



Douglas A. Ducey  
Governor

David Briant  
Director

## ARIZONA WITHHOLDING TAX PROCEDURE WTP 16-1

(This Procedure Supersedes WTP 92-3)

Procedure for Determining When an Employer Must Remit Arizona Withholding Tax

### **ISSUE:**

When does an employer that files quarterly have to remit its Arizona income tax withheld?

### **PROCEDURE:**

For Arizona withholding tax purposes, several deposit schedules may apply. The schedule that an employer must use will depend on the amount of Arizona tax withheld. These schedules are based on the average amount withheld during the prior 4 quarter period. The employer must compute this average at the start of each new quarter. The deposit schedule that may apply for one quarter may not be the same schedule that applies to the next.

The Arizona deposit schedules are as follows:

Previous 4 Quarter Arizona Withholding Average	AZ Deposit Schedule
\$1,500 or less	Quarterly (May deposit on an annual basis if 4 quarter average is \$200 or less and other criteria met)
More than \$1,500	Same time as Federal (Monthly, Semiweekly, Next Business Day)

For this purpose, the term “quarter” refers to a calendar quarter based on a calendar year. Each quarter is comprised of three months and each quarter contains the months shown in the following chart.

Quarter	Months in Quarter
1st	January through March
2nd	April through June
3rd	July through October
4th	October through December

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### HOW TO FIGURE PRIOR 4 QUARTER AVERAGE

#### **Existing Business with at Least 4 Full Quarters of Withholding**

An existing business with at least 4 full quarters of withholding must determine its Arizona quarterly average for each quarter as follows:

Arizona Withholding Activity	The Employer Must:
4 full quarters of withholding	Add the amounts withheld in the 4 prior quarters and divide by 4.

#### **New Business**

A newly formed business must figure its Arizona quarterly average for each quarter as follows:

Arizona Withholding Activity	The Employer Must:
1 <sup>st</sup> quarter of withholding	No average, so it must make its Arizona withholding payments on a quarterly basis.
2 <sup>nd</sup> quarter of withholding	Use the amount withheld in the 1 <sup>st</sup> quarter as its 2 <sup>nd</sup> quarter average.
3 <sup>rd</sup> quarter of withholding	Add the amounts withheld in the 1 <sup>st</sup> and 2 <sup>nd</sup> quarters and divide by 2.
4 <sup>th</sup> quarter of withholding	Add the amounts withheld in the 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> quarters and divide by 3.
Subsequent quarters of withholding	Add the amounts withheld in the 4 prior quarters and divide by 4.

#### **Purchases of an Existing Business**

When a business buys an existing business, it must figure its Arizona quarterly average for each quarter as follows:

Arizona Withholding Activity	The Employer Must:
1 <sup>st</sup> quarter of withholding	Add the amounts withheld in the 4 prior quarters by the prior owner and divide by 4.
2 <sup>nd</sup> through 4 <sup>th</sup> quarters of withholding	Combine the amounts withheld by the new owner with the amounts withheld by the prior owner for the last 4 quarters and divide by 4.
Subsequent quarters of withholding	Add the amounts withheld in the 4 prior quarters and divide by 4.

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### When 2 or More Employers Combine

When 2 or more employers combine to form 1 entity, the new employer must figure its Arizona quarterly average for each quarter as follows:

Arizona Withholding Activity	The New Employer Must:
Each employer included in the merger has at least 4 full quarters of withholding activity	Combine the amounts withheld by each employer included in the merger for the last 4 quarters and divide by 4.
One or more employers included in the merger has less than 4 full quarters of withholding activity	<b>Step 1</b> - Annualize the withholding for each employer with less than 4 full quarters of withholding activity and divide each annualized amount by 4. <b>Step 2</b> - Combine the amounts withheld by each employer with at least 4 full quarters of withholding for the last 4 quarters and divide by 4. <b>Step 3</b> - Add the amount computed in step 1 to the amount computed in step 2.

### \$1,500 OR LESS PREVIOUS 4 QUARTER AVERAGE

#### QUARTERLY DEPOSIT SCHEDULE

An employer must use the quarterly deposit schedule if:

1. The average amount of Arizona tax withheld during the prior 4 quarters was not more than \$1,500: and
2. The employer does not qualify to use the annual deposit schedule.

Payment due dates for the quarterly deposit schedule are as follows:

Quarter in Which Wages Paid	Arizona Payment Due By
1st	April 30
2nd	July 31
3rd	October 31
4th	January 31

*If the due date falls on a Saturday, Sunday, or a legal holiday, the payment will be timely if made on the next banking day.*

#### Example 1 – Quarterly Schedule:

Group A must figure its Arizona deposit schedule for the 2<sup>nd</sup> quarter of 2016. To do this, Group A must figure its quarterly average for the last 4 quarters. Group A figures this as follows:

Year	Quarter Wages Paid	Amount of Arizona Tax Withheld	4 Quarter Average
2016	1 <sup>st</sup>	\$1,100.00	
2015	4 <sup>th</sup>	\$1,600.00	
2015	3 <sup>rd</sup>	\$1,000.00	
2015	2 <sup>nd</sup>	\$1,200.00	
4 quarter Total		\$4,900.00	
Divide by 4			\$1,225.00

Group A must use the quarterly deposit schedule for the 2<sup>nd</sup> calendar quarter of 2016.

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### MORE THAN \$1,500 PREVIOUS 4 QUARTER AVERAGE

#### SAME TIME AS FEDERAL DEPOSIT SCHEDULE

When the prior 4 quarter average is more than \$1,500, the employer must remit its Arizona tax at the same time it must remit its federal tax.

For federal purposes, there are two deposit schedules (monthly and semi-weekly). Before the start of each calendar year, the employer must decide which of the two deposit schedules it must use. The terms “monthly deposit schedule” and “semiweekly deposit schedule” do not refer to how often a business pays wages. These terms do not refer to how often the employer must make deposits. These terms refer to which set of deposit rules the employer must use. The deposit rules are based on the dates when wages are paid (cash basis); not on when tax liabilities are accrued for accounting purposes.

#### Federal Monthly Deposit Schedule

For federal purposes, this schedule applies when the total federal tax reported for the federal lookback period was \$50,000 or less. Under this schedule, an employer must deposit its taxes for wages paid during the month by the 15<sup>th</sup> day of the following month. An Arizona employer whose prior 4 quarter average is more than \$1,500, who uses this schedule for federal purposes must also deposit the Arizona tax withheld by the 15<sup>th</sup> day of the following month

#### **Monthly Deposit Schedule:**

Period in Which Wages Paid	Arizona Payment Due By
Any month during the year	15 <sup>th</sup> day of the month following the month in which wages were paid
<i>If the due date falls on Saturday, Sunday, or a legal holiday, the payment is timely if made on the next banking day.</i>	

#### **Example 2 – Monthly Schedule:**

Group C must figure its Arizona deposit schedule for the 3<sup>rd</sup> quarter of 2016. To do this, Group C must figure its quarterly average for the last 4 quarters. Group C figures this as follows:

Year	Quarter Wages Paid	Amount of Arizona Tax Withheld	4 Quarter Average
2016	2 <sup>nd</sup>	\$1,800.00	
2016	1 <sup>st</sup>	\$1,400.00	
2015	4 <sup>th</sup>	\$1,900.00	
2015	3 <sup>rd</sup>	\$1,300.00	
4 quarter Total		\$6,400.00	
Divide by 4			\$1,600.00

Group C must make its Arizona withholding payments at the same time as it is required to make its federal withholding deposits.

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Monthly			
Group C reported less than \$50,000 during its federal lookback period, so Group C uses the monthly deposit schedule to remit its federal tax withheld. For the 3 <sup>rd</sup> quarter of 2016, Group C must also remit its Arizona withholding on a monthly basis as follows:			
Date on Which Wages Paid	Arizona Tax Withheld	Arizona Payment Due By	Amount Due
July 15, 2016	\$250.00		
July 29, 2016	\$350.00	August 15, 2016	\$600.00
August 15, 2016	\$400.00		
August 30, 2016	\$500.00	September 15, 2016	\$900.00
September 15, 2016	\$450.00		
September 30, 2016	\$375.00	October 15, 2016 (Since October 15, 2016 falls on a Saturday, the payment will be timely if made on Monday October 17, 2016.	\$825.00

### Federal Semiweekly Deposit Schedule

For federal purposes, this schedule applies when the total federal tax reported for the federal lookback period was more than \$50,000. An Arizona employer whose prior 4 quarter average is more than \$1,500, who uses this schedule for federal purposes must also use this schedule to remit its Arizona tax.

#### **Semiweekly deposit schedule:**

Day of the Week Wages Paid	Payment Due By
Wednesday, Thursday or Friday	The Following Wednesday
Saturday, Sunday, Monday or Tuesday	The Following Friday
<i>If the due date falls on a Saturday, Sunday, or a legal holiday, the withholding payment is timely if made on the next banking day.</i>	

#### **Example 3 - Semiweekly:**

Group D reported more than \$50,000 during its federal lookback period, so Group D uses the semiweekly deposit schedule to remit its federal tax withheld. For the 3<sup>rd</sup> quarter of 2016, Group D must also remit its Arizona withholding on a semiweekly basis as follows:

Date on Which Wages Paid	Day of the Week Wages Paid	Arizona Tax Withheld	Arizona Payment Due By	Amount Due
July 15, 2016	Friday	\$525.00	Wednesday July 20, 2016	\$525.00
July 29, 2016	Friday	\$675.00	Wednesday August 3, 2016	\$675.00
August 15, 2016	Monday	\$825.00	Friday August 19, 2015	\$825.00
August 30, 2016	Tuesday	\$900.00	Friday September 2, 2016	\$900.00
September 15, 2016	Thursday	\$575.00	Wednesday September 21, 2016	\$575.00
September 30, 2016	Friday	\$650.00	Wednesday October 5, 2016	\$650.00

### Federal Next Business Day Deposit

For federal purposes, this schedule applies when the employer accumulates a federal withholding tax liability of \$100,000 or more on any day during a federal deposit period. In

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this case, the employer must deposit the tax by the close of the next business day. This applies whether the employer is a monthly or semiweekly schedule depositor.

An Arizona employer whose prior 4 quarter average is more than \$1,500, which must deposit its federal tax by the close of the next business day, must also deposit its Arizona tax by the close of the next business day. If the employer is a monthly depositor, that employer will become a semiweekly depositor once it incurs a next day deposit obligation. The employer will be a semiweekly depositor for the remainder of the calendar quarter.

### Example 4 - Next Business Day Obligation:

Group E uses the semiweekly deposit schedule to remit its federal tax withheld. Because Group E's previous 4 quarter Arizona average was more than \$1,500, Group E must also make its Arizona withholding payments using the federal semiweekly deposit schedule. On August 15, 2016, Group E accumulated a federal withholding tax liability of \$105,000. Group E must remit both its federal and Arizona tax on the next business day.

Date on Which Wages Paid	Day of the Week Wages Paid	Arizona Tax Withheld	Arizona Payment Due By	Amount Due
August 15, 2016	Monday	\$1,575.00	Tuesday August 16, 2016	\$1,575.00

*If the due date falls on a Saturday, Sunday, or a legal holiday, the payment is timely if made on the next banking day.*

### **APPLICABLE LAW:**

Arizona Revised Statutes (A.R.S.) § 43-401(C) prescribes when withholding must be remitted to the department.

Arizona Administrative Code (A.A.C.) R15-2B-101 sets forth additional guidance regarding the determination of the four quarter average.

Grant Nülle, Deputy Director

Signed: May 31, 2016

### Explanatory Notice

The purpose of a tax procedure is to provide procedural guidance to the general public and to Department personnel. A tax procedure is a written statement issued by the Department to assist in the implementation of tax laws, administrative rules, and tax rulings by delineating procedures to be followed in order to achieve compliance with the law. Relevant statute, case law, or administrative rules, as well as a subsequent procedure, may modify or negate any or all of the provisions of any tax procedure. See GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.