

## Arizona Quarterly Withholding Tax Return

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](http://www.azdor.gov).

### General Instructions

#### Who May Use Form A1-QRT

An employer must make its Arizona withholding payments to the department either on a quarterly basis or at the same time as the employer makes its federal withholding deposits. An employer must file a quarterly withholding tax return with the department to report its Arizona withholding tax liability.

An employer incurs an Arizona withholding tax liability either quarterly, or on the same dates as it incurs a federal withholding liability (monthly, semi-weekly, or one-banking day). An employer must determine when it incurs an Arizona withholding tax liability to establish its correct Arizona withholding payment schedule. An employer makes this determination by calculating its average Arizona withholding tax liability for the four preceding calendar quarters or by using an alternate calculation if it does not have historical data for the preceding four calendar quarters. Both computations are discussed in the Arizona Withholding Liability/Payment Schedule section of these instructions.

**Form A1-QRT:** Use the quarterly tax return if the liability is incurred on a quarterly, monthly, semi-weekly or one-banking day basis. A monthly liability employer that incurs a one-banking day liability during the calendar quarter immediately becomes an Arizona semi-weekly liability employer for the remainder of the calendar quarter.

**EXCEPTION FOR ANNUAL PAYMENT RETURN (Form A1-APR):** Certain employers may make their withholding payments on an annual basis and file an annual withholding tax return on Form A1-APR. These employers will not file Form A1-QRT or Form A1-R, or use Form A1-WP for their withholding payments.

An employer may make its Arizona withholding payments on an annual basis if all of the following conditions are met:

- The employer has established a history of withholding activity by filing the quarterly tax return (Form A1-QRT) for at least the four preceding calendar quarters.
- The employer's withholding liability was an amount greater than zero for at least one of the four preceding calendar quarters.
- The average amount of Arizona income taxes withheld by the employer in the four preceding calendar quarters does not exceed \$200. The employer will meet this average

withholding requirement if the total amount withheld in the four preceding calendar quarters is \$800 or less.

- The employer has timely filed Form A1-QRT and has timely made its Arizona withholding payments for at least three of the four preceding calendar quarters.
- The employer has filed Form A1-QRT for all preceding calendar quarters and does not have a balance due (tax, penalty, or interest) for any preceding calendar quarter.
- The employer has filed the annual reconciliation tax return (Form A1-R) for all preceding calendar years and has timely filed Form A1-R for the preceding calendar year.

An employer may continue to make its Arizona withholding payments on an annual basis for the succeeding calendar year if all of the following conditions are met:

- The average amount of Arizona income taxes withheld by the employer in the four preceding calendar quarters does not exceed \$200.
- The employer has timely filed the annual tax return and has timely made its annual Arizona withholding payment for the preceding calendar year.

If an employer does not meet all of the qualifying conditions to continue making its Arizona withholding payments on an annual basis for the succeeding calendar year:

- The employer must determine its Arizona withholding payment schedule for succeeding calendar quarters according to the instructions in the Arizona Withholding Liability/Payment Schedule section; and
- The employer shall file the quarterly tax return (Form A1-QRT) for succeeding calendar quarters.

#### Penalties and Interest

**A. Late Filing Penalty.** A return filed after the due date is subject to the late filing penalty. The late filing penalty is 4½ percent (.045) of the amount of tax required to be shown on the return. "Amount of tax required to be shown on the return" is the amount of tax imposed less the amount of any part of the tax paid on or before the beginning of the month. The penalty period is each month or fraction of a month between the due date of the return and the date the taxpayer filed the return. The maximum penalty is 25 percent of the tax found to be remaining due.

**B. Late Payment Penalty.** The department imposes the late payment penalty on any amount shown as tax on the return that is not paid by the date prescribed for its payment. The late payment penalty is ½ percent (.005) of the unpaid tax for each month or fraction of a month the tax remains unpaid, not to exceed 10 percent of the unpaid tax.

**NOTE:** *If both of the penalties described in A and B apply, the maximum combined penalty is 25 percent.*

**C. Additional Failure to Pay Penalty.** An employer is required to withhold Arizona income tax from compensation paid to an employee for services performed in Arizona, unless the compensation is exempt from Arizona withholding by Arizona law. The amount of tax required to be withheld is

specified in Title 43, Chapter 4 of the Arizona Revised Statutes. The department may impose a penalty if the amount of tax required to be withheld, whether the amount of tax is determined by the employer or the department, is not paid to the department by the date prescribed for its payment. The amount of the penalty is 25 percent of the amount of tax required to be withheld and paid to the department.

**D. Payroll Service Company Penalty.** Beginning for withholding tax returns due to be filed from and after May 31, 2011, a payroll service company, as defined in ARS § 43-418(E)(3), is subject to a \$25 penalty for failure to make withholding payments electronically and a \$25 penalty for failure to file withholding returns electronically. Multiple \$25 penalties could apply to the same client on one return. For example, if Client A is required to make four payments in the 3rd quarter, and none of the payments are made electronically, the payroll service company would be subject to four \$25 penalties, a total of \$100. If the payroll service company files the quarterly reconciliation for Client A by paper, an additional penalty of \$25 would apply for a grand total of \$125 in penalties assessed toward the payroll service company related to Client A for the 3rd quarter.

**E. Interest.** The department assesses interest on any portion of the tax, whether determined by the department or the employer/taxpayer, not paid by the date prescribed for its payment. The department applies interest, compounded annually, in the same manner and at the same times as prescribed by Internal Revenue Code § 6621 with the following exception. **Exception:** The Arizona rate of interest for both underpayments and overpayments for all taxpayers is the federal underpayment rate under IRC § 6621(a)(2) [the federal short-term rate, determined pursuant to IRC § 6621(b), plus three percentage points]. On January 1 of each year, the department adds any interest outstanding as of that date to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

### Arizona Withholding Liability/Payment Schedule

Arizona law requires an employer to compute its average Arizona withholding tax liability for the preceding four calendar quarters at the beginning of each new quarter. This calculation is performed to determine the correct Arizona withholding payment schedule.

An employer that has four full consecutive calendar quarters of Arizona withholding liability historical data must use the regular withholding payment schedule computation. An employer that does not have four full consecutive calendar quarters of Arizona withholding liability historical data must use the alternate withholding payment schedule computation.

#### A. Regular Arizona Withholding Liability/Payment Schedule Computation

An employer required to use the regular computation must add its withholding liabilities for the preceding four calendar quarters and divide the total by four.

An employer must make its Arizona withholding payments on a quarterly basis if the average amount of Arizona income taxes withheld during the preceding four calendar quarters does not exceed \$1,500.

An employer must make its Arizona withholding tax payments at the same time as its federal withholding deposits if the

average amount of Arizona income taxes withheld during the preceding four calendar quarters exceeds \$1,500.

Example 1		
An employer is trying to determine the correct Arizona withholding payment schedule for the second calendar quarter 2010. The employer would make the following calculation to compute the average amount of Arizona income taxes withheld in the preceding four calendar quarters.		
First quarter 2010 withholding		\$ 1,100
Fourth quarter 2009 withholding	+	1,600
Third quarter 2009 withholding	+	1,000
Second quarter 2009 withholding	+	1,200
Total withholding	=	\$ 4,900
Divide by	÷	4
Average withholding	=	\$ 1,225
This example illustrates a four-quarter average of Arizona income taxes withheld that does not exceed \$1,500. Therefore, the employer is required to make Arizona withholding payments on a quarterly basis.		

Example 2		
An employer is trying to determine the correct Arizona withholding payment schedule for the third calendar quarter 2010. The employer would make the following calculation to compute the average amount of Arizona income taxes withheld in the preceding four calendar quarters.		
Second quarter 2010 withholding		\$ 1,800
First quarter 2010 withholding	+	1,400
Fourth quarter 2009 withholding	+	1,900
Third quarter 2009 withholding	+	1,300
Total withholding	=	\$ 6,400
Divide by	÷	4
Average withholding	=	\$ 1,600
This example illustrates a four-quarter average of Arizona income taxes withheld that exceeds \$1,500. Therefore, the employer is required to make Arizona withholding payments at the same time as its federal withholding deposits.		

#### B. Alternate Arizona Withholding Liability/Payment Schedule Computation

An employer must make its Arizona withholding payments on a quarterly basis if the average amount of Arizona income taxes withheld during the preceding four calendar quarters does not exceed \$1,500.

An employer must make its Arizona withholding tax payments at the same time as its federal withholding deposits (monthly, semi-weekly, or one-banking day), if the average amount of Arizona income taxes withheld during the preceding four calendar quarters exceeds \$1,500.

An employer required to use the alternate computation must use one of the following methods.

**An employer that purchases an existing business** must determine its Arizona withholding payment schedule for each calendar quarter by calculating the average amount withheld in the four preceding calendar quarters as follows:

- For the first quarter of withholding, the employer must calculate the previous owner's average amount of Arizona income taxes withheld in the four preceding calendar quarters.

- For the second through fourth quarters of withholding, the employer must calculate the average amount withheld in the four preceding calendar quarters by combining its prior quarters of withholding with the previous owner's quarters of withholding.
- For subsequent quarters of withholding, the employer must add the amounts it withheld in the four preceding calendar quarters and then divide that sum by four.

**A newly formed business** must determine its Arizona withholding payment schedule as follows:

- For the first quarter of withholding, the employer must make its Arizona withholding payments on a quarterly basis.
- For the second quarter of withholding, the employer must determine its Arizona withholding payment schedule based on the amount withheld in the first quarter of withholding.
- For the third quarter of withholding, the employer must determine its Arizona withholding payment schedule by adding the amounts withheld in the first and second quarters and dividing by two.
- For the fourth quarter of withholding, the employer must determine its Arizona withholding payment schedule by adding the amounts withheld in the first, second, and third quarters and dividing by three.
- For subsequent quarters of withholding, the employer must determine its Arizona withholding payment schedule by adding the amounts withheld in the four preceding calendar quarters and dividing by four.

**When two or more employers consolidate their business activities to form one entity**, the new employer must determine its Arizona withholding payment schedule based on the combined withholding of the prior employers for the preceding four full quarters. Any prior employer with fewer than four full quarters of withholding activity must annualize the amounts withheld and divide by four. The new employer must determine its Arizona withholding payment schedule by combining this amount with the quarterly averages of the other prior employers with four full quarters of withholding activity.

### C. Withholding Payment Due Dates

**Internet payments:** Employers may make their withholding payments on the Internet. Go to [www.aztaxes.gov](http://www.aztaxes.gov) for further information.

**Quarterly** Arizona withholding payments are due on the following dates:

- First calendar quarter - April 30;
- Second calendar quarter - July 31;
- Third calendar quarter - October 31;
- Fourth calendar quarter - January 31.

If the quarterly withholding payment due date is a non-banking day (Saturday, Sunday, or a legal holiday), the withholding payment is timely if made on the next banking day.

*An employer required to make its Arizona withholding payments at the same time as its federal withholding deposits must make its Arizona withholding payments on a monthly, semi-weekly, or one-banking day basis.*

**Monthly** Arizona withholding payments are due on the fifteenth day of the month following the calendar month in which the taxes accumulated.

If the fifteenth day of the following month is a non-banking day (Saturday, Sunday, or a legal holiday), the withholding payment is timely if made on the next banking day.

**Semi-weekly** Arizona withholding payments are due on the following schedule:

- *Wednesday through Friday semi-weekly period* - on or before the following Wednesday.
- *Saturday through Tuesday semi-weekly period* - on or before the following Friday.

If any of the *three weekdays* following the close of a semi-weekly period is a non-banking day (a legal holiday), an additional banking day is granted to make the required payment.

If a calendar quarter ends during a semi-weekly period (on a day other than Tuesday or Friday), the following rules apply:

- Taxes accumulated on the days in the current calendar quarter are subject to one payment obligation.
- Taxes accumulated on the days in the next calendar quarter are subject to a separate payment obligation.
- The payment(s) is (are) due at the normal payment due date for the semi-weekly period.

**One-banking day** Arizona withholding payments are due on the first banking day following the day that an employer incurs a federal one-banking day deposit obligation. The employer must make a one-banking day federal withholding deposit if federal taxes accumulate to \$100,000 or more on any day during a monthly or semi-weekly deposit period. The Arizona withholding payment is due the same day as the federal withholding deposit although the Arizona withholding tax liability may not have reached \$100,000 for the same monthly or semi-weekly period. A monthly liability payer that incurs an Arizona one-banking day withholding payment obligation during the calendar quarter immediately becomes an Arizona semi-weekly liability payer for the remainder of the calendar quarter.

**Extended Form A1-QRT due dates available to taxpayers who have made every payment on time.** ARS § 43-401(E) allows some employers additional time to file Form A1-QRT. Employers who have made every payment on time during the preceding calendar quarter may have ten additional days in which to file Form A1-QRT.

Form A1-QRT, for employers who have *not* made every payment on time during the preceding calendar quarter, are timely filed if filed by the following dates:

- First calendar quarter - May 2;
- Second calendar quarter - August 1;
- Third calendar quarter - October 31;
- Fourth calendar quarter - January 31.

Because April 30, 2011, and July 31, 2011, are each on a weekend day, the payment is timely for those quarters if it is made on the next banking day.

Form A1-QRT filing due dates for employers who have made every payment on time during the preceding calendar quarter are:

- First calendar quarter - May 10;
- Second calendar quarter - August 10;
- Third calendar quarter - November 10;
- Fourth calendar quarter - February 10.

## Specific Instructions

Form A1-QRT may be filed online. Taxpayers that are licensed by the Arizona Department of Revenue and registered at [www.aztaxes.gov](http://www.aztaxes.gov) may file Form A1-QRT and make withholding payments online. Visit [www.aztaxes.gov](http://www.aztaxes.gov) for more details.

All returns, statements, and other documents filed with the department require the taxpayer's employer identification number (taxpayer identification number or TIN). Taxpayers and their paid preparers that fail to include their TIN may be subject to a penalty. Paid tax return preparers must include their TIN where requested. The TIN for a paid tax return preparer is the individual's social security number, preparer identification number, or the employer identification number of their business.

Refer to the sample Form A1-QRT on pages 6 and 7 of the instructions. The following numbered instructions correspond to the numbered sections of the sample Form A1-QRT.

### I. Taxpayer Information Section

#### ① Business Name and Address/Address Changed Box

Type or print the employer's name, address, and phone number in the boxes in the Taxpayer Information section. Check the box to indicate your address is changed.

#### ② Amended Returns

Check the amended return box on page 1 of the form if this is an amended return. Complete the amended return information section on page 2 of the form. If the amended return is being filed for a quarter in a prior year, the employer must also file an amended Form A1-R for that year and include the state copies of the federal Forms W-2c, or corrected copies of Forms W-2G and 1099-R.

**NOTE:** An amended Form A1-QRT cannot be filed at [www.aztaxes.gov](http://www.aztaxes.gov). Taxpayers required to file an amended Form A1-QRT must file a paper return.

*Overpayments:* After the amended return is processed and payments are confirmed, the overpayment will be applied to any outstanding liabilities, possibly in another tax type. If the overpayment exceeds the outstanding liabilities or the employer has no outstanding liabilities, a refund will be issued. A refund will not be issued once the overpayment is applied to a liability.

*Underpayments:* Enclose payment for the underpaid amount with the amended return. The department will calculate the amount of interest and any applicable penalties and send a billing notice after the amended return is processed.

#### ③ Filing of Final Return Box/Cancellation of Employer's Withholding Account

Check the final return box on page 1 of the form if this is a final return. Enter the date that final wages were paid. Complete the reason for cancellation of employer's withholding account section on page 2 of the form.

When an account is cancelled, the employer must file a final return on Form A1-QRT for the last quarter in which the final wages were paid. The employer must file a final return to report its Arizona tax liability for the quarter in which the account was closed. **NOTE:** The employer must also file Form A1-R, *Arizona Withholding Reconciliation Return*, for that year.

#### ④ Total Arizona Payroll for This Quarter

Enter the total gross Arizona payroll for this calendar quarter. "Total gross Arizona payroll" means amounts considered wages for federal income tax withholding purposes. Do not include wages exempt from Arizona withholding by Arizona law.

#### ⑤ Employer Identification Number (EIN)

Enter the employer identification number. An employer identification number can be obtained from the Internal Revenue Service.

#### ⑥ Quarter and Year

The table below identifies which months are in which quarter:

For these months:	Enter this number for the Quarter:
January, February, March	1
April, May, June	2
July, August, September	3
October, November, December	4

Enter the quarter from the chart above. Enter the four-digit year.

### II. Tax Liability Schedule Section

**NOTE:** All liabilities reported and payments made should be net of any withholding designated for tax credits in accordance with HB2287 (2009).

#### ⑦ Quarterly Tax Liability

An employer that incurs a quarterly withholding tax liability must complete Part IIA, Quarterly Tax Liability, and Part III, line 1. Enter the amount of Arizona withholding tax liability for the quarter, not the amount of Arizona withholding payments. **DO NOT COMPLETE PART IIB, MONTHLY TAX LIABILITY, OR PART IV, THE DAILY TAX LIABILITY SCHEDULE.**

#### ⑧ Monthly Tax Liability

An employer that incurs a monthly withholding tax liability for all three months of the calendar quarter must complete Part IIB, Monthly Tax Liability, for months 1, 2, and 3.

Enter the amount of Arizona withholding tax liability for each applicable month, not the amount of Arizona withholding payments. Add the three monthly subtotals. Enter the total Arizona tax liability for the calendar quarter on Part III, line 1.

If the employer also incurs a one-banking day withholding obligation during a month in the calendar quarter, complete the applicable daily tax liability section for each month of the calendar quarter a one-banking day withholding obligation is incurred. Enter the amount of Arizona withholding tax liability in the applicable daily tax liability section, not the amount of Arizona withholding payments. Enter the total for each month in Part IIB. Add the three monthly subtotals. Enter the total Arizona tax liability for the calendar quarter in Part III, line 1.

**NOTE:** Be sure to check the box on page 1, in Part IIB, if the taxpayer is required to complete section A, B, and/or C of the Daily Tax Liability Schedule on page 2.

**IF AN EMPLOYER INCURS A ONE-BANKING DAY OBLIGATION DURING THE FIRST MONTH:**

- *First month* - complete section A of the daily tax liability schedule.
- *Second month* - complete section B of the daily tax liability schedule.
- *Third month* - complete section C of the daily tax liability schedule.

**IF AN EMPLOYER INCURS A ONE-BANKING DAY OBLIGATION DURING THE SECOND MONTH:**

- *First month* - complete Part IIB, month 1 liability.
- *Second month* - complete section B of the daily tax liability schedule.
- *Third month* - complete section C of the daily tax liability schedule.

**IF AN EMPLOYER INCURS A ONE-BANKING DAY OBLIGATION DURING THE THIRD MONTH:**

- *First month* - complete Part IIB, month 1 liability.
- *Second month* - complete Part IIB, month 2 liability.
- *Third month* - complete section C of the daily tax liability schedule.

**9 Daily Tax Liability (Semi-Weekly or One-Banking Day)**

**NOTE:** Be sure to check the box on page 1, in Part IIB, if the taxpayer is required to complete section A, B, and/or C of the Daily Tax Liability Schedule on page 2.

Complete sections A, B, and C, of the Daily Tax Liability Schedule; Part IIB, Monthly Tax Liability; and Part III, line 1. On lines A1 through A31, B1 through B31, and C1 through C31, of the Daily Tax Liability Schedule, make entries on the day that an Arizona withholding tax liability was incurred. Enter the amount of Arizona withholding tax liability for each applicable day, not the amount of Arizona withholding payments. Add the amounts entered on the daily liability schedule for each month. Enter the total for each month on sections A, B, and C, and on Part IIB. Add the amounts entered on Part IIB. Enter the total Arizona tax liability for the calendar quarter on Part III, line 1.

*Important note for one-banking day obligations:* Check the small gray box to the right of the number that corresponds to the day that the employer incurred an Arizona one-banking day withholding obligation. *Leave this box blank unless a one-banking day withholding obligation was incurred.*

**III. Tax Computation Section**

**10 Line 1 - Liability**

*Quarterly tax liability employer* - enter the amount from Part IIA, quarterly tax liability.

*Monthly tax liability employer (all three months of quarter)* - add the amounts in Part IIB, monthly tax liability, for months 1, 2 and 3. Enter the total.

*Monthly tax liability (less than three months)/daily tax liability employer* - add the amounts in Part IIB, monthly tax liability, for months 1, 2 and 3. Enter the total.

*Daily tax liability employer (all three months of quarter)* - add the amounts in Part IIB, monthly tax liability, for months 1, 2 and 3. Enter the total.

**11 Line 2 - Prior Payments Made for This Quarter**

Enter the total amount of other payments made for this quarter in this field. If no income tax was withheld for this quarter, enter -0- in this field.

**12 Line 3 - Total Amount Due**

Subtract the amount on line 2 from the amount on line 1. Enter the difference.

If line 3 is a positive number, this is the amount of tax remaining due. Payments can be made via check, electronic check, money order, or credit card. The department will calculate the amount of interest, apply any applicable penalties, and send a billing notice after the return is processed.

**Check or money order**

Make checks payable to Arizona Department of Revenue. Write the taxpayer's EIN on the front of the check or money order. Include the check or money order with the return.

**Internet Payments**

Employers must be licensed by the Department of Revenue before they can register to pay taxes online. Go to [www.aztaxes.gov](http://www.aztaxes.gov) to register and make payments over the internet.

**Electronic payment from checking or savings account**

Payments can be made electronically from a checking or savings account. Go to [www.aztaxes.gov](http://www.aztaxes.gov) and choose the e-check option. There is no fee to use this method. This payment method will debit the amount from the specified checking or savings account on the date specified. If an electronic payment is made from a checking or savings account, a confirmation number will be generated. Please keep this confirmation number as proof of payment.

**Credit card payment**

Payments can be made via American Express, Discover, MasterCard or VISA credit cards. Go to [www.aztaxes.gov](http://www.aztaxes.gov) and choose the credit card option. This will take you to the website of the credit card payment service provider. The service provider will charge a convenience fee based on the amount of the tax payment. The service provider will disclose the amount of the convenience fee during the transaction and the option to continue or cancel the transaction will be presented. If you accept the convenience fee and complete the credit card transaction, a confirmation number will be generated. Please keep this confirmation number as proof of payment.

If line 3 is a negative number (an amount less than zero), this is the overpayment for the quarter. After the return is processed and payments are confirmed, the overpayment will be applied to any outstanding liabilities, possibly in another tax type. If the overpayment exceeds the outstanding liabilities or the employer has no outstanding liabilities, a refund will be issued. A refund will not be issued once the overpayment is applied to a liability.