

ARIZONA LONG TERM CAPITAL GAIN EXCLUSION - 2024

Arizona Statute

The taxpayer may subtract 25% (.25) of any net long-term capital gain included in the federal adjusted gross income derived from an investment in an asset acquired after December 31, 2011. This credit is shown on AZ Form 140, page 1, line 24.

No adjustment is necessary if the Net Capital Gain for assets acquired after 12/31/2011 is a net loss.

Arizona Form 140 Line by Line

Line 20: Total Net Capital Gain or (Loss): TaxSlayer updates from Federal entries.

Line 21: Total Net Short-Term Capital Gain or (Loss): TaxSlayer updates from Federal entries.

Line 22: Total Net Long-Term Capital Gain or (Loss): TaxSlayer calculates automatically

Line 23: Net Long-Term Capital Gain from assets acquired after 12/31/2011: Tax-Aide Counselor is required to make an entry in TaxSlayer if applicable.

Line 24: Net Long-Term Capital Gain subtraction from income for assets acquired after 12/31/2011: TaxSlayer will calculate the 25% subtraction from income.

Line 25: Net capital gain derived from investment in qualified small business. – **Out of Scope**

Calculate Net Long-Term Capital Gain from Assets acquired after 12/31/2011.

To determine the Net Long Term Capital Gain from assets acquired after 12/31/2011 (line 23), the Tax-Aide Counselor must review the Long-Term **detail transactions** on the taxpayers 1099-B (broker statement) and calculate the net **Gain**. Only include transactions where the acquisition date is verified from the brokers' statement.

Do not include Short Term transactions nor dividend distributions nor assets purchased before January 1, 2012. For assets acquired by Gift or Inheritance, the acquisition date is the date the asset was acquired by the original owner.

Do NOT include Mutual Fund transactions because the acquisition date when the Fund acquired the asset cannot be verified.

TSO input

From the State Return screen, select EDIT



At the Arizona Return screen, select SUBTRACTIONS FROM INCOME. **CACTUS GUIDE-page 15**

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Arizona Return

Basic Information

BEGIN

Additions to Income

BEGIN

Subtractions from Income

BEGIN

At the bottom of the screen, click BEGIN on “Net Long-term capital gain from assets acquired after December 31, 2011”. **CACTUS GUIDE-page 16**

Net Long-term capital gain from assets acquired after December 31, 2011.

BEGIN

Enter the Net Long Term Capital Gain calculated from the paragraph above into the Form 8949 Box. **CACTUS GUIDE-page 17**

Form 8949 - Net long-term capital gains or (losses) from assets acquired after December 31, 2011.

TSO Example

The Taxpayer’s only transaction was the sale of stock on January 5, 2024, which was acquired on January 12, 2022. 1099-B reported:

Long-Term Transactions

General Electric 200 shares Sold: 1/5/2024 Purchased: 1/12/2022
Sale: \$20,166 Buy: \$18,316

The entire amount qualifies for the Arizona 25% Long-Term Capital Gain exclusion because:

1. The asset was held for more than 1 year, so it was a Long-Term gain.
2. The asset was acquired after 12/31/2011.
3. The net gain was \$1,850.

After TaxSlayer (Subtractions from Income) is updated as shown in TSO Input section, the Arizona tax return will show the 25% reduction on AZ Form 140, Line 24.

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12	Federal adjusted gross income (from your federal return)	12	59786	00
13	Small Business Income: 13S <input type="checkbox"/> check the box if you are filing Arizona Form 140-SBI and enter the amount from Form 140-SBI, line 10..	13		00
14	Modified federal adjusted gross income. Subtract line 13 from line 12.	14	59786	00
15	Non-Arizona municipal interest.....	15		00
16	Partnership Income adjustment. See instructions	16		00
17	Total federal depreciation	17		00
18	Other Additions to Income: Complete <i>Other Additions to Arizona Gross Income</i> schedule on page 5.....	18		00
19	Subtotal: Add lines 14 through 18 and enter the total	19	59786	00
20	Total net capital gain or (loss). See instructions	20	1850	00
21	Total net short-term capital gain or (loss). See instructions	21		00
22	Total net long-term capital gain or (loss). See instructions	22	1850	00
23	Net long-term capital gain from assets acquired <i>after</i> December 31, 2011. See instructions. 23	23	1850	00
24	Multiply line 23 by 25% (.25) and enter the result	24	463	00

CAUTION: It is possible for the taxpayer to qualify for the subtraction on line 24 of the Arizona return even though they have an overall net long-term capital loss on the Federal return.

Simple example:

Taxpayer has two long-term entries on 1099-B:

Item	Purchased	Sold	Sale	Purchase	Gain/(Loss)
100 shares XYZ Co.	12/1/2010	12/2/2023	\$35,000	\$50,000	(\$15,000)
50 shares ABC Co.	11/5/2013	12/2/2023	<u>\$15,000</u>	<u>\$10,000</u>	<u>\$5,000</u>
		Totals	\$50,000	\$60,000	(\$10,000)

The taxpayer’s Federal Schedule D will show a net long-term loss of <\$10,000>. The maximum loss of <\$3,000> is included in the AGI and a \$7,000 long-term capital loss carryover is available for future tax years.

AZ Form 140 shows the <\$3,000> on both lines 20 and 22, reflecting the portion of the \$10,000 loss that’s included in the Federal AGI. But since the ABC Company purchase date was the ONLY qualifying transaction (after 12/31/2011), we would enter their net long-term capital gain of \$5,000 as a subtraction from Arizona income using the TSO Input process outlined above.

In addition to 1099-B transactions, Arizona allows other Long-Term gains to also qualify for the 25% reduction, but most are **Out of Scope** for AARP Tax Aide, including:

- Investment in qualified small business
- Sale of Property held for Business Purposes
- Undistributed Long-Term gains
- Installment Sales gains
- Casualty & Theft gains
- Gains from Section 1256 contracts
- Like Kind Exchanges resulting in a gain