

Obtain additional information or assistance by calling one of the numbers listed below:

Phoenix (602) 255-3381  
From area codes 520 and 928, toll-free (800) 352-4090

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's website at [www.azdor.gov](http://www.azdor.gov).

## General Instructions

Arizona Revised Statutes (A.R.S.) § 43-1183 provides a nonrefundable corporate income tax credit for contributions made to a school tuition organization that provides scholarships or grants to qualified schools. The school tuition organization must be certified pursuant to Chapter 15 of Title 43 at the time of donation.

Contributions designated as being for the direct benefit of any specific student will not qualify for the credit. This credit is in lieu of any deduction taken under Internal Revenue Code § 170 for state tax purposes.

The tax credit is equal to the amount the department has preapproved, if the taxpayer has made that amount of contribution to the school tuition organization within twenty days of when the school tuition organization notified the taxpayer of the preapproval.

The tax credit is available only to corporate taxpayers. A partnership may pass this credit through only to its corporate partners, each of which may claim a pro rata share of the credit based on ownership interest. An S corporation may claim this credit against income Arizona is taxing at the corporate level, or the S corporation may elect to pass this credit through to only its exempt organization shareholders, each of which may claim a pro rata share of the credit based on ownership interest.

The credit is available to an exempt organization that is subject to corporate income tax on unrelated business taxable income (UBTI). The credit must result from the activities that generate UBTI.

Co-owners of a business, including corporate partners of a partnership or exempt organization shareholders of an S corporation, may each claim only the pro rata share of the credit allowed based on the ownership interest. The pro rata share that would be distributed to non-eligible partners or shareholders is lost. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

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

The amount of total credits the Arizona Department of Revenue may allow cannot exceed \$10 million in the first fiscal year. This amount will increase by 20% in each

following fiscal year. The state's fiscal year begins on July 1, and ends on June 30 of the following year.

A taxpayer shall not claim a credit for this credit and the credit provided under A.R.S. § 43-1184, claimed on Arizona Form 341, with respect to the same contribution.

## CREDIT PREAPPROVAL PROCEDURE

*Before claiming the credit, obtain a copy of the school tuition organization's preapproved application. Include a copy of the preapproved application with Form 335. Failure to do so could result in a disallowance of this credit.*

The department will preapprove the credits on a first-come, first-served basis. The preapproval process works as follows:

- Before making the contribution, the taxpayer notifies the school tuition organization of the intended amount.
- The school tuition organization requests preapproval from the Arizona Department of Revenue.
- The Arizona Department of Revenue preapproves or denies the request within twenty days after it has received the request, and notifies the school tuition organization.
- If the request is preapproved, the school tuition organization notifies the taxpayer immediately.
- The taxpayer must make the contribution within twenty days of receiving notice from the school tuition organization.

## QUALIFIED SCHOOL TUITION ORGANIZATION REQUIREMENTS

The school tuition organization receiving contributions under this program must be certified pursuant to Chapter 15 of Title 43 at the time of donation.

For 2014, each educational scholarship or tuition grant is limited to \$5,000 for kindergarten through eighth grade students, and to \$6,300 for students in grades nine through twelve. Each limitation will each increase by \$100 in each subsequent program year.

## Specific Instructions

Complete the name and employer identification number section at the top of the form. Indicate the period covered by the taxable year. Include the completed form with the tax return.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). The TIN for a corporation, an exempt organization with UBTI, an S corporation, or a partnership is the taxpayer's employer identification number. Taxpayers that fail to include their TIN may be subject to a penalty.

## Part 1 - Current Taxable Year's Credit Calculation

List each school tuition organization's name, address, credit approval number, and approved contribution amount. If you made contributions to more than ten organizations, complete and include additional schedules.

Add the amount of contributions made to all school tuition organizations listed on lines 1 through 10, and any additional schedule(s). Enter the total on line 11.

**Part 2 - Corporate Partner's Share of Credit**

Partnerships must complete Form 335, Part 1. The partnership must complete Part 2, lines 12 through 14, separately for each corporate partner.

Each corporate partner is entitled to only a pro rata share of the credit based on the corporate partner's ownership interest in the partnership. The total of the credit allowed to all corporate partners may not exceed the amount that would have been allowed for a sole owner.

The partnership must furnish each corporate partner with a copy of all of the following documents:

- 1) Pages 1 and 2 of Form 335;
- 2) Supplementary schedules to Part 1, if applicable; and
- 3) A copy of the school tuition organization's preapproved application(s).

Each corporate partner would then complete Part 3, if applicable, and Part 4 of Form 335.

**NOTE:** *An S corporation that elects to pass the credit through to its exempt organization shareholders should complete Part 2 separately for each exempt organization shareholder and include a statement with Form 335, signed by a signatory to Arizona Form 120S, that states: The S corporation has made an irrevocable election for the taxable year ending (MM/DD/YYYY) to pass the credit for corporate contributions to school tuition organizations as shown on Form 335, Part 1, line 11, column (c) through to its exempt organization shareholders. Each exempt organization shareholder would then complete Part 3, if applicable, and Part 4 of Form 335.*

**Part 3 - Available Credit Carryover**

Use Part 3 to figure your total available credit carryover from prior taxable years. Complete lines 15 through 20, columns (a) through (d), if you claimed the credit on a prior year's return and the credit exceeded your tax liability.

Enter the taxable year(s) from which you are carrying over the credit in column (a) on lines 15 through 19. In column (b), enter the credit originally computed for that taxable year. In column (c), enter the amount of the credit from that taxable year which you have already used. Subtract the amount in column (c) from the amount in column (b) and enter the difference in column (d). Add the amounts entered on lines 15 through 19 in column (d). Enter the total on line 20, column (d). This is the total credit carryover available for the current taxable year.

**Part 4 - Total Available Credit**

**Line 21 -**

Enter the current year's credit.

*Corporations, exempt organizations with UBTI, and S corporations* - enter the amount from Part 1, line 11, column (c).

*Corporate partners of a partnership and exempt organizations that are shareholders of an S corporation* - enter the amount from Part 2, line 14.

**Line 22 -**

Enter the available credit carryover from prior years from Part 3, line 20, column (d).

**Line 23 -**

Add line 21 and line 22 and enter the total on line 23, and on Form 300, Part 1, line 14, column (c).