

Income/Franchise:

Arizona DOR Posts Updated FAQ Guidance on Pass-through Entity-Level Taxation

Publication 713: The Arizona Pass-Through Entity Election, Ariz. Dept. of Rev. (rev. 4/25/24). The Arizona Department of Revenue (Department) posted updated implementation guidance on Arizona's elective entity-level tax for certain pass-through entities [see H.B. 2838 (2021) and previously issued Multistate Tax Alert for more details on this tax as originally enacted, as well as S.B. 1579 (2022) and *State Tax Matters*, Issue 2022-21, and H.B. 2871 (2022) and *State Tax Matters*, Issue 2022-27, for some subsequently enacted changes to this tax], including some answers to frequently asked questions (FAQs). One of the updates provides that "unlike most states," Arizona's pass-through entity tax ("PTE tax") credit is not refundable, and in addition, "Arizona does not have a statutory credit ordering rule other than the credit for taxes paid, which is calculated last out of necessity to calculate the amount of tax actually paid." As such, the guidance states that if an Arizona PTE tax credit "wipes out" the Arizona income tax liability, the credit for taxes paid to another state cannot be claimed because there is no Arizona income tax liability. In this resulting "double-taxed" scenario, the Department explains that until a "legislative fix" provides a remedy, it may not be beneficial to have a partnership in this situation make Arizona's PTE tax election. Please contact us with any questions.

[URL: https://azdor.gov/sites/default/files/2023-03/PUBLICATION_713.pdf](https://azdor.gov/sites/default/files/2023-03/PUBLICATION_713.pdf)

[URL: https://apps.azleg.gov/BillStatus/BillOverview/76039?SessionId=123](https://apps.azleg.gov/BillStatus/BillOverview/76039?SessionId=123)

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— Scott Schiefelbein (Portland)
Managing Director
Deloitte Tax LLP
sschiefelbein@deloitte.com

Cindy James (Phoenix)
Specialist Leader
Deloitte Tax LLP
cyjames@deloitte.com

Jimmy Westling (Phoenix)
Senior Manager
Deloitte Tax LLP
jawestling@deloitte.com

Robert Waldow (Minneapolis)
Principal
Deloitte Tax LLP
rwaldow@deloitte.com

Olivia Schulte (Washington, DC)
Manager
Deloitte Tax LLP
oschulte@deloitte.com

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