

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% for 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.