Employee Information for the Arizona Mandatory Withholding Changes That Will Affect Your Paycheck

What are the mandatory changes in Arizona income tax withholding?

Senate Bill 1185 (Laws 2009, 1st Reg. Session, Chapter 2) amends the income tax amounts required to be withheld on wages paid for services performed in Arizona. The department has created a new tax table that dictates withholding percentages to be withheld for wages paid after June 30, 2010.

The new Arizona withholding tax table is based on a percentage of gross taxable wages. "Gross taxable wages" is the amount that meets the federal definition of "wages" contained in Internal Revenue Code § 3401. Generally, gross taxable wages are reported in box 1 of your federal Form W-2 at the end of the calendar year.

Will the new Arizona income tax withholding percentages apply to me automatically?

No, the new rates do not apply automatically. Each and every employee is required to complete a new Arizona Form A-4 or Arizona Form A-4V to elect a new withholding percentage. You should take into consideration how your new withholding percentage election will affect your net take home pay. If you do not elect a new withholding percentage on time, your employer is required to transition you to a new rate. You can always file another Arizona Form A-4 or Form A-4V later.

How am I affected by the mandatory Arizona income tax withholding changes?

If you are an employee subject to Arizona income tax withholding, you must complete a new form to elect one of the new withholding percentages and give it to your employer before the law goes into effect on July 1, 2010. There are two revised withholding forms for different employees:

- Arizona Form A-4 - a revised form to be used by resident employees working in Arizona and nonresident employees subject to Arizona withholding.
- Arizona Form A-4V - a revised form to be used by resident employees working outside of Arizona who are already subject to Arizona withholding.

I am an employee who is currently subject to Arizona income tax withholding. What should I do?

Ask your employer for Arizona Form A-4 or Form A-4V, depending upon your employment situation. If your employer does not have the forms, download a

copy from the Internet at: http://www.azdor.gov/Forms/Withholding.aspx. Review the form, instructions and examples.

If I am satisfied with my current level of Arizona income tax withholding, how can I calculate which new rate I should elect?

If you are satisfied with your current Arizona income tax withholding, look at the amounts on your last pay stub to calculate which new percentage will keep your withholding approximately the same. Find your Arizona withholding amount on your last paycheck. Divide that number by your gross taxable wages on that same paycheck. If you cannot find this information on your paycheck, contact your employer for assistance.

For example, if your Arizona withholding is $9.50 on your last pay stub and your gross taxable wages are $250; you currently have 3.8% (9.5 / 250 = .038) of your gross taxable wages withheld. Choosing 3.6% will result in $9.00 (250 x .036 = 9) being withheld from gross taxable wages of $250. If you want to have exactly the same amount withheld, check the box next to 3.6% and enter $0.50 in the additional amount line to have exactly $9.50 withheld from gross taxable wages of $250.

Can I change my Arizona income tax withholding and how do I do it?

Yes, you can change your Arizona income tax withholding amounts by filing a new Arizona Form A-4 or Form A-4V with your employer. If you want to change the amount of your current Arizona income tax withholding, use the worksheet on page 2 of the form to calculate which percentage will accomplish your withholding goal. An interactive worksheet is included with the fillable form available on the Internet at: http://www.azdor.gov/Forms/Withholding.aspx. The worksheet will "Do the Math" for you.

What should I do with my completed Arizona Form A-4 or Form A-4V?

Give the completed form to your employer.

When can I turn in my completed Arizona Form A-4 or Form A-4V?

As soon as possible. Your employer will let you know when they need the new form to properly process wages that will be paid after June 30, 2010.

What happens if I fail to complete and submit a new Arizona Form A-4 or Form A-4V?

If you fail to complete a form and give it to your employer on time, the department has instructed your employer to transition you to a new percentage based on your old percentage. This will result in a change to your withholding. The

change to your withholding could result in a decrease in your take home pay. It is in your best interest to review the form that applies to you and make your own election before July 1, 2010.

What if I am not satisfied with my Arizona income tax withholding on paychecks after June 30, 2010?

You can submit another Arizona Form A-4 or Form A-4V to your employer and change the percentage withheld or the additional amount withheld. Ask your employer to let you know when your new election will go into effect.

I am starting a new job and my first paycheck falls after July 1, 2010. How does SB1185 affect me?

- As a new employee performing services in Arizona, you must complete the Arizona Form A-4 within the first five days of employment to elect an Arizona withholding percentage. If you do not complete Arizona Form A-4, your employer will withhold Arizona income tax at a rate of 2.7% from your gross taxable wages.
- If you are a new employee who is an Arizona resident working outside of Arizona, you may elect voluntary Arizona income tax withholding for 2010 by completing the Arizona Form A-4V.

If I am exempt from tax, am I still allowed to elect a zero withholding percentage?

Yes. For wages paid after June 30, 2010, you may elect a withholding percentage of zero if you are subject to mandatory Arizona withholding but had no Arizona tax liability in the prior year and expect to have no tax liability in the current year.

If you had previously elected a zero withholding percentage on Arizona Form A-4, your withholding will not be changed by your employer.

If you currently claim an exemption or exclusion from federal income tax withholding, and rely on that exclusion to result in no Arizona income tax withholding as well, you will now be subject to mandatory withholding unless you qualify to check box 3 on Arizona Form A-4 and file that form with your employer. If you fail to file this form with your employer, your employer is required to withhold at a rate of 2.7% from your gross taxable wages until you complete the proper form.

I am currently subject to voluntary Arizona withholding. Can I terminate the voluntary withholding election?

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