

# ARIZONA DEPARTMENT OF REVENUE

1600 WEST MONROE - PHOENIX, ARIZONA 85007-2650

JANE DEE HULL  
GOVERNOR



MARK W. KILLIAN  
DIRECTOR

June 20, 2000

Gary L. Lodmell  
Lodmell & Lodmell, P.C.  
3202 N. 16<sup>th</sup> Street  
Phoenix, AZ 85016-7014

Dear Mr. Lodmell:

This letter is in response to your letter of April 27, 2000, in which you requested information on the proper reporting by an Arizona partnership, with only nonresident partners, that invests in assets, none of which are located in Arizona.

If the investing activity occurs in Arizona on a regular basis, the partnership is considered to be doing business in the state. (See ITR 94-9) However, if the investing activity takes place in California and the partnership does not conduct any business within the state and does not have Arizona source income, the partnership would not have Arizona income and would not be required to file an Arizona partnership return.

This is an information letter and not a private taxpayer ruling. The advice it contains is solely dependent upon the adequacy and accuracy of the information provided. Therefore, inadequate or inaccurate taxpayer information could result in the imposition of additional tax, interest, and penalties. Conversely, if the taxpayer information is correct but the department later determines that this advice was erroneous, any penalties directly attributable to following this advice will be abated.

If you have any questions, you may call me at (602) 542-4672, extension 8804.

Sincerely,

A handwritten signature in black ink, appearing to read "George Courtney".

George Courtney  
Tax Analyst  
Tax Research & Analysis Section

Enclosure: ITR 94-9

T:2let\lodmell

**OTHER LOCATIONS:** Tucson Government Mall – 400 W. CONGRESS - TUCSON  
East Valley – 3191 N. WASHINGTON STREET - CHANDLER  
North Valley – 2902 W. AGUA FRIA FREEWAY - PHOENIX

► See separate instructions.

Partner's identifying number ►

Partner's name, address, and ZIP code

Partnership's identifying number ► :

Partnership's name, address, and ZIP code

A This partner is a  general partner  limited partner  
 limited liability company member

B What type of entity is this partner? ►

C Is this partner a  domestic or a  foreign partner?

D Enter partner's percentage of:  
(i) Before change      (ii) End of  
or termination      year

Profit sharing . . . . . % . . . . %

Loss sharing . . . . . % . . . . %

Ownership of capital . . . . . % . . . . %

E IRS Center where partnership filed return:

F Partner's share of liabilities (see instructions):

Nonrecourse . . . . . \$ . . . . .

Qualified nonrecourse financing . . . . . \$ . . . . .

Other . . . . . \$ . . . . .

G Tax shelter registration number ►

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2)

I Check applicable boxes: (1)  Final K-1 (2)  Amended K-1

J Analysis of partner's capital account:

**Sample**

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
			( )	( )

(a) Distributive share item

(b) Amount

(c) 1040 filers enter the amount in column (b) on:

1 Ordinary income (loss) from trade or business activities . . . . .	1	See page 6 of Partner's Instructions for Schedule K-1 (Form 1065).
2 Net income (loss) from rental real estate activities . . . . .	2	
3 Net income (loss) from other rental activities . . . . .	3	
4 Portfolio income (loss):		
a Interest income . . . . .	4a	
b (1) Qualified dividends . . . . .	4b(1)	
(2) Total ordinary dividends . . . . .	4b(2)	
c Royalty income . . . . .	4c	
d (1) Net short-term capital gain (loss) (post-May 5, 2003) . . . . .	4d(1)	
(2) Net short-term capital gain (loss) (entire year) . . . . .	4d(2)	
e (1) Net long-term capital gain (loss) (post-May 5, 2003) . . . . .	4e(1)	See pages 6 and 7 of Partner's Instructions for Schedule K-1 (Form 1065).
(2) Net long-term capital gain (loss) (entire year) . . . . .	4e(2)	
f Other portfolio income (loss) (attach schedule) . . . . .	4f	
5 Guaranteed payments to partner . . . . .	5	
6a Net section 1231 gain (loss) (post-May 5, 2003) . . . . .	6a	
b Net section 1231 gain (loss) (entire year) . . . . .	6b	
7 Other income (loss) (attach schedule) . . . . .	7	
8 Charitable contributions (see instructions) (attach schedule) . . . . .	8	Sch. A, line 15 or 16 See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).
9 Section 179 expense deduction . . . . .	9	
10 Deductions related to portfolio income (attach schedule) . . . . .	10	
11 Other deductions (attach schedule) . . . . .	11	
12a Low-income housing credit: (1) From section 42(j)(5) partnerships (2) Other than on line 12a(1) . . . . .	12a(1) 12a(2)	Form 8586, line 5 See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
b Qualified rehabilitation expenditures related to rental real estate activities . . . . .	12b	
c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities . . . . .	12c	
d Credits related to other rental activities . . . . .	12d	
13 Other credits . . . . .	13	

**U.S. Return of Partnership Income**

For calendar year 2003, or tax year beginning \_\_\_\_\_, 2003, and ending \_\_\_\_\_, 2003.  
► See separate instructions.

OMB No. 1545-0099

**2003**

A Principal business activity	Name of partnership	D Employer identification number
B Principal product or service	Number, street, and room or suite no. If a P.O. box, see page 14 of the instructions.	E Date business started
C Business code number	City or town, state, and ZIP code	F Total assets (see page 14 of the instructions) \$

G Check applicable boxes: (1)  Initial return (2)  Final return (3)  Name change (4)  Address change (5)  Amended return  
 H Check accounting method: (1)  Cash (2)  Accrual (3)  Other (specify) ►  
 I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ►

**Caution:** Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

Income	1a Gross receipts or sales	1a			
	b Less returns and allowances	1b			1c
	2 Cost of goods sold (Schedule A, line 8)				2
	3 Gross profit. Subtract line 2 from line 1c				3
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach schedule)				4
	5 Net farm profit (loss) (attach Schedule F (Form 1040))				5
	6 Net gain (loss) from Form 4797, Part II, line 18				6
	7 Other income (loss) (attach schedule)				7
<b>8 Total income (loss). Combine lines 3 through 7</b>				8	
Deductions (see page 15 of the instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)				9
	10 Guaranteed payments to partners				10
	11 Repairs and maintenance				11
	12 Bad debts				12
	13 Rent				13
	14 Taxes and licenses				14
	15 Interest				15
	16a Depreciation (if required, attach Form 4562)	16a			16c
	b Less depreciation reported on Schedule A and elsewhere on return	16b			
	17 Depletion (Do not deduct oil and gas depletion.)				17
	18 Retirement plans, etc.				18
	19 Employee benefit programs				19
	20 Other deductions (attach schedule)				20
<b>21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20</b>				21	
<b>22 Ordinary income (loss) from trade or business activities. Subtract line 21 from line 8</b>				22	

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member) is based on all information of which preparer has any knowledge.		
	May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No		

Paid Preparer's Use Only	Preparer's signature	Date	Check if self-employed ► <input type="checkbox"/>	Preparer's SSN or PTIN
	Firm's name (or yours if self-employed), address, and ZIP code		EIN ►	Phone no. ( )