

ARIZONA CHARITABLE DONATIONS & TAX CREDITS

– AZ Revised Statute 43-1042

Charitable donations which qualify for an AZ Tax Credit have special treatment on the Federal Tax Return if the Taxpayer ITEMIZES (see B). If the taxpayer uses the Standard Deduction (see A), then no adjustment is needed.

Federal Regulations require a REDUCTION of the amount received as a State Tax Credit from the amount claimed as charitable donation. Additionally, the regulations allow the same amount to be INCLUDED as State taxes paid on the Federal return.

A – STANDARD DEDUCTION

Federal & State

Charitable donations impact the AZ tax returns if TP is not itemizing. In AZ, a taxpayer will get a 25% increase to the Standard Deduction for charitable donations not claimed on the Federal return because they did not itemize.

Taxpayers with charitable donations including Cash & Non-cash as well as Qualifying AZ Tax Credit donations will benefit if their AGI exceeds the Standard Deduction for their filing status.

- 1. We need to enter ALL Charitable donations into the Federal Itemized Deductions > Gifts to Charity section in TSO. TSO will calculate the 25% increase to the AZ Standard Deduction.**

Gifts to Charity - Cash Contributions

[+ Add a Cash Contribution](#)

Charity Name	Amount Donated	Donation Date
AZ Public School	\$200	12/31/2019
My Church	\$250	12/31/2019
Non Qualifying Fund	\$150	12/31/2019

- 2. Also enter all non-cash donations up to \$500. Use Form 8283 if over \$500 up to an AARP maximum of \$5,000 (scope limitation).**

Schedule A Gifts to Charity

Charitable Miles

Non-Cash Less Than or Equal to \$500

Carryover from Prior Year

Complete the Federal section as normal after entering the Charitable donations. Donations will flow to the AZ tax return in TSO

The Federal tax return will use Standard Deduction, so there is no impact to entering Charitable donations.

The AZ tax return will create the required Increase to the Standard Deduction form and add a 25% increase to the Standard Deduction on line 44 of the AZ Form 140.

Complete the worksheet to determine the increased amount allowed in addition to your standard deduction.

C1	Gifts by cash or check.....	C1	600	00
C2	Other than by cash or check.....	C2	500	00
C3	Carryover from prior year.....	C3	0	00
C4	Add lines C1 through C3.....	C4	1100	00
C5	Enter the total amount of charitable contributions for which you are claiming a credit under Arizona law for the current or prior tax year.....	C5	200	00
C6	Subtract line C5 from line C4 and enter the difference.....	C6	900	00
C7	Multiply line C6 by 25% (.25). Enter the result.....	C7	225	00

Taxpayers who did not itemize deductions on their federal return and elect to take the standard deduction on the Arizona tax return and claim the allowable standard deduction increase, must reduce the total amount of the 2020 qualifying charitable contributions by the amount for which the taxpayer took the allowable deduction on his or her federal return.

TSO will calculate this reduction automatically, but you should verify the calculation on the AZ 140 tax return.

3. Complete the AZ Tax Credits forms as normal for any Qualifying donations.

Credit for Contributions to Qualifying Charitable Organizations - Form 321

\$400 (S, MFS, HoH); **\$800** (MFJ) up to April 15, 2021

Credit for Contributions Made or Fees Paid to Public Schools - Form 322

\$200 (S, MFS, HoH); **\$400** (MFJ) up to April 15, 2021

Credit for Contributions to Private School Tuition Organizations - Form 323

\$593 (S, MFS, HoH); **\$1,186** (MFJ); up to April 15, 2021

Credit for Donations to the Military Family Relief Fund - Form 340

\$200 (S, MFS, HoH); **\$400** (MFJ); **Donate by 12/31/2020.**

Arizona Dept of Veterans Affairs will provide you with a receipt that will let you know if your donation qualifies for the credit. There is no carry forward for this credit.

Credit for Contributions to Certified School Tuition Organization – Form 348 (for contributions that exceed the allowable credit on Arizona Form 323)

\$590 (S, MFS, HoH); **\$1,179** (MFJ); up to April 15, 2021.

Neither Charter Schools nor programs run by charter schools are qualified schools for the purposes of this tax credit.

Credit for Contributions to Qualifying Foster Care Charitable Organizations - Form 352

\$500 (S, MFS, HoH); **\$1,000** (MFJ); up to April 15, 2021

B. – ITEMIZED DEDUCTION

Taxpayers itemizing deductions on their Arizona income tax return and who claimed charitable contributions as a state tax payment on their federal 1040 Schedule A are required to make an adjustment for the amount of charitable contributions taken as a state tax payment claimed on the taxpayer's federal itemized deductions (Form 1040 Schedule A).

- 1. We need to enter the amount of the ALLOWABLE AZ TAX CREDIT (used and carryforward in the current year) into the Federal Itemized Deductions > Taxes You Paid section in TSO.**

Taxes Paid

Additional State and Local Income Tax

(DO NOT INCLUDE AMOUNTS FROM W-2, 1099, W-2G or Estimates.)

\$ 200

2. Complete the Medical, Mortgage Interest, Taxes (including General Sales tax) & Charitable donation itemized deductions as normal.

Charitable Donations **DO NOT INCLUDE** the Allowable AZ TAX CREDIT amount that was entered as State Tax Paid.

Gifts to Charity - Cash Contributions

[+ Add a Cash Contribution](#)

Charity Name	Amount Donated
My Church	\$250
Non Qualifying Fund	\$150

Complete the Federal section as normal after entering the Itemized Deductions. These will all flow to the AZ tax return in TSO.

Federal Tax Return will use Itemized Deduction if larger than the Standard Deduction for the filing status. **NOTE: If TSO calculates the Standard Deduction as more beneficial than the Itemized Deduction, then you will need to review Section A – Standard Deduction.**

The Taxes You Paid section of the tax return will include the AZ Tax Credit amount.

Taxes You Paid	5 State and local taxes.		
	a State and local income taxes or general sales taxes. You may include either income taxes or general sales taxes on line 5a, but not both. If you elect to include general sales taxes instead of income taxes, check this box <input checked="" type="checkbox"/>	5a	718
	b State and local real estate taxes (see instructions)	5b	2000
	c State and local personal property taxes	5c	200
	d Add lines 5a through 5c	5d	2918
	e Enter the smaller of line 5d or \$10,000 (\$5,000 if married filing separately)	5e	2918
	6 Other taxes. List type and amount	6	
7 Add lines 5e and 6	7		2918

The Gifts to Charity section will NOT include the AZ Tax Credit amount.

Gifts to Charity <small>Caution: If you made a gift and got a benefit for it, see instructions.</small>	11 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	11	400	
	12 Other than by cash or check. If you made any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500.	12	500	
	13 Carryover from prior year	13		
	14 Add lines 11 through 13	14		900

The AZ Tax Return will **NOT** create the 25% Increase to Standard Deduction form.

3. Complete the AZ Tax Credits forms as normal for any Qualifying donations.

Review the AZ Sch A to verify the Additions and Subtractions from Federal Sch A.

An adjustment is now **REQUIRED** to Offset the Adjustment to Charitable Contributions. This is because we entered these as Other Taxes Paid, not as Charitable donations.

The next page will show you the impact on AZ Sch A prior to making the adjustment. Notice the \$200 reduction for Charitable Contributions. **This is the error which requires an adjustment.** TSO calculates this automatically as the normal process would be to enter these in Federal Charitable Donations.

Because these were NOT entered as Federal Charitable donations, there should **NOT** be any reduction.

Adjustment to Medical and Dental Expenses

1	Medical and dental expenses.....	1	10000	00
2	Medical expenses allowed to be taken as a federal itemized deduction.....	2	7530	00
3	If line 1 is the same as or more than line 2, subtract line 2 from line 1; otherwise, go to line 4.....	3	2470	00
4	If line 2 is more than line 1, subtract line 1 from line 2.....	4		00

Adjustment to Interest Deduction

5	If you received a federal credit for interest paid on mortgage credit certificates (from federal Form 8396), enter the amount of mortgage interest you paid for 2019 that is equal to the amount of your 2019 federal credit.....	5		00
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Adjustment to Charitable Contributions

6	Amount of charitable contributions for which you are claiming a credit under Arizona law.....	6	200	00
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Other Adjustments

7	Amount allowed as a federal itemized deduction that relates to income not subject to Arizona tax.....	7		00
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Adjusted Itemized Deductions

8	Add the amounts on lines 3 and 5.....	8	2470	00
9	Add the amounts on lines 4, 6 and 7.....	9	200	00
10	Total federal itemized deductions allowed to be taken on federal return.....	10	23848	00
11	Enter the amount from line 8 above.....	11	2470	00
12	Add lines 10 and 11.....	12	26318	00
13	Enter the amount from line 9 above.....	13	200	00
14	Arizona itemized deductions: Subtract line 13 from line 12. Enter the result here and on Form 140, page 2, line 43.....	14	26118	00

To make this adjustment in TSO, select "EDIT" in the AZ Tax Return, then select Itemized Deductions.

Enter a **NEGATIVE AMOUNT** that equals the \$'s shown on the AZ Schedule A to offset the error.

Certain adjustments to the itemized deductions pulled from your federal return are required by Arizona law for the following scenarios. These adjustments will SUBTRACT from the amount pulled from your Federal return.

Enter required adjustments to Charitable Contributions for Arizona purposes

\$ -200

This will adjust the \$200 reduction on the AZ Schedule A and the tax return will be correct.