

Schedule K-1(NR)

For the calendar year 2010 or fiscal year beginning MM/DD/YYYY and ending MM/DD/YYYY.

| | |
|--|---|
| <p>CHECK ONE: Original <input type="checkbox"/> Amended <input type="checkbox"/></p> | <p>CHECK ONE: Calendar year <input type="checkbox"/> Fiscal year <input type="checkbox"/></p> |
| Partner's identifying number | Partnership's employer identification number |
| Partner's name, address, and ZIP code | Partnership's name, address, and ZIP code |

Partner's percentage of:

Profit sharing.....

Loss sharing.....

Ownership of capital

| Before change or termination | End of year |
|---------------------------------|-------------|
| % | % |
| % | % |
| % | % |

Type of partner (individual, trust, etc.): _____

NOTE: ALL CORPORATE PARTNERS MUST USE THIS SCHEDULE.

| Part I - Distributive Share Items From Federal Form 1065, Schedule K-1 | (a) Distributive Share Amount | (b) Arizona Apportionment Ratio | (c) Arizona Source Income | Form 140NR Filers Enter the Amount in Column (c) on: |
|---|--|--|------------------------------------|--|
| 1 Ordinary income (loss) from trade or business activities | | | | |
| 2 Net income (loss) from rental real estate activities | | | | |
| 3 Net income (loss) from other rental activities | | | | |
| 4 Total - Add lines 1, 2 and 3 | | | | Line B11 |
| 5 Interest | | | | Line B6 |
| 6 Dividends | | | | Line B7 |
| 7 Royalties | | | | Line B11 |
| 8 Net short-term capital gain (loss) | | | | Line B10 |
| 9 Net long-term capital gain (loss) | | | | Line B10 |
| 10 Guaranteed payments to partner | | | | |
| 11 Net IRC Section 1231 gain (loss) | | | | Line B10 |
| 12 Deferred amount of discharge of indebtedness income included in federal income in the current year under IRC Section 108(i) | | | | Line B11 |
| 13 Other income (loss) - attach schedule | | | | Line B12 |
| 14 IRC Section 179 expense | | | | Line B11 |
| 15 Deferred amount of original issue discount deduction included in federal income in the current year under IRC Section 108(i) | | | | Line B11 |
| 16 Other deductions - attach schedule | | | | |
| | | | | |
| Part II - Partner's Distributive Share of the Adjustment of Partnership Income From Federal to Arizona Basis | (a) Distributive Share Amount | (b) Arizona Apportionment Ratio | (c) Arizona Source Income | Form 140NR Filers Enter the Amount in Column (c) on: |
| 17 Adjustment of partnership income from federal to Arizona basis - from Form 165, page 1, line 6 | | | | Line C20 or D31 |

NOTE: Corporate partners see Form 120 or Form 120A instructions for information on reporting the amount from line 17.

2010 Arizona Nonresident and Out-of-State Partner's Share of Income and Deductions

Arizona Form 165 Schedule K-1(NR)

SPECIAL NOTICE FOR 2009 PARTNER RETURNS

Arizona did not fully conform to federal tax law changes for 2009. This means that partners of partnerships may have to file an amended return for 2009. If any of the items listed below apply to you, your 2009 return is affected. If you have already filed your 2009 return, you must file an amended return to properly report these items.

The following is the list of items that Arizona did not conform to that may affect your 2009 return:

1. An election to exclude discharge of indebtedness income from the reacquisition of a business debt instrument on your 2009 federal return.
2. The exclusion of original issue discount on a debt instrument described in number 1 above from income on your 2009 federal return.
3. A cash gift made during 2010 to aid Haiti earthquake victims deducted on the partnership's 2009 federal return. (This adjustment would be included by the partnership on Schedule K-1(NR), line 17.)

If you have already filed your 2009 return and any of the above items 1 through 3 apply to you, you must amend your 2009 Arizona return.

To get a form or for more news on this topic, visit the department's web site at www.azdor.gov.

INSTRUCTIONS FOR INDIVIDUALS AND FIDUCIARIES

Column (c) is your Arizona source income. Nonresident individuals should report the amounts in column (c) on Form 140NR line numbers indicated on Form 165, Schedule K-1(NR). Nonresident trusts or nonresident estates should add lines 4 through 13, column (c), and enter the total on Form 141AZ, page 2, Schedule A.

However, if Form 165, Schedule K-1(NR) shows a loss, you may only claim such losses on your Arizona nonresident return to the extent that such losses are included in your federal adjusted gross income (individuals) or federal taxable income (trust and estates). Therefore, if the loss is considered to be a passive activity loss for federal purposes, the loss will likewise be considered to be a passive activity loss for Arizona purposes.

If you have a passive activity loss from a partnership that was derived from Arizona sources, you would not necessarily begin the Arizona return with the amounts shown in column (c) of Form 165, Schedule K-1(NR). For Arizona purposes, you must first determine if any portion of the loss shown on Form 165, Schedule K-1(NR) has been limited on your federal return because of the federal passive activity loss rules.

The amount of passive activity loss which is derived from Arizona sources is the amount of the passive activity loss which will be allowed on the Arizona return. Therefore, any portion of the passive activity loss which is not allowed on the federal return due to the passive activity loss limitations will likewise be limited on the Arizona return. That portion of the passive activity loss derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

Note: The amount of Internal Revenue Code § 179 expense deductible is limited to the Arizona portion of the amount deducted on federal Form 1040, Schedule E.

Line 17 -

Line 17 reflects the amount of partnership income which must be adjusted to determine the difference between Internal Revenue Code § 702(a)(8) and ARS § 43-1401(2). If the amount on line 17 is a positive number, individual partners should enter this amount as an "other addition to income" on Form 140NR, line C20. Fiduciaries should enter a positive amount on line 17 as an "other addition" on Form 141AZ, page 2, line B3. If the amount on line 17 is a negative number, individual partners should enter this amount as an "other subtraction from income" on Form 140NR, line D31. Fiduciaries should enter a negative amount on line 17 as an "other subtraction" on Form 141AZ, page 2, line B8.

INSTRUCTIONS FOR CORPORATE PARTNERS

Corporate partners should report the amount on line 17 of Form 165, Schedule K-1(NR) according to the instructions for Form 120 or Form 120A.