

**All corporate partners must use this schedule.**

For the  calendar year 2014 or  fiscal year beginning MM,DD,2014 and ending MM,DD,20YY.

**CHECK ONE:**  Original  Amended

Partner's Identifying Number	Partnership's Employer Identification Number (EIN)
Partner's Name	Partnership's Name
Partner's Address – number and street or rural route	Partnership's Address – number and street or rural route
Partner's City, Town or Post Office State ZIP Code	Partnership's City, Town or Post Office State ZIP Code

Partner's Percentage of:	Before Change or Termination	End of Year
Profit sharing .....	%	%
Loss sharing .....	%	%
Ownership of capital .....	%	%
Type of partner (individual, trust, etc.) .....		

<b>Part I: Distributive Share Items From Federal Form 1065, Schedule K-1</b>	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers: Enter the amount in column (c) on:
1 Ordinary income (loss) from trade or business activities.....				
2 Net income (loss) from rental real estate activities...				
3 Net income (loss) from other rental activities .....				
4 Total: Add lines 1, 2, and 3 .....				Line 21
5 Interest.....				Line 16
6 Dividends.....				Line 17
7 Royalties.....				Line 21
8 Net short-term capital gain (loss).....				Line 20
9 Net long-term capital gain (loss).....				Line 20
10 Guaranteed payments to partner.....				
11 Net IRC Section 1231 gain (loss) .....				Line 20
12 Deferred amount of discharge of indebtedness income included in federal income in the current year under IRC Section 108(i) .....				Line 21
13 Other income (loss): include schedule .....				Line 22
14 IRC Section 179 expense.....				Line 21
15 Deferred amount of original issue discount deduction included in federal income in the current year under IRC Section 108(i) .....				Line 21
16 Other deductions: include schedule .....				

<b>Part II: Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis</b>	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income	Form 140NR Filers: Enter the amount in column (c) on:
17 Adjustment of partnership income from federal to Arizona basis from Form 165, page 1, line 6.....				Line 29 or 46

NOTE: Corporate partners see Form 120 or Form 120A instructions for information on reporting the amount from line 17.

Name of Partnership (as shown on page 1)	Employer Identification Number
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**Part III Net Capital Gain From Investment in a Qualified Small Business – Information Schedule**

If the partner's federal Schedule K-1 (Form 1065) does not include any net capital gain or loss from investment in a qualified small business, the partnership is not required to complete Part III.

Pro Rata Share Items	(a) Distributive Share Amount	(b) Arizona Apportionment Ratio	(c) Arizona Source Income
<b>18</b> Net capital gain (loss) from investment in a qualified small business..... <b>18</b>			

**Part IV Net Long-Term Capital Gain Subtraction – Information Schedule**

If the partner's federal Schedule K-1 (Form 1065) includes capital gain (loss), complete line 19 and line 20. If the partner's federal Schedule K-1 (Form 1065) does not include any capital gain (loss), the partnership is not required to complete Part IV.

Item From Federal Form 1065, Schedule K-1	(a) Distributive Share Amount	(b) Arizona Source Income	(c) Net <u>long-term</u> capital gain (loss) included in column (b) from assets acquired before January 1, 2012	(d) Net <u>long-term</u> capital gain (loss) included in column (b) from assets acquired after December 31, 2011
	From page 1, line 9, column (a).	From page 1, line 9, column (c).		
<b>19</b> Total net long-term capital gain (loss)..... <b>19</b>				

**ADDITIONAL INFORMATION:**

<b>20</b> Net long-term capital gain (loss) from investment in a qualified small business (amount already included in line 19, column d)..... <b>20</b>				
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# 2014 Nonresident and Out-of-State Partner's Share of Adjustment to Partnership Income

# Arizona Form 165 Schedule K-1(NR)

## Instructions for Partners

### Part I: Distributive Share Items from Federal Form 1065, Schedule K-1

Column (c) is your Arizona source income. Nonresident individuals should report the amounts in column (c) on Form 140NR line numbers indicated on Form 165, Schedule K-1(NR). Nonresident trusts or nonresident estates should add lines 4 through 13, column (c), and enter the total on Form 141AZ, page 2, Schedule A.

However, if Form 165, Schedule K-1(NR) shows a loss, you may only claim such losses on your Arizona nonresident return to the extent that such losses are included in your federal adjusted gross income (individuals) or federal taxable income (trust and estates). Therefore, if the loss is considered to be a passive activity loss for federal purposes, the loss will likewise be considered to be a passive activity loss for Arizona purposes.

If you have a passive activity loss from a partnership that was derived from Arizona sources, you would not necessarily begin the Arizona return with the amounts shown in column (c) of Form 165, Schedule K-1(NR). For Arizona purposes, you must first determine if any portion of the loss shown on Form 165, Schedule K-1(NR) has been limited on your federal return because of the federal passive activity loss rules.

The amount of passive activity loss which is derived from Arizona sources is the amount of the passive activity loss which will be allowed on the Arizona return. Therefore, any portion of the passive activity loss which is not allowed on the federal return due to the passive activity loss limitations will likewise be limited on the Arizona return. That portion of the passive activity loss derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

**NOTE:** The amount of Internal Revenue Code § 179 expense deductible is limited to the Arizona portion of the amount deducted on federal Form 1040, Schedule E.

### Part II: Partner's Distributive Share of the Adjustment of Partnership Income from Federal to Arizona Basis

#### Line 17

##### Individuals and fiduciaries:

Line 17 reflects the amount of partnership income which must be adjusted to determine the difference between Internal Revenue Code § 702(a)(8) and A.R.S. § 43-1401(2). If the amount on line 17 is a positive number, individual partners should enter this amount as an "other addition to income" on Form 140NR, line 29. Fiduciaries should enter a positive amount on line 17 as an "other addition" on Form 141AZ, page 2, line B3. If the amount on line 17 is a negative number, individual partners should enter this amount as an "other subtraction from income" on Form 140NR, line 46.

Fiduciaries should enter a negative amount on line 17 as an "other subtraction" on Form 141AZ, page 2, line B9.

##### Corporate partners:

Corporate partners should report the amount on line 17 of Form 165, Schedule K-1(NR) according to the instructions for Form 120 or Form 120A.

### Part III: Net Capital Gain from Investment in a Qualified Small Business – Information Schedule

For taxable years beginning from and after December 31, 2013, Arizona allows a subtraction from Arizona gross income for any net capital gain derived from investment in a qualified small business and included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate and trust. A qualified small business is determined by the Arizona Commerce Authority pursuant to A.R.S. §41-1518. Although the subtraction is only available to individuals, estates and trusts, a partner that is a pass-through entity (estate, partnership, S corporation or trust) will need this information to calculate the subtraction for the estate or trust or complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary; or Arizona Form 120S, Schedule K-1 or Schedule K-1(NR), for each shareholder; or Arizona Form 165, Schedule K-1 or Schedule K-1(NR), for each partner.

#### Line 18 -

The amount on line 18, column (c), is your distributive share of net capital gain (loss) from investment in a qualified small business that is apportioned to Arizona. To determine if you qualify to take this subtraction from your Arizona tax return, see the instructions for Form 140NR or Form 141AZ.

### Part IV: Net Long-Term Capital Gain Subtraction – Information Schedule

Arizona allows a subtraction from Arizona gross income for a percentage of any net long-term capital gain from assets acquired **after** December 31, 2011, and included in the individual taxpayer's federal adjusted gross income or the federal taxable income of the estate or trust. Although the subtraction is only available to individuals, estates and trusts, a partner that is a pass-through entity (estate, partnership, S corporation or trust) will need this information to calculate the subtraction for the estate or trust or complete the Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary; or Arizona Form 120S, Schedule K-1 or Schedule K-1(NR), for each shareholder; or Arizona Form 165, Schedule K-1 or Schedule K-1(NR), for each partner.

#### Line 19 -

Line 19, column (d) is your distributive share of net long-term capital gain (loss) from assets acquired after December 31, 2011 that is apportioned to Arizona.

#### Line 20 -

Line 19, column (d), may include amount(s) for any net long-term capital gain (loss) from investment in qualified small

business. If you take the allowable subtraction on your Arizona income tax return for any net long-term capital gain from assets acquired after December 31, 2011, you cannot include the amount on line 20, column (d), for net long-term capital gain from investment in qualified small business in that allowable subtraction. For more information see the instructions for Form 140PY or 141AZ.

**Individual partner:**

To determine if you qualify to take a subtraction from income on your Arizona personal income tax return, the individual partner must complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*. The worksheet is included in the instructions for the nonresident income tax return (Arizona Form 140NR).

*Nonresidents* use only the amount of Arizona-sourced, net long-term capital gain (loss) entered on line 19 and line 20, column (d) to figure the allowable subtraction on the worksheet that is included with Arizona Form 140NR.

**Fiduciary partner:**

If the net long-term capital gain (loss) in Part IV is taxed at the estate or trust level, use the information to complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*, included in the instructions of Arizona Form 141AZ for the estate or trust.

If the net long-term capital gain (loss) in Part IV is distributed to the beneficiaries, use the information to complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011*, included in the instructions of Arizona Form 141AZ. The worksheet will assist the estate or trust in completing the *Net Long-Term Capital Gain Subtraction – Information Schedule* on Arizona Form 141AZ, Schedule K-1 or Schedule K-1(NR), for each beneficiary.

**Partnership or S corporation partner:**

The information in Part IV should be used to complete the *Worksheet for Net Long-Term Capital Gain Subtraction for Assets Acquired After December 31, 2011* that is included in the instructions of Arizona Form 165 or Arizona Form 120S. The worksheet will assist the partnership or S corporation in completing the *Net Long-Term Capital Gain Subtraction – Information Schedule* on Arizona Form 165, Schedule K-1 or Schedule K-1(NR), for each partner; or Arizona Form 120S, Schedule K-1 or Schedule K-1(NR), for each shareholder.

**C corporation or exempt organization partner:**

A subtraction is not allowed for a C corporation or an exempt organization. The information in Part IV is informational only and is not required to be reported by the C corporation or exempt organization.