

Terminology in this Presentation

- **AZ Tax Credit:** A contribution made to a Arizona qualified charitable organization that offsets Arizona Income taxes owed
- **TY: Tax Year** for which a return is being prepared
 - Tax Year Credits – paid and claimed within the same tax year (Jan 1 – Dec 31)
- **CY: Current Year** in which the tax return is being prepared.
 - Current Year Credits – paid during the filing season (Jan 1-April 15), but claimed on the tax year return
- **PY: Prior Year to the Tax Year (TY)**
 - Prior Year Credits– paid during the tax year (Jan 1-April 18), but claimed on the prior year tax return
- **Carryover:** An unused AZ Tax Credit from prior 5 Year(s)

AZ Tax Credit Basics

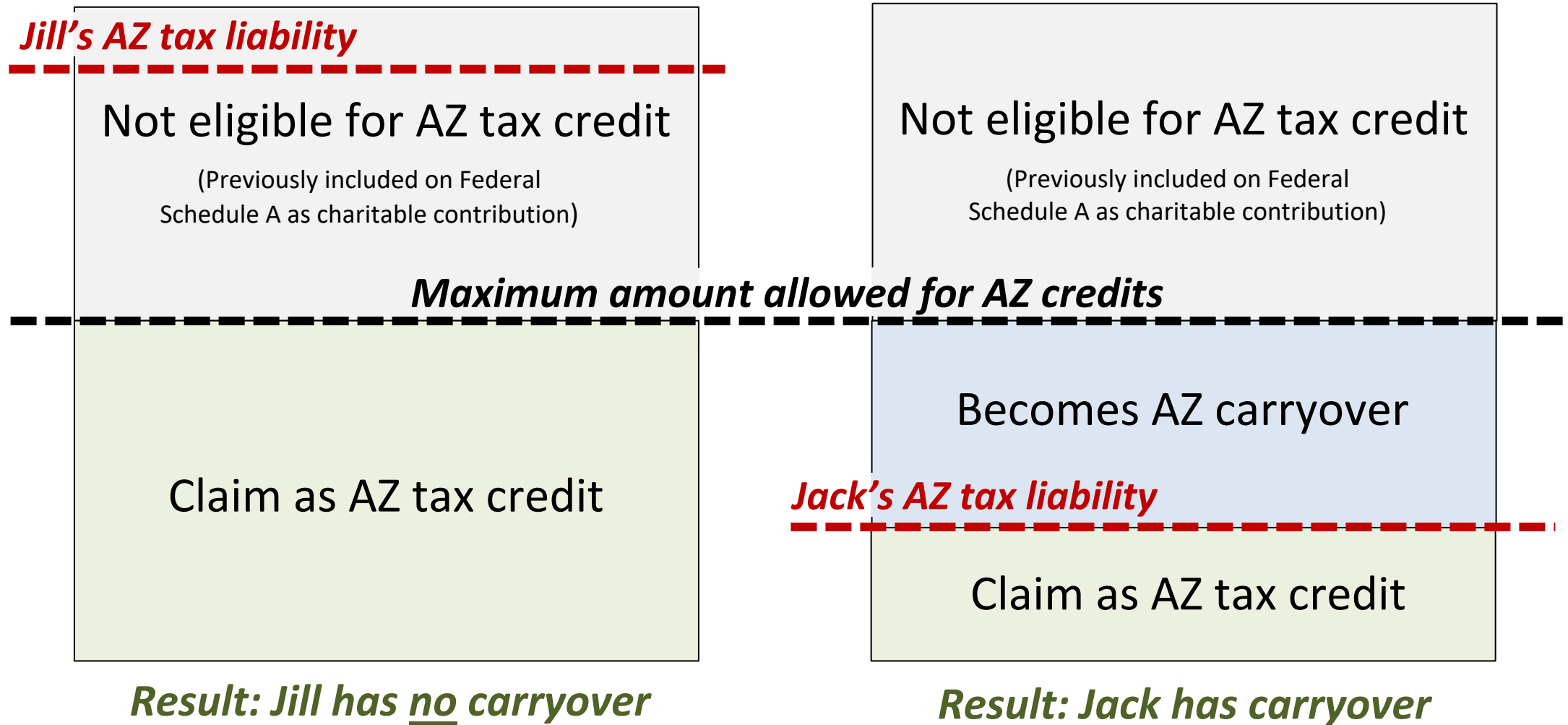
- Non-Refundable
 - Tax credit(s) used cannot exceed the state tax liability
 - Shown on Line 35 of AZ Form 301

- Approved Charities
 - Several categories of charities are approved by Arizona
 - Separate tax form is used for each category
 - Form # typically used to identify charity category
 - Charity must be approved for the year of the contribution

AZ Tax Credit Basics

- **Contribution limit for each category and filing status**
 - Contributions up to the limit for each category are available for AZ Tax Credit
 - Contributions over the established limit for each category are considered general charitable contributions
 - Contribution limits are updated and changed each tax year
- **Contributions not used as tax credits become carryovers for use in future years**
 - Carryover must be used within a maximum of five years
 - Carryover is tracked by category within TSO, but AZ treats them as one amount
 - No limit on the amount of carryover that may be used to offset taxes owed

AZ Tax Credit Carryovers: Two Scenarios



AZ Tax Credit Basics

- **Contributions used as AZ Tax Credits are considered State Taxes Paid on the federal return with exception**
 - Current year contributions (paid Jan 1 to Apr 15) may be used as AZ Tax Credits for this tax year, but will be entered as state taxes paid on the federal return being filed next year
 - Prior year contributions (paid Jan 1 to Apr 18) may have already been used as AZ Tax Credits, but will be entered as state taxes paid on this year's tax return
 - Carryovers are considered State Taxes Paid on the federal return in the year in which the carryover is used.

AZ Tax Credit Basics

- Receipts are required from the charity stating the date and amount of the contribution (AZ DOR requirement)
 - Be alert for summaries from charities that state a total for the year without contribution dates – each individual date must be known
 - Taxpayer may promise to make a current year contribution at tax preparation time
 - A NOTE must be entered in TSO referencing the promise
 - Ideally, return is not transmitted until current year contribution receipt is verified

AZ Tax Credit Categories and Limits

Form #	Form Title	Contribution Limits TY23	
		S, HoH, MFS	MFJ
321	Qualified Charitable Organization (QCO)	\$421	\$841
322	Contributions or Fees to Public Schools	\$200	\$400
323	Private School Tuition Organization (STO)	\$655	\$1,308
348	Certified School Tuition Organization	\$652	\$1,301
352	Qualified Foster Care Organization (QFCO)	\$526	\$1,051
340	Military Family Relief Fund	\$200	\$400

Do not enter more than the contribution limits (shown above) except for Form 323 & Form 348. Contributions more than the above limits are entered as Federal Schedule A Charitable Donations Refer to the Cactus Guide for more information.

321 QCO or Qualified Charitable Organizations

- Requires a charity code (5-digits)
 - [AZDOR](#)
 - AZ Tax-Aide > Tax Preparation > AZ Tax Credits
 - Codes may change each year. Always verify the code
 - Verify code is appropriate for contribution year. Charities are added and removed every year
- More than 1,200 qualifying charities in 2023

322 Contributions or Fees Paid to Public Schools - 1 of 2

- Requires a 9-digit CTDS code
 - [AZDOR](#)
 - AZ Tax-Aide > Tax Preparation > AZ Tax Credits
- 9-digit CDTs Code must be for the specific school, not the school district
- Receipt must label contribution as an AZ Tax Credit or show the purpose of the contribution

322 Contributions or Fees Paid to Public Schools – 2 of 2

- Only applicable to Public & Charter schools, K – 12
- Allowable contributions include:
 - Extracurricular activities, i.e., band, sports, event trips
 - Standardized testing fees or courses for such tests
 - CPR training
 - Playground equipment, shade structures, school meals programs, health care supplies or capital items

323 Private School Tuition Organizations

348 Certified School Tuition Organizations

- Verify the organization is on the approved list. There is no code
 - [AZDOR](#)
 - AZ Tax-Aide > Tax Preparation > AZ Tax Credits
- Verify the contribution date is within the range on the list. If it is outside the date range, it does not qualify as an AZ Tax Credit.
- If the contribution exceeds the Form 323 limit, enter the total contribution amount on BOTH Form 323 and Form 348, (not to exceed the combined total of the two credits)
- Contributions made to a specific private school do not qualify

352 QFCO or Qualified Foster Care Organizations

- Requires a charity code, 5-digit
 - AZDOR
 - AZ Tax-Aide > Tax Preparation > AZ Tax Credits
 - Codes may change from year to year. Always verify code
 - Verify code is appropriate for contribution year.
Charities are added and removed every year
- Much shorter list than Form 321

340 Military Family Relief Fund

- Requires a letter specifically stating a contribution applies
- There is no carryover allowed for 340 contributions
- All contributions are limited to the Tax Year.
- Taxpayers cannot use January to April contributions for a prior tax year.

TaxSlayer Entries for AZ Tax Credits

- Entry processes are different depending....
 - Standard Deduction for both Federal and Arizona
 - Itemized deductions for either Federal or Arizona

TaxSlayer input of AZ Tax Credit with **Standard Deduction Tax Return**

- Federal general charitable contributions and contributions in excess of the AZ Tax Credit limits are entered for the calculation of the 31% increase in the AZ standard deduction
- State taxes paid do not affect the federal standard deduction
- Contributions that qualify as AZ Tax Credits (for any year) are not entered as Federal itemized charitable deductions
 - Carryover must be entered on correct AZ Form 3XX
- Current year contribution (Jan 1 to April 15) may be used as AZ Tax Credit in either Tax Year or current year

TaxSlayer input of AZ Tax Credit with **Standard Deduction Tax Return**

- Prepare the federal return
 - Enter all income and adjustments
 - Enter cash and goods contributed as charitable deductions
 - Any CASH which is not reported as an AZ Tax Credit
 - And any CASH which is more than the AZ Tax Credit maximum limit (per Form)
 - Non-CASH contributions cannot be used for an AZ Tax Credit

- Prepare AZ return
 - Fill out appropriate AZ Tax Credit forms as applicable for the taxpayer contributions
 - Enter ALL carryover information from previous years (NOTES), which have not expired
 - Verify dates of contributions and required codes, especially those in the Current Year

TaxSlayer input of AZ Tax Credit with **Standard Deduction Tax Return**

- Determine contributions used to offset AZ tax liability
 - Compare Form 301 line 35 (tax liability) to line 27 (tax credits available)
 - If line 35 is larger than line 27 (tax liability is greater than the tax credits) then
 - All tax credits were used to offset taxes owed
 - Taxpayer may make additional contributions to get a larger refund
 - Additional contributions promised require a Note to verify next year
 - If line 35 is less than or equal to line 27 (tax liability is less than or equal to the tax credits) then there may be a carryover
 - Counselor will guide the taxpayer to help determine which tax credits to apply to offset the tax liability and which amounts to carryover

TaxSlayer input of AZ Tax Credit with **Standard Deduction Tax Return**

- Excess AZ Tax Credits for Tax Year
 - Taxpayer can carryover an unused Tax Credit to use in future years (up to 5 years)
 - Enter a NOTE for the tax year(s) for each Form showing the original amount contributed and the amount used
 - TaxSlayer does not track or retain any carryover AZ Tax Credit information
 - Preparer must enter a NOTE to document the Form, Tax Year, Original amount and amount used

TaxSlayer input of AZ Tax Credit with **Standard Deduction Tax Return**

- Finish TaxSlayer State Entries
 - TaxSlayer deducts the tax year credits, excluding carryovers and Current Year contributions, from federal charitable contributions before calculating the 31% standard deduction increase.
 - Counselor enters the sum of all Tax Year AZ State Credits, including prior year contributions to the:
 - > AZ Return > Standard Deduction >
 - > “Additional Eligible Cash Charitable Contributions NOT claimed on the Federal Schedule A” entry box in TaxSlayer.

TaxSlayer input of AZ Tax Credit with **Standard Deduction Tax Return**

- Finish TaxSlayer State Entries
 - Counselor enters the tax year contributions, including prior year contributions (paid Jan 1- April 18, 2023, but used TY22) to the:
>AZ Return > Standard Deduction >
> *“Additional Charitable Contributions claimed as a credit from a prior tax year”* entry box in TaxSlayer
 - Shortcut – if the prior year tax contributions are not entered in the first AZ Return> Standard Deduction box, they will not need to be entered in the second box on that same page
 - -- (taxes will be correct, but TSO worksheets are not always correct)

TaxSlayer input of AZ Tax Credit with **Standard Deduction Tax Return**

- Key Considerations
 - Prepare federal and state tax returns including the appropriate AZ Tax Credit forms
 - Determine the total of AZ Tax Credits used to offset the state tax liability
 - If there is carryover, add NOTES indicating Form number, Tax Year, Original Amount and Amount used
 - Enter the sum of AZ Tax Credits used to the appropriate box(es) of the Arizona Return > Standard Deduction page

Streamlined TaxSlayer inputs - **Standard Deduction**

- **Federal Schedule A > Taxes Paid:**
 - Tax Year, Prior Year and Carryovers used
 - No Current Year
- **Arizona return > Standard Deductions:**
 - First box = Tax Year and Prior Year
 - No Current Year or Carryovers
 - Second box = Prior Year
 - No Tax Year, Current Year, or Carryovers

TaxSlayer input of AZ Tax Credit with **Itemized Deduction Tax Return**

- Prepare federal return
 - Enter all income and adjustments
 - Enter cash and goods contributed as charitable deductions
 - Any CASH which is not reported as an AZ Tax Credit
 - And any cash which is more than the AZ Tax Credit maximum limit (per Form)
 - Non-CASH contributions cannot be used for an AZ Tax Credit
- Prepare state return
 - Fill out appropriate AZ Tax Credit forms as applicable for the taxpayer contributions
 - Enter carryover information, if applicable, from previous years tax returns or NOTES
 - Verify dates of contributions and required codes, especially those in the Current Year

TaxSlayer input of AZ Tax Credit with **Itemized Deduction Tax Return**

- Determine contributions used to offset AZ tax liability
 - Compare Form 301 line 35 (tax liability) to line 27 (tax credits available)
 - If line 35 is larger than line 27 (tax liability is greater than the tax credits) then
 - All tax credits were used to offset taxes owed
 - Taxpayer may make additional contributions to get a larger refund
 - Additional contributions promised require a Note to verify next year
 - If line 35 is less than or equal to line 27 (tax liability is less than or equal to the tax credits) then there may be a carryover
 - Counselor will guide the taxpayer to help determine which tax credits to use to offset the tax liability and which amounts to carryover

TaxSlayer input of AZ Tax Credit with **Itemized Deduction Tax Return**

- **Qualifying AZ Tax Credits not used within the Tax Year**
 - Taxpayer can carryover unused Tax Credits to use in future years
 - Enter a NOTE for the tax year(s) for each Form showing the original amount contributed and the amount used
 - TaxSlayer does not track or retain any carryover AZ Tax Credit information
 - Preparer must enter a NOTE to document the Form, Tax Year, Original amount and Amount used

TaxSlayer input of AZ Tax Credit with **Itemized Deduction Tax Return**

- Finish up TaxSlayer Federal Return
 - Enter the sum of AZ Tax Credits used for the Tax Year to the:
>Federal Return>Itemized Deductions>Taxes You Paid>
>*“Additional State and Local Income Tax”* TSO entry box.
 - Include TY and PY contributions and carryover amounts used
 - Do not include any current year contribution

TaxSlayer input of AZ Tax Credit with **Itemized Deduction Tax Return**

- Finish up TaxSlayer State Return (1 of 2)
 - TaxSlayer assumes that AZ Tax Credits are included in federal itemized charitable contributions. We entered AZ Tax Credits used as state taxes paid, instead of charitable contributions.
 - Counselor enters a **negative** number equal to the sum of all AZ Tax Credits paid in the tax year to:
 - >AZ Return > Itemized Deductions >
 - >*“Amount of Charitable Contributions that were claimed as Arizona credit(s)”*
 - Do not include carryover amounts or any Current Year contributions
 - Do include Tax Year and Prior Year (Jan1 – April 15, 2022) contributions

TaxSlayer input of AZ Tax Credit with **Itemized Deduction Tax Return**

- Finish up TaxSlayer State Return (2 of 2)
 - Counselor enters the same sum of AZ Tax Year credits which was added to the federal itemized deductions for *“Additional State and Local Income Tax”* to the:
AZ Return> Itemized Deductions >
>*“Amount of State and Local Taxes Claimed on Federal Schedule A, before limitation, that were claimed as Arizona Credit(s)”*
TaxSlayer entry box.
 - This entry eliminates “double dipping” for state tax deductions

TaxSlayer input of AZ Tax Credit with **Itemized Deduction Tax Return**

- Key Considerations
 - Prepare federal and state tax returns including the appropriate AZ Tax Credit forms
 - Enter appropriate sum of AZ Tax Credits used as state taxes paid on the federal return
 - Enter appropriate sum of AZ Tax Credits paid in the tax year as a negative number to the first AZ itemized deductions box
 - Enter the same amount to the second AZ itemized deductions box as was entered on the federal return as **“Additional State and Local Income Taxes Paid”**
 - Determine the total of AZ Tax Credits used to the state tax liability
 - If there are carryover AZ Tax Credits; ask taxpayer if they want to carryover the credit or use the excess amount as charitable contribution this year
 - Add NOTES for each carryover tax credit form; include year, original and used amount

Streamlined TaxSlayer inputs - Itemized Deduction

- **Federal Schedule A, Taxes Paid:**
 - Tax Year, Prior Year and Carryovers
 - No Current Year
- **Arizona return, Itemized Deductions:**
 - First box = Tax Year and Prior Year
 - No Carryover or Current Year
 - Second box = Tax Year, Prior Year and Carryover
 - No Current Year

Summary

- AZ Tax Credits are always considered state taxes paid on the federal return
- Counselors need to make entries to compensate for TaxSlayer calculations for both standard and itemized deduction situations
- Returns with AZ Tax Credits which include carryovers, and current or prior year contributions need to be verified by experienced Quality Review Counselor(s)
- Counselors should create AZ return PDF during preparation to verify results of entries are accurate
- NOTES must be used to document available carryover credits

QUESTIONS?

