apportionment method is indicated on line C of page 1, the taxpayer must complete the apportionment ratio using that formula. (The taxpayer cannot use "Standard" to calculate one factor of the ratio, and "SALES FACTOR ONLY" to calculate another factor of the ratio.)

For the standard apportionment ratio, 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 numbers located on the left-hand side of Schedule A, column A, to weight the property, payroll, and sales factors respectively.

For taxable years beginning after December 31, 2016, Sales Factor Only Apportionment replaced the enhanced apportionment ratio. The numerator is Arizona sales. The denominator is Everywhere sales. The property factor and the payroll factor are not included in this computation.

Taxpayers apportioning income or (loss) must complete lines 5 through 10 on page 1.

Line A1 - Property Factor – *Standard Apportionment*

Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT" *– leave blank.*

The Property Factor is a fraction that represents the average value of the taxpayer's property owned or rented and used in Arizona to the total average value of the taxpayer's property owned or rented and used during the tax period.

The value of tangible personal property and real property owned by the taxpayer is its original cost. The taxpayer normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period. Property used to generate non-apportionable or nontaxable income is not included in the property factor.

The value of tangible personal property and real property rented by the taxpayer is eight (8) times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the taxpayer for rented property, less the aggregate annual subrental rates paid by subtenants of the taxpayer. The taxpayer automatically achieves averaging for rented property by the method of determining the net annual rental rate of such property.

For a discussion of the treatment of computer software in the property factor, refer to the department's ruling, CTR 01-2, *How Does a Taxpayer Filing an Arizona Corporate Income Tax Return Determine Whether Computer Software is Included in the Property Factor*.

Report real property situated and tangible personal property permanently located in Arizona as property within Arizona. Attribute the value of mobile property to Arizona based on the total time that the property was within Arizona.

Taxpayers Electing "STANDARD APPORTIONMENT"

Divide the numerator of the property factor by the denominator. Express the ratio as a decimal carried out to six places. (The property factor may not exceed 1.0.) Enter the result on line A1c, Column C.

Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT," *leave lines A1a through A1c, Columns A through C, blank*

For additional information on the property factor, refer to:
A.R.S. §§ 43-1140 through 43-1142
A.A.C. R15-2D-601 through R15-2D-607 and R15-2D-902
CTR 01-2*, How Does a Taxpayer Filing an Arizona Corporate Income Tax Return Determine Whether Computer Software is Included in the Property Factor*

Line A2 - Payroll Factor – Standard Apportionment

Taxpayers electing "SALES FACTOR ONLY APPORTIONMENT" *– leave blank.*

The Payroll Factor is a fraction that represents the compensation paid in Arizona by the taxpayer to the total compensation paid by the taxpayer during the tax period.

Report the salaries, wages, or other compensation of officers, employees, etc., as within Arizona if the performance of their services occurs entirely in Arizona. 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. Payroll used to generate non-apportionable or nontaxable income is not included in the payroll factor.

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.

Taxpayers Electing "STANDARD APPORTIONMENT"

Divide the numerator of the payroll factor by the denominator. Express the ratio as a decimal carried out to six (6) places. (The payroll factor may not exceed 1.0.) Enter the result on line A2, Column C.

Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT," *leave line A2, Columns A through C, blank.*

For additional information on the payroll factor, refer to:
A.R.S. §§ 43-1143, 43-1144
A.A.C. R15-2D-701 through R15-2D-705

Line A3 - Sales Factor

The Sales Factor is a fraction that represents the total sales of the taxpayer in Arizona to the total sales of the taxpayer during the tax period.

"Sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income. Gross receipts from non-apportionable or nontaxable income are not included in the sales factor.

Sales of tangible personal property are sourced on a destination sales basis. Sales of real property is determined based on the location of the property. Generally, sales of other than tangible personal property is determined based on the location where the income producing activity occurs. Service income is determined based on the location of the income producing activity, *unless* the taxpayer elected to be treated as a Multistate Service Provider (MSP). (See the box below for a description of an MSP.)

TAXPAYERS THAT QUALIFY AS MULTISTATE SERVICE PROVIDERS ELECTING TO SOURCE SALES FROM SERVICES OR SALES FROM INTANGIBLES TO ARIZONA USING MARKET SALES

Taxpayers that qualify as a Multistate Service Provider (MSP) may elect to treat sales from services and from ***designated intangibles*** *as being sourced to Arizona based on market sales.*

NOTE: *For purposes of the Multistate Service Provider Election and Computation, sales from* ***designated intangibles*** *means sales derived from credit and charge card receivables, including fees, merchant discounts, interchanges, interest and related revenue (*A.R.S. § 43-1147(E)(3)(a)). ***The sale of any other intangible may not be included in the calculation of this election****.*

Multistate taxpayers complete Schedule MSP to determine if they qualify as an MSP. If the taxpayer qualifies, and wishes to make the election, the completed Schedule MSP must be included with the taxpayer's original, timely-filed tax return. (The election to be treated as an MSP ***cannot*** *be made on an amended return.) Once made, the election is binding for five years. For each year of the election period, Schedule MSP must be completed by the taxpayer to source sales from services or sales from intangibles to Arizona. Once Schedule MSP is completed, the taxpayer can compute the sales factor.*

Taxpayers that qualify, and who want to make the election, should:

- *Ensure the completed Schedule MSP is included with the return.*
- *Ensure the box on line B of the return is checked.*
- *Ensure the box indicating the year of the election cycle is checked.*
- *Enter on line A3b, column A, the Arizona sales from services or sales from intangibles from the completed Schedule MSP, line B.*
- *Complete the calculation of the sales factor following the instructions for the taxpayer's choice of the "STANDARD" or "SALES FACTOR ONLY" apportionment formula.*

Taxpayers qualifying as an MSP, and electing to be treated as an MSP:

Enter the Arizona sales from services or sales from intangibles on line A3b from the completed Schedule MSP, line B.

Taxpayers not making the election to be treated as an MSP:

- Leave line A3b blank.
- Enter Arizona sales from services on line A3c.

Taxpayers Electing "STANDARD APPORTIONMENT"

- Check the box labeled "STANDARD" on line A of the return.

- Multiply the numerator of the sales factor by two. Divide that result by the denominator. Express the ratio as a decimal carried out to six places. (The sales factor may not exceed 2.0.) Enter the result on line A3f, Column C.

Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT"

- Check the box labeled "SALES FACTOR ONLY" on line C of the return.
- Divide the numerator (Arizona sales) by the denominator (Everywhere sales). Express the ratio as a decimal carried out to six places. (The sales factor may not exceed 1.0.) Enter the result on line A3f, Column C. Also enter the result on page 1, line 7. If the PTE election is made, also enter this ratio on Part 2, line 49.

For more information on the sales factor, refer to:
A.R.S. §§ 43-1145 through 43-1147
A.A.C. R15-2D-801 through R15-2D-807, and R15-2D-903
CTR 02-2, *Apportionment of Installment Sale Gain*
CTR 07-1, *Inclusion of Short Term Investments in the Sales Factor*

Line A4 - Total Ratio

Taxpayers Electing "STANDARD APPORTIONMENT"
Add the amounts in Column C of lines A1c, A2, and A3f and enter the total.

Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT," *leave this line blank.*

Line A5 - Average Apportionment Ratio

NOTE: *Taxpayers must exclude a factor if both the numerator and the denominator of a factor are zero. Do not exclude a factor if the numerator of the factor is zero and the denominator of that factor is greater than zero. See A.A.C. R15-2D-901(B).*

Taxpayers Electing "STANDARD APPORTIONMENT"
If either the property factor or the payroll factor is excluded, determine the average ratio 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.

Taxpayers Electing "STANDARD APPORTIONMENT"
Divide the total ratio, line A4, column C, by four (4). Express the ratio as a decimal carried out to six (6) places. Enter the ratio on page 1, line 7. If the PTE election is made, also enter this ratio on Part 2, line 49.

Taxpayers Electing "SALES FACTOR ONLY APPORTIONMENT", leave this line blank.

NOTE: *If line A5 is "0.000000", the S Corporation is considered to have no Arizona nexus.*

If line A5 is blank or 1.000000, the S Corporation's income is considered to be sourced entirely within Arizona.

Schedule B - Shareholder Information

Enter the requested information for each shareholder. If the S Corporation has more than 10 shareholders, include additional schedules as necessary.

Lines B1 through B10

Column (a)

If the shareholder did not opt out of the S Corporation's PTE election check, the box. Otherwise, leave blank.

NOTE - Columns (b) through (h): *If the shareholder is a grantor trust or a Single Member LLC (SMLLC) that is disregarded to an individual taxpayer* ***AND DID NOT OPT OUT*** *of the PTE election:*

- *Also enter the name of the Beneficial Owner in column (b);*
- *For columns (c) through (h), enter only the Beneficial Owner's information in the corresponding column.*

Column (b)

Enter the shareholder's name.

Columns (c) and (d)

Enter the shareholder's street address, city, state, and zip code in columns (c) and (d).

Column (e)

Enter the shareholder's Tax Identification Number (TIN) with no dashes. For an individual shareholder, enter the shareholder's social security number (SSN) or individual taxpayer identification number (ITIN). For all other shareholders, enter the shareholder's EIN. **Do not truncate the shareholder's TIN.** `

Column (f)

Enter "R" for resident individual, "N" for nonresident individual, "P" for part-year resident individual, "E" for estate or trust, and "O" for other entity (i.e. C corporation, S Corporation, etc.).

NOTE: *If the shareholder listed in column (b) is a grantor trust or an SMLLC disregarded to an individual taxpayer* ***AND DID NOT OPT OUT*** *of the PTE election, enter: "R" for resident; "N" for nonresident; or "P" for part-year-resident, based on the residency status of the beneficial owner*[10].

Column (g)

Enter the shareholder's distributive share of the income and expenses of the S Corporation. Enter the distributive share as a decimal carried out to six places after the decimal. For a shareholder with a distributive share of 1%, enter the shareholder's distributive share as .010000.

Column (h)

Enter the shareholder's *pro rata share* of the S Corporation's Total Distributive Income from page 1, line 1 of Arizona Form 120-S.

NOTE: *If the S Corporation has more than 10 partners, include additional schedules as necessary.*

Schedule C – Summary of Shareholder Information

S Corporations making the PTE election, complete Schedule C. All others, skip to Schedule E.

[10]For a disregarded entity, enter the residency status of the beneficial owner. Do NOT enter the residency status of the disregarded entity.

Schedule C summarizes the shareholder information presented in Schedule B. The information summarized here is used to complete Part 2 of this return.

Lines C1 – C5

- Enter the following information in columns (b) and (c) for lines C1 through C5, column (b) – Enter the count of shareholders described in column (a).
- Column (c) – Enter the total ownership percentage for the shareholders described in column (a).

NOTE:

- *If the shareholder is a grantor trust or an SMLLC that is disregarded to an individual* ***that did not opt out of the PTE election****, include those shareholders and their ownership shares in the totals for lines C1 through C3, columns (b) and (c).*
- *Enter the total of the shareholders' distributive shares in column (c) as a decimal carried out to six decimal places. For example, for a distributive share of 20%, enter the partners' distributive share as .200000. A total distributive share of 100% would be 1.000000.*

Line C6

Add the amounts in columns (b) and (c) of lines C1 through C5 and enter the totals in the respective columns. Column (b) is the total count of shareholders that did not opt out of the PTE election. Column (c) is the total ownership percentage of the S Corporation by those same shareholders.

Line C7

Enter the total number of shareholders that opted out of the PTE election or are excluded from making the PTE election in column (b). Enter the total ownership percentage for those same shareholders in column (c). Also enter this percentage in column (c) in Part 2, line 44.

Line C8

Add lines C6 and C7 in columns (b) and (c). Enter the totals in the respective columns (b) and (c). Column (b) is the total number of shareholders in the S Corporation. Column (c) should total 1.000000.

Schedule D – Schedule of Tax Payments Applied to S Corporation Tax Liability

S Corporations subject to tax at the federal level or making the PTE election, complete Schedule D. All others, skip to Schedule E.

Complete this schedule to report any S Corporation estimated tax payments (resulting from income subject to tax at the federal and/or PTE income from the S Corporation's PTE election) and any extension payments made which the taxpayer is applying to this return. Include additional sheets if necessary.

For lines D1 through D6, enter:

- In column (a) the date the extension or estimated tax payment was made.
- In column (b), the amount of the extension payment;
- In column (c), the amount of the corporate estimated tax payment[11];
- In column (d), the amount of the PTE estimated tax payment[12].

Line D7

- Enter the total extension payments made in column (b);
- Enter the total corporate estimated tax payments made in column (c);
- Enter the total PTE estimated tax payments made in column (d).

Also:

- Enter the total amount of "Extension Payments" from line D7, column (b) on page 1, line 21.
- Enter the total amount of "Estimated Payments" from line D7 column (c) and line D7 column (d) on page 1, line 22.

DO NOT include the claim of right credit computed under A.R.S. § 43-1130.01 on this schedule.

NOTE: *The total extension payments and estimated payments reported on this schedule must equal the amounts reported on page 1, lines 21 and 22, respectively.*

Schedule E - Other Information

Answer all questions as accurately and completely as possible.

Question E3: List the name, title and telephone number of the individual who Department of Revenue employees may contact to:

- Schedule an audit of this return;
- Ask questions related to the processing of this return; or,
- Provide the status of any refund, or tax due, that may result from the processing of this return.

This does not authorize the individual named to:

- Enter into any agreements on the taxpayer's behalf;
- Bind the taxpayer in any way; or,
- Make any changes to the taxpayer's account, such as an address change.

Confidential information may be disclosed to a principal officer, any person designated by a principal officer, any person designated in a resolution by the corporate board of directors or other similar governing body, or to an individual designated as an authorized representative in a valid power of attorney. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary. Refer to the department's ruling, GTR 02-1, *What is a controlled subsidiary for purposes of Arizona Revised Statutes § 42-2003,* for additional information on the definition of a controlled subsidiary. IF THIS INDIVIDUAL IS NOT

[11] Include any refunds from the prior tax year that were applied to this year's corporate tax liability.

[12] Include any refunds from the prior tax year that were applied to this year's PTE tax liability.

A PRINCIPAL OFFICER, OR IS NOT DESIGNATED AS AN AUTHORIZED REPRESENTATIVE IN A VALID POWER OF ATTORNEY, THE TAXPAYER UNDERSTANDS AND AGREES THAT CONFIDENTIAL INFORMATION MAY BE DISCLOSED TO THIS INDIVIDUAL.

Certification

One or more of the following officers (president, treasurer, or any other principal corporate officer) 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).

Paid preparers must provide a Tax Identification Number (TIN). Paid preparers that fail to include their TIN may be subject to a penalty.

The TIN for a paid preparer may be one of the following:

- The preparer's PTIN,
- The EIN for the business,
- The individual preparer's social security number (SSN), if self-employed.

Schedule K-1 - S Corporation Instructions

Complete Arizona Form 120S, Schedule K-1 for the following shareholders:

- All resident individual shareholders,
- All part-year resident individual shareholders[13],
- All resident estate shareholders, and
- All resident trust shareholders.

NOTE: *An S Corporation share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the individual grantor.*
An S Corporation share that is owned by a single-member LLC that is disregarded for federal income tax purposes is treated as owned by the member.

Complete Arizona Form 120S, Schedule K-1(NR) for all other shareholders.

Indicate whether this is an original or an amended schedule. Type or print the required information in the name, address, and information boxes on the top of the Arizona Form 120S Schedule K-1. Indicate whether the S Corporation'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.

[13] For shareholders who are part-year residents of Arizona, complete Schedule K-1 (as needed) to report that shareholder's distribution for the time he/she lived in Arizona. Also complete Schedule K-1(NR) to report that shareholder's distribution for the time he/she did NOT live in Arizona.

S Corporations not making the PTE Election or that have resident or part-year resident shareholders who are not participating in the PTE Election[14]:
Do not complete Arizona Form 120S, Schedule K-1 for those resident shareholders or part-year resident shareholders who are not participating in the S Corporation's PTE election, ***unless****:*

- *The S Corporation has a capital gain (loss) for the taxable year;*
- *The S Corporation has Disallowed Federal Expenses (DFE) from the operation of a for-profit Marijuana Establishment, Marijuana Testing Facility, or operated as a Dual Use Licensee for the taxable year; and,*
- *The resident or part-year resident shareholder did not opt out of the S Corporation's PTE election for the taxable year.*

S Corporations making the PTE Election whose shareholders are participating in the PTE Election[15]:
Complete Arizona Form 120S Schedule K-1 for all resident individual shareholders, part-year resident individual shareholders, and all resident estate and trust shareholders who did not opt out of the PTE Election.

For all part-year resident individual shareholders who did not opt out of the S Corporation's PTE Election*, complete Form 120S, Schedule K-1* ***AND*** *Form 120S, Schedule K-1(NR) for each part-year individual shareholder.*

- *Complete Form 120S, Schedule K-1 to report that shareholder's apportioned share of the S Corporation's income, PTE tax credit and PTE tax paid while the shareholder was a resident of Arizona.*
- *Complete Form 120S, Schedule K-1(NR) to report that shareholder's apportioned share of the S corporation's income, PTE tax credit and PTE tax paid while the shareholder was NOT a resident of Arizona.*

For all nonresident shareholders, complete Arizona Form 120S, Schedule K-1(NR).

Truncating the shareholder's TIN on Schedule K-1.

The S Corporation may truncate a shareholder's identifying number on the Schedule K-1 it sends to the shareholder. Truncation is not permitted on Schedule B of Arizona Form 120S. The S Corporation cannot truncate its own TIN on any form. To truncate, where permitted, follow the guidelines established by the IRS.

Pass-Through Entity Election

Line A

If the S Corporation made the PTE election check "Yes". Otherwise, check "No".

Line B

If the S Corporation made the PTE election, did this shareholder consent to that election (not opt out of the election)? If the shareholder did not opt out of the election, check "Yes". If this shareholder opted out of the PTE election, check "No".

NOTE: *If the shareholder is not eligible to make the PTE election, check "No" on line B.*

Line C

If the answer to the question on Line B is "Yes", check the "Yes" box, and enter the name and TIN of the beneficial owner in the spaces provided.

Otherwise check "No".

Part 1 - Net Capital Gain (Loss) from Investment in a Qualified Small Business – Information Schedule

Arizona allows individuals, estates, and shareholders a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business if:

- The gain is included in:
  - The individual taxpayer's federal adjusted gross income, or,
  - The estate or trust's federal taxable income, and
- The business in which the S Corporation invested is determined to be a qualified small business by the Arizona Commerce Authority.

An S Corporation shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction, or,
- Complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 2 to provide information to:

- The resident and part-year resident shareholder to calculate the subtraction for net capital gain from investment in a qualified small business.
- The resident estate or trust shareholder to:
  - Calculate the subtraction for net capital gain from investment in a qualified small business, or,
  - Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 1, line 1 and Part 3, line 4, if the shareholder's federal Form 1120S, Schedule K-1 includes any net capital gain (loss) from investment in a qualified small business. If Part 1, line 1 is zero, enter "0" on Part 3, line 4.

Do NOT complete Arizona Form 120S Schedule K-1, Part 1, line 1 and Part 3, line 4, if the shareholder's federal Form 1120S, Schedule K-1 does not include any net capital gain (loss) from investment in a qualified small business.

Part 2 - Net Capital Gain (Loss) From the Exchange of Legal Tender – Information Schedule

For taxable years beginning from and after December 31, 2017, Arizona allows an exclusion for any net capital gain included in

[14] Shareholders not participating in the PTE Election include those shareholders who are not individuals or estate or trust shareholders, and those individuals, estates or trusts who opted out of the S Corporation's PTE Election.

[15] Shareholders who are participating in the PTE Election include those shareholders who are individual, estates or trusts who did NOT opt out of the S Corporation's PTE Election.

Arizona gross income that is derived from the exchange of one kind of legal tender for another kind of legal tender.

An S Corporation shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction, or,
- Complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 2 to provide information to:

- The resident and part-year resident shareholder to calculate the exclusion for any net capital gain (loss) derived from the exchange of one kind of legal tender for another kind of legal tender.
- The resident estate or trust shareholder to:
  - Calculate the exclusion for net capital gain (loss) derived from the exchange of one kind of legal tender for another kind of legal tender, or,
  - Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 2, line 2 and Part 3, line 5, if the shareholder's federal Form 1120S, Schedule K-1 includes any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender. If Part 2, line 2 is zero, enter "0" on Part 3, line 5.

Do NOT complete Arizona Form 120S Schedule K-1, Part 2, line 2 and Part 3, line 5, if the shareholder's federal Form 1120S, Schedule K-1 does not include any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender.

Part 3 - Net Long-Term Capital Gain (Loss) Subtraction – Information Schedule

Arizona allows individuals, estates, and trusts a subtraction from Arizona gross income for a percentage of any net long-term capital gain if:

- The asset was acquired after December 31, 2011.
- The gain is included in:
  - The individual's federal adjusted gross income, or,
  - The estate or trust's federal taxable income.

In addition:

- Only include net long-term gains if the S Corporation can verify the asset was acquired after December 31, 2011.
- If the S Corporation cannot verify the asset was acquired after December 31, 2011, treat it as a capital gain asset acquired before January 1, 2012.

An S Corporation shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction, or,
- Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary.

Complete Arizona Form 120S Schedule K-1, Part 5 to provide information to:

- The resident and part-year resident shareholder to calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.
- The resident estate or trust shareholder to:
  - Calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011, or,
  - Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary so the beneficiary can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

Complete Part 3, lines 3 through 5 (if applicable) of Arizona Form 120S Schedule K-1, as instructed on the form.

Do NOT complete Part 3, lines 3 through 5 if the shareholder's federal Form 1120S, Schedule K-1 does not include any capital gain (loss).

A worksheet is provided at the end of these instructions to assist in determining the amount(s) to include on each shareholder's Arizona Form 120S Schedule K-1, Part 3, line 3.

Part 4 – Marijuana Establishments Only Information Schedule

Line 6. Disallowed Federal Expenses

- If the S Corporation is licensed by ADHS as a Marijuana Establishment or a Marijuana Testing Facility, enter the amount of disallowed federal expenses from *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments.*
- If the S Corporation is licensed by ADHS as a ***Dual Licensee that has made the election to operate on a for-profit basis***, enter the amount of disallowed federal expenses from *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments.*
- If the S Corporation is licensed by ADHS as a ***Dual Licensee that has not made the election to operate on a for-profit basis***, **leave blank**.
- If the S Corporation is registered by ADHS as an ***NMMD***, ***leave blank***.

Line 7 – Shareholder's portion of the disallowed federal expenses

Multiply the amount on line 6 by the shareholder's ownership percentage indicated on page 1. Enter the result. This is the shareholder's percentage of the Disallowed Federal Expenses.

Part 5 – Shareholder's Portion of the S Corporation's Pass-Through Entity Election

For taxable years beginning from and after December 31, 2021, Arizona allows S Corporations to elect to become a Pass-Through Entity (PTE) and pay tax at the entity level on its pass-through income. Complete Part 5 if the S Corporation is making the election to pay tax at the entity level on its pass-through income.

Complete lines 8 through 12 for all resident and part-year resident shareholders that did not opt out of the S Corporation's election to pay tax at the entity level.

Complete line 9 and line 11 for any resident and part-year resident shareholder that opted out of the S Corporation's PTE election for 2025 but did not opt out of the S Corporation's PTE election for a prior year.

Line 8

Enter the shareholder's pro-rata share of the PTE tax credit.

Line 9

Enter the shareholder's pro-rata share of the Arizona PTE taxes paid in 2025 for taxable years prior to 2025.

Line 10

Enter the shareholder's pro-rata share of the Arizona PTE taxes paid in 2025 for taxable year 2025.

Line 11

Enter the shareholder's pro-rata share of comparable PTE taxes from other states paid in 2025 for taxable years prior to 2025.

Line 12

Enter the shareholder's pro rata share of comparable PTE taxes from other states paid in 2025 for taxable year 2025.

NOTE for lines 9 and 11: *If the S Corporation made the PTE election for taxable year 2024 or prior and the shareholder did not opt out of the PTE election, any amounts of PTE tax paid in 2025 for taxable year 2024 or prior MUST be added back to the calculation of the shareholder's Arizona taxable income for 2025, regardless of the PTE election for 2025.*

Submitting Arizona Form 120S, Schedule K-1

Complete three copies of Arizona Form 120S, Schedule K-1 for each shareholder. File one copy of each shareholder's Arizona Form 120S, Schedule K-1 with the S Corporation's Arizona Form 120S. Provide all shareholders with a copy of their Arizona Form 120S, Schedule K-1. Keep a copy for the S Corporation's records.

Schedule K-1(NR) - S Corporation Instructions

Complete Arizona Form 120S, Schedule K-1(NR) for the following shareholders:

- All nonresident individual shareholders,
- All part-year resident individual shareholders[16] ,
- All nonresident estate shareholders,
- All nonresident trust shareholders, and
- All exempt organization shareholders.

NOTE: *An S Corporation share that is owned by a grantor trust that is disregarded for federal income tax purposes is treated as owned by the individual grantor.*
An S Corporation share that is owned by a single-member LLC that is disregarded for federal income tax purposes is treated as owned by the member.

Complete Arizona Form 120S, Schedule K-1 for all other shareholders.

Indicate whether this is an original or an amended schedule. Type or print the required information in the name, address, and information boxes on the top of the Arizona Form 120S Schedule K-1(NR). Indicate whether the S Corporation'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.

[16] For part-year resident individual shareholders, complete Schedule K-1(NR) to report that shareholder's distribution for the time the shareholder did NOT live in Arizona, AND complete Schedule K-1 (as needed) to report that shareholder's distribution for the time the shareholder lived in Arizona.

S Corporations that did not make the PTE Election OR that made the PTE Election but that have resident shareholders or part-year resident shareholders who are not participating in that PTE Election[17]: *Complete Arizona Form 120S Schedule K-1(NR) for all nonresident individual shareholders and all nonresident estate and trust shareholders not participating in the PTE Election. Complete Arizona Form 120S, Schedule K-1 as necessary for all other shareholders not participating in the PTE Election.*

S Corporations making the PTE Election whose shareholders are participating in the PTE Election: *Complete Arizona Form 120S Schedule K-1(NR) for all nonresident individual shareholders, all nonresident estate and trust shareholders who did not opt out of the PTE Election.*

***For all part-year resident individual shareholders who did not opt out of the S Corporation's PTE Election**, complete Form 120S, Schedule K-1 **AND** Form 120S, Schedule K-1(NR) for each part-year individual shareholder.*

- *Complete Form 120S, Schedule K-1 to report that shareholder's apportioned share of the S Corporation's income, PTE tax credit and PTE tax paid while the shareholder was a resident of Arizona.*
- *Complete Form 120S, Schedule K-1(NR) to report that shareholders apportioned share of the S corporation's income, PTE tax credit and PTE tax paid while the shareholder was NOT a resident of Arizona.*

Truncating the shareholder's TIN on Schedule K-1(NR).

The S Corporation may truncate a shareholder's identifying number on the Schedule K-1(NR) it sends to the shareholder. Truncation is not permitted on Schedule B of Arizona Form 120S. The S Corporation cannot truncate its own TIN on any form. To truncate, where permitted, follow the guidelines established by the IRS.

Pass-Through Entity Election

Line A

If the S Corporation made the PTE election check "Yes". Otherwise, check "No".

Line B

If the S Corporation made the PTE election, did this shareholder consent to that election (not opt out of the election)? If the shareholder did not opt out of the election, check "Yes". If this shareholder opted out of the PTE election, check "No".

NOTE: *If the shareholder is not eligible to make the PTE election, check "No" on line B.*

Line C

If the answer to the question on Line B is "Yes", check the "Yes" box, and enter the name and TIN of the beneficial owner in the spaces provided.

Otherwise check "No".

[17] Shareholders not participating in the PTE Election include those shareholders who are not individuals, estate or trust shareholders, and those individuals, estates or trusts who opted out of the S Corporation's PTE Election.

Part 1 - Share of Income and Deductions

Column (a) - Distributive Share Amount

Wholly Arizona S Corporations - in column (a), enter the distributive share amount for each line item from the federal Form 1120S, Schedule K-1.

Multistate S Corporations - in column (a), enter the nonresident shareholder's distributive share of the multistate S Corporation's income (loss) that is subject to apportionment from the federal Form 1120S, Schedule K-1.

Column (b) - Arizona Apportionment Ratio

Wholly Arizona S Corporations - enter 100%.

Multistate S Corporations - enter the average ratio amount from Arizona Form 120S Schedule A, line A5, column C, or Schedule ACA, line 3. (Refer to Schedule A or Schedule ACA instructions.)

Column (c) - Arizona Source Income

Wholly Arizona S Corporations - Enter the amount from column (a) in column (c).

Multistate S Corporations - include a schedule that details (for each line item) the following computation:

Step 1 The shareholder's distributive share of the S Corporation's income subject to apportionment multiplied by the average ratio in column (b).

Step 2 The shareholder's distributive share of the S Corporation's income (loss) which is specifically allocable to Arizona.

Step 3 The total of the amounts computed in steps 1 and 2 that is to be entered in column (c).

NOTE: *Do not include the amount of any nonbusiness income allocable to another state in the total entered in column (c).*

All S Corporations - Column (c) is the shareholder's Arizona source income from the S Corporation. Shareholders should refer to the instructions for Arizona Form 120S, Schedule K-1(NR), for information on completing their Arizona tax returns

Part 2 - Net Capital Gain (Loss) From Investment in a Qualified Small Business – Information Schedule

Arizona allows individuals, estates, and trusts, a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business if:

- The gain is included in:
  - The individual's federal adjusted gross income; or
  - The estate or trust's federal taxable income, and
- The business in which the S Corporation invested is determined to be a qualified small business by the Arizona Commerce Authority.

A shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction for the estate or trust; or
- Complete Arizona Form 141AZ Schedule K-1, or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S, Schedule K-1(NR), Part 2, line 14, and Part 4, line 17 if the shareholder's federal Form 1120S, Schedule K-1 includes any net capital gain (loss) from investment in a qualified small business. If Part 2, line 14 is zero, enter "0" on Part 4, line 17.

Do NOT complete Arizona Form 120S, Schedule K-1(NR), Part 2, line 14 or Part 4, line 17 if the shareholder's federal Form 1120S, Schedule K-1 does not include any net capital gain (loss) from investment in a qualified small business.

Part 3 - Net Capital Gain (Loss) From the Exchange of Legal Tender – Information Schedule

For taxable years beginning from and after December 31, 2017, Arizona allows an exclusion for any net capital gain included in Arizona gross income that is derived from the exchange of one kind of legal tender for another kind of legal tender.

An S Corporation shareholder that is a pass-through entity (estate or trust) will need this information to:

- Calculate its subtraction; or,
- Complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S, Schedule K-1(NR), Part 3, line 15, and Part 4, line 18 if the shareholder's federal Form 1120s, Schedule K-1 includes any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender. If Part 5, line 15, is zero, enter "0" on Part 4, line 18.

Do NOT complete Arizona Form 120S Schedule K-1(NR), Part 3, line 15 or Part 4, line 18 if the shareholder's federal Form 1120S, Schedule K-1 does not include any net capital gain (loss) from the exchange of one kind of legal tender for another kind of legal tender.

Part 4 - Net Long-Term Capital Gain Subtraction – Information Schedule

Arizona allows individuals, estates, and trusts, a subtraction from Arizona gross income for a percentage of any net long-term capital gain if:

- The gain arises from assets acquired after December 31, 2011, and
- The gain is included in:
  - The individual's federal adjusted gross income, or
  - The estate or trust's federal taxable income.

In addition:

- Only include net long-term gains if you can verify the asset was acquired after December 31, 2011.
- If you cannot verify the asset was acquired after December 31, 2011, treat it as a capital gain asset acquired before January 1, 2012.
- A shareholder that is a pass-through entity (estate or trust) will need this information to:
  - Calculate its subtraction, or,
  - Complete Arizona Form 141AZ Schedule K-1, or Schedule K-1(NR), for each beneficiary.

Complete Arizona Form 120S Schedule K-1(NR) to provide information to:

- The nonresident shareholder to calculate the subtraction for net long-term capital gain from assets acquired after December 31, 2011;

- The nonresident estate or trust shareholder to:
  - Calculate the subtraction for net long-term capital gain from assets acquired after December 31, 2011, or,
  - Complete Arizona Form 141AZ Schedule K-1 or Schedule K-1(NR) for each beneficiary so each can calculate its subtraction for net long-term capital gain for assets acquired after December 31, 2011.

A worksheet is provided at the end of these instructions to assist in determining the amount(s) to include on each shareholder's Arizona Form 120S Schedule K-1(NR), Part 4, lines 16 through 18.

Part 5 – Marijuana Establishments Only Information Schedule

Line 19. Disallowed Federal Expenses

- If the S Corporation is licensed by ADHS as a Marijuana Establishment or a Marijuana Testing Facility, enter the amount of disallowed federal expenses from *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments.*
- If the S Corporation is licensed by ADHS as a ***Dual Licensee that has made the election to operate on a for-profit basis***, enter the amount of disallowed federal expenses from the *Arizona Schedule DFE, Disallowed Federal Expenses for Marijuana Establishments.*
- If the S Corporation is licensed by ADHS as a ***Dual Licensee that has not made the election to operate on a for-profit basis***, **leave blank**.
- If the S Corporation is registered by ADHS as an ***NMMD***, ***leave blank***.

Line 20

Multiply the amount on line 19 by the shareholder's ownership percentage indicated on page 1. Enter the result. This is the shareholder's percentage of the Disallowed Federal Expenses.

Part 6 – Shareholder's Share of the S Corporation's Pass-Through Entity Tax Credit

For taxable years beginning from and after December 31, 2021, Arizona allows S Corporations to elect to become a Pass-Through Entity (PTE) and pay tax at the entity level on its pass-through income. Complete Part 6 if the S Corporation is making the election to pay tax at the entity level on its pass-through income.

Complete lines 21 through 25 for all nonresident individual or estate or trust shareholders that did not opt out of the S Corporation's election to pay tax at the entity level.

Complete line 22 and line 24 for any nonresident estate or trust shareholders that opted out of the S Corporation's PTE election for 2025 but did not opt out of the PTE election for a prior year.

Line 21

Enter the shareholder's pro-rata share of the PTE tax credit.

Line 22

Enter the shareholder's pro-rata share of the Arizona PTE taxes paid in 2025 for taxable years prior to 2025.

Line 23

Enter the shareholder's pro-rata share of the Arizona PTE taxes paid in 2025 for taxable year 2025.

Line 24

Enter the shareholder's pro-rata share of comparable PTE taxes from other states paid in 2025 for taxable years prior to 2025.

Line 25

Enter the shareholder's pro rata share of comparable PTE taxes from other states paid in 2025 for taxable year 2025.

NOTE for lines 22 and 24: *If the S Corporation made the PTE election for taxable year 2024 or prior and the shareholder did not opt out of the PTE election, any amounts of PTE tax paid in 2025 for taxable year 2024 or prior MUST be added back to the calculation of the shareholder's Arizona taxable income for 2025, regardless of the PTE election for 2025.*

Submitting Arizona Form 120S, Schedule K-1(NR)

Complete three copies of Arizona Form 120S, Schedule K-1(NR) for each shareholder. File one copy of each shareholder's Arizona Form 120S, Schedule K-1(NR), with the S Corporation's Arizona Form 120S. Provide all shareholders with a copy of their Arizona Form 120S, Schedule K-1(NR). Retain a copy for the S Corporation's records.

Shareholder Reporting Requirements for 2025

Exempt Organization Shareholders

Exempt organization shareholders must file Arizona Form 99T to report the income (loss) from the S Corporation. This income (loss) is included in the organization's unrelated business taxable income from the federal Form 990-T.

Nonresident or Part-Year Nonresident Individual Shareholders

Nonresident or part-year individual shareholders are taxable on their entire distributive share of income from the S Corporation. The distributive share of income reported on the federal return will flow through to Arizona Form 140 or Arizona Form 140PY.

Resident Individual Shareholders

Resident individual shareholders of S Corporations operating in Arizona are subject to Arizona income tax on their distributive share of the income (loss) earned by the S Corporation in Arizona. Refer to Arizona Form 120S Schedule K-1(NR). Nonresident shareholders must file Arizona Form 140NR to report this income (loss).

Composite return: The Arizona Department of Revenue will accept a composite return filed by the S Corporation on Arizona Form 140NR for nonresident individual shareholders so long as the return includes ten or more participating members ***and those members opted out of the S Corporation's PTE election.***

NOTE: *An S Corporation making the PTE election cannot file a composite return on behalf of its nonresident shareholders that did not opt out of the S Corporation's PTE election.*

Refer to the department's ruling ITR 16-2, for more information regarding filing a composite return on Arizona Form 140NR.

Estate and Trust Shareholders

Shareholders that are estates or trusts are taxable on their entire distributive share of income from the S Corporation. Nonresident trust or estate distributive share income will flow through to Arizona Form 141AZ. Nonresident estate or trust

distributive share income should be reported on Schedule A of Arizona Form 141AZ.

The instructions for the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011,* are after the worksheet below.

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

☐ Original return ☐ Amended return

Net long-term capital gain (loss) as reported on federal Schedule D (or other form/schedule) and 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 on the following page.			(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 Arizona Form 165 Schedule K-1 or Arizona Form 165 Schedule K-1(NR).	4			
5	Any other long-term capital gain (loss)	5			
6	**Net long-term capital gain (loss).** Add lines 1 through 5 in each column and enter the total(s). For each shareholder, enter the distributive share of the amounts from line 6 on Arizona Form 120S Schedule K-1 or Schedule K-1(NR).	6			

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

Worksheet Instructions

Purpose of the Worksheet

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.

NOTE: *If you cannot verify that the capital gain is from the sale of an asset acquired after December 31, 2011, then the capital gain should be treated as a capital gain asset acquired before January 1, 2012.*

An asset acquired by gift or inheritance is considered acquired on the date it was acquired by the gift-giver or the deceased individual.

Who Should Complete the Worksheet?

The S Corporation uses this worksheet to calculate each shareholder's distributive share of the net long-term capital gain (loss) included in Schedule K of federal Form 1120S for assets purchased after December 31, 2011.

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

- The S Corporation does not have any capital gain (loss) to report for the current tax year; or
- The S Corporation does not have any net capital gain (loss) from asset(s) acquired after December 31, 2011 to report for the current tax year.

Keep the completed worksheet for the S Corporation's records.

Columns (a) through (c)

- Column (a) is the total amount of net long-term capital gain (loss) reported on 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 S Corporation's federal Schedule D and included on Schedule K of federal Form 1120S.

Line 6 - Net Long-Term Capital Gain (Loss)

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

For each shareholder, enter the amounts of the distributive share from line 6 of the worksheet to Part 2 of Arizona Form 120S Schedule K-1 or on Part 4 of Arizona Form 120S Schedule K-1(NR).