

# The Arizona Pass-Through Entity Election

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For taxable years beginning from and after December 31, 2021, the partners or shareholders of a business that is treated as a partnership or S Corporation at the federal level may consent to have its flow-through (or pass-through) income taxed at the entity level in Arizona. The Arizona Pass-Through Entity (PTE) income tax is assessed at a rate of 2.98%<sup>1</sup> of the income attributable to the partnership's or S Corporation's resident partners or shareholders, and the income derived from sources within Arizona attributable to the nonresident partners or shareholders.

## Making the Pass-Through Entity Election

The PTE election must be made by the partnership or S Corporation by the due date or extended due date for filing its Arizona income tax return, Arizona Form 165 or Arizona Form 120S. The due date for both forms (Arizona Form 165 and Arizona Form 120S) is the 15th day of the 3rd month following the close of the taxable year. If the partnership or S Corporation has a valid federal or Arizona extension, the return is due by the extended due date (6 months from the original due date of the return).

*NOTE: If the PTE election is not made on a timely-filed original return (Arizona Form 165 for a partnership or Arizona Form 120S for an S Corporation), including extensions, the PTE election will be denied and all related tax payments made will be refunded to the partnership or S Corporation.*

A partnership or S Corporation that intends to make the PTE election must notify all partners or shareholders who are individuals, estates, or trusts of its intent to make this election. Each individual, estate, trust partner, or shareholder has the right to opt out of this election. The notice must allow each individual, estate, trust partner, or shareholder at least 60 days after receiving the notice to exercise the right to opt out of the election. If the individual, estate, or trust partner or shareholder does not respond (does not opt out of the PTE election), that individual, estate, or trust partner or shareholder will be included in the election [eligible partner(s) or eligible shareholder(s)].

Partners or shareholders that are not individuals, estates, or trusts and those individuals, estate, trust partners, or shareholders that opted out of the PTE election, may not

<sup>1</sup> For taxable year 2022, the PTE tax rate is 2.98%. For taxable year 2023, the PTE tax rate will be 2.5%.

participate in this election [ineligible partner(s) or ineligible shareholder(s)].

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

## PTE Estimated Tax Payments

Partnerships and S Corporations making the PTE election whose taxable income for the preceding tax year exceeds \$150,000 must make four estimated income tax payments. Estimated tax payments are due April 15, June 15, and September 15 of the current taxable year. The final payment is due January 15 of the year following the close of the taxable year. (For taxable years that do not begin January 1, the due dates for estimated tax payments are the 15th day of the 4th, 6th, and 9th month of the current taxable year. The fourth and final payment is due the 15th day of the 1st month following the close of the taxable year.)

For the first two quarters of tax year 2022, the Department was unable to accept electronic funds transfer (EFT) payments from partnerships and S Corporations making the PTE election. As a result, PTE estimated tax payments were not required for those quarters.

Partnerships and S Corporations making the PTE election must begin making quarterly estimated payments in the 3rd quarter of 2022. The 3rd quarter estimated tax payment must be at least 25% of the amount of the PTE tax liability. The payment is due on or before September 15.

*NOTE: Any partnership or S Corporation that may have made a PTE estimated payments for 1st and or 2nd quarter of 2022 by mail will not be assessed the 5% penalty for failure to pay PTE estimated payments by EFT.*

## Payment by Electronic Funds Transfer

Partnerships and S Corporations anticipating a PTE tax liability for the taxable year of \$500 or more must pay their tax liability by EFT.

Partnerships with a PTE tax liability or S Corporations with

a tax liability are no longer required to register with the Department before making EFT payments. Visit [AZTaxes.gov](http://AZTaxes.gov), click “Make a Corporation/S Corporation/Partnership Payment,” and follow the prompts. Payments may be made from a checking or savings account or by credit card.

If a partnership or S Corporation is not able to pay its PTE tax liability by EFT, it may request a waiver from the Department. Complete [Form 292](#) and return it to the Department.

*NOTE: Any partnership of S Corporation that was required to make its PTE estimated payment by EFT and did not, may be subject to the 5% penalty for failure to pay by EFT.*

**For Additional Information, call:**

Phoenix..... (602) 255-3381  
Toll free from area codes 520 & 928 ..... 800-352-4090

**Write**

Arizona Department of Revenue  
Taxpayer Information & Assistance  
PO Box 29086  
Phoenix AZ 85038-9086

**Browse:**

ADOR Website .....www.azdor.gov  
Pay Online .....www.AZTaxes.gov

This publication is available in an alternative format upon request.

## FREQUENTLY ASKED QUESTIONS

### **PTE ELECTION**

#### **How do I make the PTE election?**

Businesses that are treated as partnerships or S Corporations at the federal level may make the PTE election on a timely filed, original Arizona Income Tax Return (Arizona Form 165 – partnerships; Arizona Form 120S – S Corporations), including extensions. If the partnership or S Corporation wishes to make the PTE election, it must notify its partners or shareholders who are individuals, estates, or trusts of its intent to make the election and that those partners or shareholders are individuals, estates, or trusts may opt out of the election. The partnership or S Corporation must allow its individual, estate, trust partners, and shareholders a minimum of 60 days to respond. Only those partners or shareholders who are individuals, estates, or trusts who do not opt out of the PTE election may participate.

*NOTE: If the PTE election is not made on a timely-filed original tax return, including extensions, the PTE election will be denied and all related tax payments made will be refunded to the partnership or S Corporation.*

#### **What is the first year I may make the PTE election?**

Taxable year 2022 is the first year a partnership or S Corporation may make the PTE election.

### **ELIGIBILITY**

#### **Which partners or shareholders may participate in the PTE election?**

Only partners or shareholders who are individuals, estates, or trusts who have not opted out of the partnership's or S Corporation's PTE election<sup>2</sup> are eligible to participate.

- A grantor trust that is disregarded for federal tax purposes is treated as owned by the grantor (individual taxpayer). The grantor may claim their share of the PTE tax credit.
- A partnership or S Corporation ownership share that is owned by a Single Member LLC that is disregarded to an individual for federal tax purposes may claim that individual's share of the PTE tax credit.

Partners or shareholders who are not individuals, estates, or trusts (corporations, partnerships, etc.), or who are individuals, estates, or trusts that opted out of the partnership's or S Corporation's PTE election, are not eligible to participate in the PTE election.

#### **Can a lower-tier partnership or S Corporation make**

<sup>2</sup> Unless specifically indicated, all references to "partners" or "shareholders" will be to individuals, estates or trusts who have not opted out of the partnership's or S Corporation's PTE election. These "partners" or "shareholders" may also be referred to as "eligible partners" or "eligible shareholders".

#### **the PTE election and pass the credit through to its partners or shareholders that are other partnerships or S Corporations?**

No. Only individuals, estates, or trusts that did not opt out of the PTE election may participate.

#### **Can a partnership or S Corporation file a composite return on behalf of its nonresident partners or shareholders who did not opt out of the PTE Election?**

No. Each partner or shareholder who did not opt out of the partnership's or S Corporation's PTE election must file their own Arizona income tax return to claim the PTE tax credit.

#### **How do partnerships and S Corporations pass the PTE tax credit through to their partners or shareholders?**

Partnerships and S Corporations that make the PTE election pass the PTE credit through to their partners and shareholders using Schedules K-1 (for resident partners and shareholders) and Schedules K-1(NR) (for nonresident partners and shareholders) for Arizona Forms 165 and Arizona Forms 120S.

### **HOW DO PARTNERS & SHAREHOLDERS CLAIM THE PTE CREDIT**

#### **How do partners and shareholders claim their share of the PTE credit?**

Individual partners who receive the PTE tax credit enter the credit information on Form 355, *Credit for Entity-Level Income Tax Paid on Your Behalf* and Form 301, *Nonrefundable Individual Tax Credits and Recapture for Forms 140, 140PY, 140NR, and 140X*. The credit is then claimed on the appropriate income tax form for the taxpayer (Form 140, 140PY, 140NR, or 140X).

Estate or trust partners that receive a PTE tax credit enter the credit information on Form 141AZ.

If the allowable credit exceeds the taxes otherwise due, or if there are no taxes due, the amount of the claim not used to offset taxes may be carried forward for not more than five taxable years as a credit against subsequent year's tax liability.

An individual, estate, or trust who claims this credit must also adjust their Arizona gross income by adding the amount of tax paid by the PTE for which the tax credit is claimed.

#### **Is the PTE tax credit refundable?**

No. The PTE tax credit is not refundable. The unused portion of any valid PTE tax credit may be carried forward

to the next five consecutive taxable years.

### **PTE TAX RATE**

#### **What is the PTE tax rate for 2022?**

For taxable year 2022, the PTE tax rate is 2.98%.

#### **What will the PTE tax rate be for 2023?**

The PTE tax rate for 2023 will be 2.5%.

#### **Our partnership has a fiscal year end of September 30, 2022. What tax rate do we use to compute estimated income tax payments?**

The 2023 PTE tax rate is effective for taxable years beginning after December 31, 2022. The partnership's taxable (fiscal) year begins October 1, 2022. Compute the partnership's PTE estimated income tax payments using the 2022 tax rate, 2.98%.

### **INCOME SUBJECT TO THE PTE PAYMENT CALCULATION**

#### **What income is subject to the PTE payments calculation?**

For a partnership making the PTE election, only its ordinary income and rental income (lines 1 and 2 from the federal K-1) are included in the starting point for calculating the PTE tax.

For an S Corporation making the PTE election, all its income is included in the starting point for calculating the PTE tax.

#### **How does the partnership or S Corporation allocate the PTE tax credit to its partners or shareholders?**

Please see the Addendum for an example of how a PTE entity allocates its income to its partners or shareholders.

#### **Are special allocations of the PTE tax credit permitted?**

An S Corporation may not allocate its income and loss items to its shareholders using a special allocation.

A partnership may allocate its income and loss items using a special allocation. Please see; *Example of a Partnership Using a Special Allocation* in the Addendum for an example of how a partnership using special allocation can allocate its income and pass-through PTE tax credit to its partners.

### **ESTIMATED PAYMENTS & ELECTRONIC FUNDS TRANSFER**

#### **Were 2022 estimated tax payments required to be made?**

Partnerships and S Corporations making the PTE election for taxable year 2022 were not required to make the first two estimated payments (in April and June). The September 15 estimated tax payment was required to be made.

#### **When are the estimated income tax payments due?**

Estimated tax payments are due the 15th day of the 4th, 6th, and 9th months of the current taxable year. The final payment is due the 15th day of the 1st month following the close of the taxable year.

#### **Are the partnerships and S Corporations making the PTE election required to make estimated income tax payments?**

Partnerships and S Corporations that make the PTE election whose Arizona taxable income for the prior year was \$150,000 or more are required to make estimated tax payments.

#### **Are partnerships and S Corporations making the PTE election required to pay their tax liability by Electronic Funds Transfer?**

Partnerships and S Corporations making the PTE election anticipating a tax liability of \$500 or more for the year must pay their tax liability by EFT.

#### **How does the partnership or S Corporation pay its tax liability by EFT?**

Partnerships with a PTE tax liability or S Corporations with a tax liability are no longer required to register with the Department before making EFT payments. Visit [AZTaxes.gov](http://AZTaxes.gov), click "Make a Corporation/S Corporation/Partnership Payment," and follow the prompts. Payments may be made from a checking or savings account or by credit card.

#### **What if the partnership or S Corporation is not able to pay its tax liability by EFT?**

If a partnership or S Corporation is not able to pay its PTE tax liability by EFT, it may request a waiver from the Department. Complete [Form 292](#) and return it to the Department.

#### **Is there a penalty for overpayment of PTE tax?**

No. There is no penalty for the overpayment of PTE tax.

#### **What happens if the partnership or S Corporation making the PTE election overpays its estimated PTE tax?**

For the 2022 taxable year, if a partnership making the PTE election overpays its estimated PTE tax, the amount of the overpayment will be refunded to the partnership.

If an S Corporation making the PTE election overpays its estimated PTE tax, it may elect to have all or a portion of the overpayment applied to next year's PTE tax. Any amount(s) not applied to the next year's PTE estimated tax will be refunded to the S Corporation.

**Can composite return payments be converted to PTE estimated income tax payments?**

No. Composite return payments cannot be converted to PTE estimated income tax payments.

**A partnership or S Corporation made the PTE election but has nonresident partners or shareholders who opted out of that election and wish to file a composite return. How does the partnership or S Corporation make voluntary estimated payments for those nonresident partners or shareholders who wish to file a composite return?**

A partnership or S Corporation making voluntary estimated payments for its partners or shareholders who opted out of the PTE election but wish to file a composite return must make those estimated payments using Form 140ES. Do not use Form 120/165ES to make voluntary estimated payments for composite return filers.

**PTE TAX CREDIT CARRYFORWARD**

**Can PTE tax credits be carried forward?**

PTE tax credits that are not used to offset taxes under Title 43 may be carried forward for not more than five consecutive taxable years as a credit against subsequent years' income tax liability.

**If the partnership or S Corporation has a carry forward from the 2022 PTE tax credit, can it apply the 2022 credit carryforward to its tax liability before claiming the 2023 PTE tax credit?**

Yes. The 2022 PTE tax credit carryforward can be used up before applying the 2023 PTE tax credit.

**PTE TAX CREDIT & OTHER TAX CREDITS**

**Can Arizona income tax credits offset the PTE tax due?**

No. The tax credits in Chapter 10 of Title 43 apply to individuals to claim on their own Arizona Income Tax Returns. They do not apply to the PTE tax.

**Are there credit ordering rules for the PTE credit?**

In general, Arizona does not have credit-ordering rules. The exception is the *Credit for Taxes Paid to Another State or Country* is computed after all other credits have been applied.

**Can an Arizona resident who files a nonresident return to another state claim a credit for taxes paid to that state if the PTE election was made in that state?**

Arizona allows a PTE credit for residents of Arizona who file a nonresident return to certain other states. Please refer to the instructions for Credit Form 309 or 309-SBI for further information.

**PTE TAX FORMS**

**What are the name and form number associated with the new PTE tax return?**

The Department modified existing Forms 165 and 120S to allow partnerships and S Corporations wishing to make the PTE election to claim that election and then pass the PTE tax credit to their eligible partners and shareholders. The revised forms and related instructions are available on our website.

**PENALTIES**

**Does the Information Return Penalty apply to Arizona income tax returns making the PTE election?**

- If the partnership or S Corporation is making the PTE election and a portion of its partners or shareholders opt out of the PTE election or are not eligible to participate in the election, the partnership or S Corporation may be subject to the Information Return Penalty.
- If the partnership or S Corporation makes the PTE election and all of its partners or shareholders do not opt out of the PTE election, it is not subject to the Information Return Penalty.

**What other penalties may apply to Arizona income tax returns making the PTE election?**

Partnerships and S Corporations that make the PTE election may be subject to the following penalties:

- Late Filing Penalty
- Extension Underpayment Penalty
- Late Payment Penalty
- Underpayment of Estimated Tax Penalty
- Failure to Pay by Electronic Funds Transfer

Refer to the section labeled Penalties in the instructions for Forms 165 and 120S.

**OTHER**

**How does the PTE Entity allocate the PTE tax payments made on behalf of its partners or shareholders?**

Please see the Addendum for an example of how a PTE entity allocates the PTE tax payments to its partners.

**Can estimated payments made in 2023 be claimed on the partner/shareholder's 2022 federal return?**

In general, estimated tax payments made by the pass-through entity in 2023 would be deducted on the pass-through entity's 2023 federal income tax return. In the case of fiscal year filers and accrual method taxpayers, the taxpayer should contact the IRS about the proper year of deduction. Arizona will accept the federal determination.

## ADDENDUM

### Example Allocation PTE Income, PTE Tax Credit, and PTE Tax Paid to a Partner<sup>3</sup>.

Partnership Z has 6 partners and has an Arizona taxable income of \$1,000,000.

- Z is a multi-state partnership; its Arizona apportionment ratio is 50% (0.500000).
- Z made estimated income tax payments on 9/15/2022 and 1/15/2023. On each date, Z made a payment of \$4,600.

Partner D is an Arizona resident and owns 15% of Z.

Partner E is a nonresident and owns 20% of Z.

Partner F is a part-year resident and owns 15% of Z.

One-half of Partner F's distribution was earned as a resident of Arizona; the other half was earned as a nonresident.

Partner G is a nonresident and owns 15% of Z.

Partner H is an Arizona resident and owns 20% of Z.

Partner S is a corporate partner and owns 15% of Z.

*NOTE: Partners D, E, F, G, and H are individuals.*

Z is making the PTE election. PTE sent notices to all its individual partners notifying them of the intent to make the PTE election. Only Partner H opted out of Z's PTE election. Partner S is not eligible to make the PTE election.

Z completes Schedule E of Arizona Form 165. Schedule E indicates:

- 1 resident partner (D) with a 15% ownership.
- 2 nonresident partners (E & G) with a total ownership of 35%.
- 1 part-year resident partner (F) with a 15% ownership.
- 2 partners that either opted out of the PTE election (H) or were not eligible to participate in the election (S). These partners have a 35% ownership.

### Computing the income attributable to the partners:

Compute the income attributable to each type of partner.

#### *Income attributable to resident partner (D)*

AZ income	\$ 1,000,000
* Resident partners' ownership %	15%
<b><u>Resident partners income</u></b>	<b>\$ 150,000</b>

#### *Income attributable to nonresident partners (E & G)*

AZ income	\$ 1,000,000
X Nonresident partners' ownership %	35%
<b><u>Nonresident partners income</u></b>	<b>\$ 350,000</b>

<sup>3</sup> While this ADDENDUM specifically states "Partnership" or "Partner" (that made the PTE election), these examples also apply to an S Corporation or shareholder that made the PTE election.

### *Income attributable to part-year resident partner (F)*

AZ income	\$ 1,000,000
* Part-year resident partners' ownership	15%
Part-year resident partners' income	\$ 150,000
<b><u>Income while a resident<sup>4</sup></u></b>	<b>\$ 75,000</b>
<b><u>Income while a nonresident</u></b>	<b>\$ 75,000</b>

### *Income attributable to partners not participating or not eligible to participate in the election (H & S)*

AZ income	\$ 1,000,000
* Partners ownership %	35%
<b><u>Income of partners not eligible</u></b>	<b>\$ 350,000</b>

NOTE: The total of the resident partners income, the nonresident partners income, the part-year resident partners income and the income of the partners not eligible MUST equal the amount of the partnership's Arizona taxable income.

### Computing income attributable to part-year resident partners:

To compute the income attributable to part-year resident partners, the partnership must first compute the income attributable to each part-year resident partner.

Partner F is a part-year resident partner whose ownership percentage of Z is 15%. F earned 50% of his distribution as a resident of Arizona and 50% of his distribution as a nonresident.

First, compute F's attributable income:

AZ Income	\$ 1,000,000
F's ownership percentage	15%
Income attributable to F	\$ 150,000
F's AZ residency	50%
<b><i>F's income as a resident</i></b>	<b>\$ 75,000</b>
<b><i>F's income as a nonresident</i></b>	<b>\$ 75,000</b>

NOTE: The amounts entered on lines 39A and 39B should represent the actual amounts earned by the shareholder as an Arizona resident (line 39A) and as a nonresident of Arizona (line 39B).

### Computing the PTE Tax:

Total the resident partners' PTE income.

<ul style="list-style-type: none"> <li>• Partner D, \$1,000,000 * 15%,</li> <li>• Partner F, \$1,000,000 * (15%*50%)</li> </ul>	<ul style="list-style-type: none"> <li>\$ 150,000</li> <li>\$ 75,000</li> </ul>
Resident partners' PTE income <sup>5</sup>	\$ 225,000
* PTE Tax Rate	2.98%
<b><u>Resident partners' PTE tax liability</u></b>	<b>\$ 6,705</b>

<sup>4</sup> NOTE: Partner earned one-half of their distribution as a resident of Arizona.

<sup>5</sup> Total includes part-year resident income earned while the partner was a resident of Arizona.

Total the nonresident partners' PTE income.

- Partner E, \$1,000,000 \* 20%, \$ 200,000
- Partner G, \$1,000,000 \* 15%, \$ 150,000
- Partner F, \$1,000,000 \* (15%\*50%) \$ 75,000

Nonresident partners' PTE income <sup>66</sup>	\$ 425,000
* AZ Apportionment Ratio	0.500000
Income attributable to AZ	\$ 212,500
* PTE Tax Rate	2.98%
Nonresident partners' PTE liability	\$ 6,333
<b><u>PTE Tax Liability (\$6,705 + \$6,333)</u></b>	<b><u>\$ 13,038</u></b>

### Distributing the PTE Tax Credit to the Partners

The PTE tax credit distributed to each partner is the amount of PTE tax paid by the partnership that is attributable to the partner's share of income taxable in Arizona.

### Distribution to Resident & Part-Year Resident Partners

Resident and part-year resident partners' PTE tax liability is \$6,705.

Resident partner is D, whose ownership % is 15%.  
Part-year resident partner is F, whose ownership % is 15%; one-half (7.5%) of their distribution (\$75,000) was earned as a resident of Arizona.

To compute the PTE tax credit to be distributed to each resident or part-year resident partner, divide that partner's ownership percentage by the total of all the resident partners who did not opt out of the PTE election. (NOTE: As 50% of Partner F's distribution was earned as a resident, include one-half of their ownership percentage in the total.) Then multiply the result by the partnership's PTE tax liability for the resident and part-year partners.

*Compute Partner F's Resident PTE Tax Credit:*

Compute F's Arizona distribution as a percentage of their total distribution. Multiply that amount by F's ownership percentage. Divide this ratio by the sum of all resident partners' ownership percentages. Multiply the result by the total of the resident partners' PTE tax liability.

### Calculation of Partner F's PTE Tax Credit as a Resident

$$(15\% \times 50\%) / (15\% + (15\% \times 50\%)) \times \$6,705$$

$$(7.5\% / 27.5\%) \times \$6,705 = \$2,235$$

Similar calculations for the remaining resident partner yield PTE tax credits as follows:

Partner D	\$ 4,470
Partner F	\$ 2,235
<b><u>Total Tax Liability for Resident Partners</u></b>	<b><u>\$ 6,705</u></b>

<sup>6</sup> Total includes part-year resident income earned while the partner was not a resident of Arizona.

### Distribution to Resident & Part-Year Resident Partners

Nonresident and part-year resident partners' PTE tax liability \$ 6,333.

Nonresident partners are:

- E, whose ownership % is 20%,
- G, whose ownership % is 15%, and
- F, whose ownership % is 15%, fifty percent of their distribution (\$75,000) was earned as a nonresident of Arizona.

To compute the PTE tax credit to be distributed to each nonresident partner, divide that partner's ownership percentage by the total of all the nonresident partners who did not opt out of the PTE election. (NOTE: As 50% of Partner F's distribution was earned as a nonresident, include one-half of their ownership percentage in the total.) Then multiply the result by the partnership's PTE tax liability for the nonresident partners.

### Compute Partner F's Nonresident PTE Tax Credit:

Compute F's nonresident distribution as a percentage of their total distribution. Multiply that amount by F's ownership percentage. Divide this ratio by the sum of all nonresident partners' ownership percentages. Multiply the result by the total of the nonresident partners' PTE tax liability. The result is F's portion of the PTE tax credit while they were not a resident of Arizona.

### Calculation of Partner F's PTE Tax Credit as a Nonresident

$$(15\% \times 50\%) / (20\% + 15\% + (15\% \times 50\%)) \times \$6,333$$

$$7.5\% / 42.5\% \times \$6,333 = \$1,118$$

Similar calculations for the remaining nonresident partners yield PTE tax credits as follows:

Partner E	\$ 2,980
Partner G	\$ 2,235
Partner F	\$ 1,118
<b><u>Total Tax Liability for Nonresident Partners</u></b>	<b><u>\$ 6,333</u></b>

### PTE Tax Credit for All Partners

Partner D	\$4,470
Partner E	\$2,980
Partner F	
Resident	\$2,235
Nonresident	\$1.118
Total	\$3,353
Partner G	\$2,235
<b><u>Total</u></b>	<b><u>\$13,038</u></b>

### Verify PTE Tax Credit for All Partners

Resident and Part-Year Residents	\$6,705
Nonresident and Part-Year Residents	\$6,333
<b>Total</b>	<b>\$13,038</b>

### Compute the PTE Tax Paid & Distributed to the Partners

During the year, Z made two payments of estimated tax. The first on September 15, 2022 in the amount of \$4,600. The second payment was made January 15, 2023 in the amount of \$4,600. Z paid the balance of the tax due, \$3,838 when its partnership return was filed.

Divide each partner's PTE tax credit by the total tax liability of the partnership. Multiply that result by the amount of tax paid by the partnership. The result is the PTE tax paid distribution to the partner.

Compute PTE tax paid on behalf of Partner F with the 9/15/2022 payment:

F's PTE Tax Credit (\$3,353)/Z's Total Tax Liability (\$13,038)

\* Tax Payment (\$4,600) = F's PTE Tax Paid

$$\$3,353/\$13,038 * \$4,600 = \$1,183$$

Similar calculations for the remaining partners yield PTE tax paid as follows:

Partner D	\$1,577
Partner E	\$1,051
Partner F	\$1,183
Partner G	\$ 789
<b>Total</b>	<b>\$4,600</b>

### Example of a Partnership Using a Special Allocation

The PTE Credit and PTE Taxes Paid are allocated to the partner based on their proportionate share of income that is attributable to that partner for Arizona tax purposes. For example, if the taxable income of a partner is 60% of the partnership's taxable income, that partner is entitled to 60% of the PTE Credit and 60% of the PTE taxes paid by the partnership.

NOTE: The total of all PTE credits or PTE taxes paid that is distributed to the partners cannot exceed the maximum amount of the credit or the total amount of PTE taxes paid.

**EXAMPLE:** A partnership has two partners, A & B. The partnership made the PTE election. Both partners, A & B, did not opt out of the PTE election. The partnership's Arizona taxable income for the year is \$100,000. Due to a special allocation, Partner A's distribution of the partnership income is \$120,000. Partner B's distribution is (\$20,000). The partnership's PTE tax credit for the year is \$2,980 (\$100,000 \* 2.98%).

Partner A's pass-through PTE tax credit is \$2,980.

Partner B does not receive a pass-through of the PTE tax credit.

NOTE: If a partnership uses a special allocation to distribute partnership income rather than ownership share, complete Schedules D and E of Form 165 using that special allocation method for each partner.