

Employer's Instructions for the Employee's Arizona Withholding Percentage Election

Arizona Form A-4

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

Phoenix (602) 255-2060
 From area codes 520 and 928, toll-free (800) 843-7196
 Hearing impaired TDD user
 Phoenix (602) 542-4021
 From area codes 520 and 928, toll-free (800) 397-0256

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's Internet home page at www.azdor.gov.

NOTE: *Senate Bill 1185 required the Department to develop rate tables for withholding. The new withholding rates are a percentage of gross taxable wages. "Gross taxable wages" is the amount that meets the federal definition of "wages" contained in IRC § 3401 and that will be included in box 1 of the employee's federal Form W-2 at the end of the calendar year (i.e. gross wages net of pretax deductions, such as the employee's portion of health insurance premiums).*

Every employee is required to fill out a revised Arizona Form A-4 or Form A-4V effective for wages paid after June 30, 2010.

For more information about this withholding law change, visit our website at www.azdor.gov.

Arizona Revised Statutes (ARS) § 43-401 requires an employer to make Form A-4 available to employees at all times and to inform employees of the Arizona withholding election options. Through June 30, 2010, Arizona withholding was a percentage of the amount of federal income tax withheld. Beginning July 1, 2010, Arizona withholding is based on a percentage of gross taxable wages. "Gross taxable wages" is the amount that meets the federal definition of "wages" contained in IRC § 3401 and that will be included in box 1 of the employee's federal Form W-2 at the end of the calendar year (i.e. gross wages net of pretax deductions, such as the employee's portion of health insurance premiums). Employees may also designate an additional amount to be withheld from each paycheck.

New Employees

New employees must complete this form within the first five days of employment. If the employee does not complete this form, the employer must withhold 2.7% of the employee's gross taxable wages, until the employer receives a completed form from the employee.

Current Employees

Current employees must complete this form to elect a different Arizona withholding percentage or to change the additional amount designated to be withheld from each paycheck. If the employee wants to increase or decrease the amount of Arizona withholding, the employee must complete this form to change the Arizona withholding percentage or change the additional amount designated to be withheld each paycheck.

To facilitate the transition to the new rates, for existing employees who have not filed a revised Arizona Form A-4, employers may use the following table:

<i>If the Employee's withholding rate before July 1, 2010, was:</i>	<i>Then use this rate for wages paid after June 30, 2010:</i>
0%	0%
10.7%	1.3%
20.3%	1.8%
24.5%	2.7%
26.7%	3.6%
33.1%	4.2%
39.5%	5.1%

The rates in the shaded boxes are only available to employees whose compensation is less than \$15,000 annually.

Electing a Withholding Percentage of Zero

An employee may elect an Arizona withholding percentage of zero, if the employee meets BOTH of the qualifying conditions for the election. An employee making this election certifies that: (1) the employee had no Arizona income tax liability for the prior taxable year, AND (2) the employee expects to have no Arizona income tax liability for the current taxable year. If an employee makes this election, the employer will not withhold Arizona income tax from the employee's compensation for payroll periods beginning after the date of the employee's election.

NOTE: *For any employee previously relying on their federal election to be exempt from Arizona withholding, an employer must obtain a revised Form A-4 with an Arizona exemption election or withhold at a rate of 2.7% until the employer receives a completed form from the employee.*

Voluntary Withholding Election by a Nonresident Employee Exempt Under ARS § 43-403(A)(5)

A qualifying employee may use this form to voluntarily elect to have a portion of the employee's compensation withheld under the provisions of ARS § 43-403(D)(1) for application toward the employee's Arizona income tax liability. The employee completes this form to elect an Arizona withholding percentage and to designate an additional amount to be withheld from each paycheck.

NOTE: *This exemption does not apply to a nonresident employee who is in this state solely for athletic or entertainment purposes.*

QUALIFYING CRITERIA FOR THE ARS § 43-403(A)(5) EXEMPTION. The exemption under the provisions of ARS § 43-403(A)(5) applies to wages paid to nonresident individuals who are:

1. Employed by a company having property, payroll, and sales in Arizona or by a related entity having more than 50 percent direct or indirect common ownership; **and**
2. Physically present in Arizona for less than 60 days in a calendar year for the purpose of performing a service that will benefit the employer.

Activities not included in determining the number of days of service are:

- a. Being in transit.
- b. Engaging in personal activities.

- c. Participating in training or professional development activities or attending meetings that are not directly connected to the Arizona operations of the employer.

A “related entity having more than 50 percent direct or indirect common ownership” means that the related entities are more than 50 percent owned by the same interests. The examples on the following page illustrate three different situations in which the nonresident employee is performing services in Arizona for such an entity for less than 60 days during a calendar year. In these examples, the employer has met the qualifying criteria for the ARS § 43-403(A)(5) exemption and, therefore, does not have to withhold Arizona income taxes from compensation paid to the employee for services performed in Arizona.

Example 1:

Corporation A is the U.S. domestic parent of Corporation B, a wholly owned foreign subsidiary corporation. Corporation A has property, payroll and sales in Arizona. Corporation B operates in China and does not have property, payroll and sales in Arizona. Individual R, an Arizona nonresident, is an employee of Corporation B. Individual R performs services for Corporation B in Arizona for 45 days during calendar year 2009.

Example 2:

Corporation F, based in California, is the common parent of Corporation W. Corporation F does not have property, payroll and sales in Arizona. Corporation W does have property, payroll and sales in Arizona. Individual L, an Arizona nonresident, is an employee of Corporation F. Individual L performs services for Corporation F in Arizona for 55 days during calendar year 2009.

Example 3:

Individual D owns 60 percent of Corporation K and 51 percent of Corporation S. Individual N owns 40 percent of Corporation K and 49 percent of Corporation S. Corporation S has property, payroll and sales in Arizona. Corporation K, based in California, does not have property, payroll and sales in Arizona. Individual T, an Arizona nonresident, is an employee of Corporation K. Individual T performs services for Corporation K in Arizona for 35 days during calendar year 2009.

How to Determine if an Employee Qualifies to Elect the Minimum Withholding Percentage

An employer determines if an employee qualifies to elect the minimum withholding percentage as follows:

1. If an employee whose annual compensation is less than \$15,000 elects the 1.3% withholding rate, that rate shall apply until one of the following situations occurs:
 - a. Until the employee has 12 full months of work history with the employer, the employer shall determine the employee's annualized compensation at the end of each month. *The employer may use any method of annualization that accurately reflects the employee's annual compensation.* If the employer determines that the employee's annualized compensation is \$15,000 or

more, the employer shall adjust the employee's rate of withholding beginning the next full pay period following the determination. The employer shall adjust the rate to 1.8%, unless the employee elects a higher rate of withholding. The 1.8% withholding rate shall apply until the employee has been employed for 12 full months, unless the employee elects a higher rate of withholding.

Example		
At the end of the month, an employer must annualize the compensation of an employee with 3 1/2 months of work history with the employer. The employee's compensation is annualized as follows:		
First full month of compensation		\$ 1,500
Second full month of compensation	+	1,500
Third full month of compensation	+	1,500
Fourth partial month of compensation	+	925
Total compensation (3 1/2 months)	=	\$ 5,425
Divide by number of payroll periods in the 3 1/2 months	÷	7
Average payroll period compensation	=	\$ 775
Multiply by number of payroll periods in a calendar year	×	26
Annualized compensation	=	\$ 20,150

After 12 full months of employment, the employer shall determine the rate under (b) below;

- b. If the employee has 12 full months of work history with the employer, the employer shall determine the employee's total compensation for the 12-month period. If the records for that period show that the employee earned \$15,000 or more, the employer shall adjust the rate of withholding beginning the next full pay period following the determination. The employer shall adjust the rate to the 1.8% withholding rate, unless the employee elects a higher rate of withholding. The 1.8% withholding rate shall apply through the end of the calendar year, unless the employee elects a higher rate of withholding. At the end of that calendar year and at the end of each succeeding calendar year, the employer shall redetermine the employee's total annual compensation. If the employee's annual compensation for the preceding year changes the employee's rate of withholding, the rate change shall begin the next full pay period following the determination unless the employee makes a zero percent withholding election for the taxable year; or
 - c. If the employee receives a salary increase that makes the employee's annualized compensation \$15,000 or more, the employer shall adjust the employee's rate of withholding to the 1.8% withholding rate, beginning the next full pay period following the receipt of the increase by the employee.
2. An employee who has elected a withholding rate higher than the minimum withholding rate may later elect to reduce the rate to a lower rate for the employee's annual compensation.

NOTE: This form is effective for wages paid after June 30, 2010.

Type or print your full name	Your social security number
Home address (number and street or rural route)	
City or town, state, and ZIP code	

Arizona Withholding Percentage Election Options

Choose only one:

- 1 My annual compensation is \$15,000 or more. I choose to have Arizona withholding at the rate of
(*check only one box*): 1.8% 2.7% 3.6% 4.2% 5.1% of my gross taxable wages.
Additional amount to be withheld per paycheck \$ _____
- 2 My annual compensation is less than \$15,000. I choose to have Arizona withholding at the rate of
(*check only one box*): 1.3% 1.8% 2.7% 3.6% 4.2% 5.1% of my gross taxable wages.
Additional amount to be withheld per paycheck \$ _____
- 3 I hereby elect an Arizona withholding percentage of zero, and I certify that I meet BOTH of the following qualifying conditions for this election:
 - I had NO Arizona tax liability for the prior taxable year, AND
 - I expect to have NO Arizona tax liability for the current taxable year.

I certify that I have made the percentage election marked above.	
_____	_____
SIGNATURE	DATE

EMPLOYEE'S INSTRUCTIONS

Arizona Revised Statutes (ARS) §43-401 requires your employer to withhold Arizona income tax from your compensation paid for services performed in Arizona for application toward your Arizona income tax liability. Arizona withholding is a percentage of your gross taxable wages of every paycheck.

"Gross taxable wages" is the amount from each paycheck that will be included in box 1 of your federal Form W-2 at the end of the calendar year (i.e. gross wages net of pretax deductions, such as your portion of health insurance premiums). You may also have your employer withhold an additional amount from each paycheck.

Complete this form to elect an Arizona withholding percentage and any additional amount to be withheld from each paycheck. *Give the completed form to your employer.*

Current Employees

ALL EMPLOYEES ARE REQUIRED TO COMPLETE THIS FORM FOR WAGES PAID AFTER JUNE 30, 2010. Complete this form to elect an Arizona withholding percentage and designate an additional amount to be withheld. If you want to increase or decrease the amount of Arizona withholding in the future, you must complete this form again to change the Arizona withholding percentage or change the additional amount withheld.

New Employees

Complete this form within the first five days of employment to elect an Arizona withholding percentage. You may also have your employer withhold an

additional amount from each paycheck. If you do not complete this form, the department requires your employer to withhold 2.7% of your gross taxable wages until your employer receives a completed form from you.

Electing a Withholding Percentage of Zero

You may elect an Arizona withholding percentage of zero if you meet BOTH of the qualifying conditions for the election. You qualify for the election if: (1) you had no Arizona income tax liability for the prior taxable year, AND (2) you expect to have no Arizona income tax liability for the current taxable year.

Note that Arizona tax liability is gross tax liability less any tax credits, such as the family tax credit, school tax credits, welfare tax credits, or credits for taxes paid to other states. If you make this election, your employer will not withhold Arizona income tax from your wages for payroll periods beginning after the date of your election.

You should be aware that zero withholding does not relieve you from paying Arizona income taxes that might be due at the time you file your Arizona income tax return. Keep in mind that in order to elect zero withholding, you must meet BOTH conditions listed above. Therefore, if you have an Arizona tax liability when you file your return or if at any time during the current year conditions change so that you expect to have a tax liability, you should immediately complete a new Form A-4 and choose a withholding percentage that is applicable to your situation.

Employee's Arizona Withholding Percentage Election

Voluntary Withholding Election by Certain Nonresident Employees

Compensation earned by nonresidents while physically performing work or services in Arizona for temporary periods is subject to Arizona income tax. However, under the provisions of ARS §43-403(A)(5), compensation paid to certain nonresident employees is not subject to Arizona income tax withholding. These nonresident employees need to review their situations and determine whether they should elect to have Arizona income taxes withheld from their wages or compensation. Nonresident employees may request that their employer withhold Arizona income taxes from their compensation by completing this form to elect an Arizona withholding percentage.

How do I Determine Which Percentage to Elect?

In an effort to assist employees in electing a withholding percentage, the following simple examples are provided for general guidance. However, each employee must take into consideration the particular facts of their own situation and adjust their election accordingly.

If you want to keep your withholding approximately the same as last year, you can use your federal Form W-2 for 2009 or your last pay stub to calculate which withholding percentage to elect. For example, if box 1 of federal Form W-2 shows \$40,000 in wages and box 17 shows \$1,000 in state income tax withheld, divide box 17 by box 1 to determine your percentage ($1,000 / 40,000 = .025$ or 2.5%). In order to keep your withholding the same as 2009, choose 1.8% ($40,000 \times .018 = 720$) and an additional \$10.77 per biweekly pay period ($1,000 - 720 = 280 / 26 = 10.77$). Be sure to take into account any amount already withheld for 2010.

If you want to withhold more, choose one of the higher percentages or choose to have an additional amount withheld.

CAUTION: Underwithholding can result in payment of tax due when you file your Arizona return and/or underpayment penalties.

If you would rather more closely approximate your tax liability from last year, use your tax liability from your 2009 Arizona income tax return. Divide that number by the number of paydays in calendar year 2010. This will be the amount of withholding you will try to have withheld out of each paycheck. For instance, if your 2009 tax liability was \$1,500 and you are paid every two weeks (26 paydays a year) divide \$1,500 by 26 ($1,500 / 26 = 57.69$). This is your withholding goal per paycheck. Next, divide your withholding goal by your biweekly gross taxable wages, \$2,000 in this example, to determine the percentage of withholding to gross taxable wages ($57.69 / 2,000 = .028845$ or 2.88%). An election of 2.7% would result in \$54.00 ($2,000 \times 2.7\% = 54$) withheld for Arizona from each paycheck (\$1,404 annually), while electing 3.6% would result in \$72.00 ($2,000 \times 3.6\% = 72$) withheld for Arizona from each paycheck (\$1,872 annually). Be sure to take into account any amount already withheld for 2010.

Example: This example assumes these wages are your only income and your employment situation is the same as last year. If you are paid every two weeks and last year's federal Form W-2 shows \$52,000 in box 1 and \$1,800 in box 17, \$900 has already been withheld from your paychecks for 2010, there are 13 paychecks remaining in the calendar year, and you want to keep your withholding approximately the same, the following worksheet shows how to keep your Arizona withholding the same.

	Example:		Your Calculation:	
Line 1: Annual gross taxable wages.	\$52,000			
Line 2: Number of paychecks per year.	26			
Line 3: Divide line 1 by line 2. This is wages per paycheck.	$52000 / 26 =$	\$2,000		
Line 4: Annual withholding goal.	\$1,800			
Line 5: Amount already withheld.	\$900			
Line 6: Balance of withholding for the calendar year.	$1800 - 900 =$	\$ 900		
Line 7: Number of paychecks remaining in the calendar year.	13			
Line 8: Divide line 6 by line 7. This is your Arizona withholding goal per paycheck.	$900 / 13 =$	\$69.23		
Line 9: Percentage: divide line 8 by line 3.	$69.23 / 2000 =$	3.4615%		
Line 10: Withholding percentage that is less than line 9. Check this box on line 1 of Form A-4.	2.7%			
Line 11: Multiply line 10 by line 3.	$2.7\% \times 2000 =$	\$54.00		
Line 12: Subtract line 11 from line 8. Enter this amount in the additional amount space on line 1 of Form A-4.	$69.23 - 54.00 =$	\$15.23		

Senate Bill 1185 Employer Information Changes to Arizona Withholding Options Revised for wages paid after June 30, 2010.

Senate Bill 1185 amended the amounts required to be withheld for Arizona withholding purposes. Through June 30, 2010, the amount required to be withheld was a percentage of federal withholding. For amounts withheld on or after July 1, 2010, the amount required to be withheld will no longer be a percentage of federal withholding. Amounts withheld on or after July 1, 2010, must be based on a table prescribed by the department. The department has prescribed a withholding table based on a percentage of gross taxable wages. "Gross taxable wages" is the amount that meets the federal definition of "wages" contained in IRC § 3401 and that will be included in box 1 of the employee's federal Form W-2 at the end of the calendar year (i.e. gross wages net of pretax deductions, such as the employee's portion of health insurance premiums).

Who is affected by the withholding changes?

These changes affect all of the following:

1. Employees subject to mandatory Arizona income tax withholding (employees who complete Arizona Form A-4).
2. Arizona resident employees working outside of Arizona who elect to have Arizona income tax withheld (employees who complete Arizona Form A-4V).
3. Pension and annuity recipients who elect to have Arizona income tax withheld from their pensions or annuities (individuals who complete Arizona Form A-4P).

When can the new forms be used?

The department encourages employers to make the forms available to employees as soon as possible to allow each employee time to review their individual situation and return the completed form to the employer. However, the election made on the revised form will not be effective until after June 30, 2010.

Withholding From Wages

What are the changes for employees subject to mandatory or voluntary Arizona income tax withholding?

For amounts withheld through June 30, 2010, the amount withheld was a percentage of the federal withholding. For wages paid on or after July 1, 2010, the amount required to be withheld will no longer be a percentage of federal withholding. Amounts withheld on or after July 1, 2010, must be based on a table prescribed by the department. The department has prescribed a withholding table based on a percentage of gross taxable wages. "Gross taxable wages" is the amount that meets the federal definition of "wages" contained in IRC § 3401 and that will be included in box 1 of the employee's federal Form W-2 at the end of the calendar year (i.e. gross wages net of pretax deductions, such as the employee's portion of health insurance premiums).

The percentages rates for wages paid after June 30, 2010, are listed in the chart below. The percentage rates are based on gross taxable wages.

Withholding percentage options for wages paid after June 30, 2010. Rates are a percentage of gross taxable wages.	
Employees who qualify for this rate:	Percentage Rates
An employee who checks box 3 on Form A-4 or files Form WEC, WECL, or WECM	0%
An employee whose annual compensation is less than \$15,000.	1.3%
Any employee	1.8%
Any employee	2.7%
Any employee	3.6%
Any employee	4.2%
Any employee	5.1%

Does an employer need to notify employees of the new withholding percentage options?

Yes. An employer must make Arizona Forms A-4 and A-4V available to employees at all times and inform employees of the available Arizona withholding options.

Will the new withholding percentages automatically apply to current employees?

No. Each employee is required to complete a new Form A-4 or Form A-4V to elect a new withholding percentage and take into consideration the change in the withholding base.

Will an employee still be allowed to elect a zero withholding percentage?

Yes. For wages paid after June 30, 2010, an employee subject to mandatory Arizona withholding may elect a withholding percentage of zero, if the employee had no Arizona tax liability in the prior year and expects to have no tax liability in the current year. If an employee has elected a zero withholding percentage on Arizona Form A-4, the employer should not change the employee's withholding. However, if the employee relied on their federal election to be exempt from Arizona withholding, an employer must obtain a revised Form A-4 with an Arizona exemption election or withhold at a rate of 2.7% until the employer receives a completed form from the employee.

Can an employee subject to voluntary Arizona withholding terminate the voluntary withholding election?

Yes. An employee subject to voluntary Arizona withholding may elect to terminate the voluntary withholding election at any time.

How do the new withholding percentage options apply to employees hired on or after July 1, 2010?

- A new employee must complete the revised 2010 Arizona Form A-4 within the first five days of employment to elect an Arizona withholding percentage. If the new employee does not complete the revised Arizona Form A-4, the employer will withhold Arizona income tax from the employee's gross taxable wages at 2.7%.
- A new employee who is an Arizona resident working outside of Arizona may elect voluntary Arizona income tax withholding for 2010 by completing the revised Arizona Form A-4V. The employer must withhold Arizona income tax from the employee's compensation at the greater of either the percentage elected by the employee or the minimum percentage of 1.3% for employees with an annual compensation of less than \$15,000 or 1.8% form employees with an annual compensation of \$15,000 or more.

Withholding From Pensions and Annuities

What are the changes for pension and annuity recipients?

For amounts withheld through June 30, 2010, the amount withheld was a percentage of the federal withholding. For pensions or annuities paid on or after July 1, 2010, the amount required to be withheld will no longer be a percentage of federal withholding. Amounts withheld on or after July 1, 2010, will be a percentage of the taxable amount of the distribution (the amount that will be included in box 2a of federal Form 1099-R).

The percentages for payments made after June 30, 2010 are listed in the chart below. The new rate percentages listed in the chart are based on the taxable amount of the distribution.

Withholding percentage options for pension or annuity payments made on or after June 30, 2010. Rates are a percentage of the taxable amount of distribution.

Rates
1.3%
1.8%
2.7%
3.6%
4.2%
5.1%

Does the payor of a pension or annuity need to notify pension and annuity recipients of the new withholding percentage options?

Yes. A payor of a pension or annuity must make Arizona Form A-4P available to pension and annuity recipients at all times. The payor must also inform the recipients of the options available for Arizona withholding.

Will the new withholding percentages automatically apply to pension and annuity recipients?

No. Each pension or annuity recipient currently electing Arizona withholding is required to file a revised Form A-4P to elect a new withholding percentage and take into consideration the change in the withholding base.