

Senate Bill 1185 Employer Information Changes to Arizona Withholding Options

Senate Bill 1185 amended the amounts required to be withheld for Arizona withholding purposes. Currently the amount required to be withheld is a percentage of federal withholding. For amounts withheld on or after May 1, 2009 through June 30, 2010, the amount withheld will continue to be a percentage of the 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.

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).

Withholding From Pensions and Annuities

What are the changes for pension and annuity recipients?

For amounts withheld on or after May 1, 2009 through June 30, 2010, the amount withheld will continue to be 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, must be based on a table prescribed by the department.

The percentages for payments made on or after May 1, 2009 through December 31, 2009, will be different than the percentages for payments made on or after January 1, 2010 through June 30, 2010. The percentages for payments made on or after **May 1, 2009 through December 31, 2009** are listed in Chart 1 below. The percentages for payments made on or after **January 1, 2010 through June 30, 2010** are listed in Chart 2 below.

CHART 1 Withholding percentage options for pension and annuity payments made on or after May 1, 2009 through December 31, 2009	
Old rate	New rate
10%	11.5%
19%	21.9%
23%	26.5%
25%	28.8%
31%	35.7%
37%	42.6%

CHART 2	
Withholding percentage options for pension or annuity payments made on or after January 1, 2010 through June 30, 2010	
Old rate	New rate
11.5%	10.7%
21.9%	20.3%
26.5%	24.5%
28.8%	26.7%
35.7%	33.1%
42.6%	39.5%

When will the withholding tables for amounts withheld on or after July 1, 2010 be available?

The department plans to have the new withholding tables available sometime in the late spring of 2010.

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?

Yes. The payor of an annuity or pension must change a pension or annuity recipient's Arizona withholding percentage to the applicable new percentage *unless the recipient completes an Arizona Form A-4P to elect a different percentage or to terminate the voluntary withholding election.*

Withholding From Wages

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

For amounts withheld on or after May 1, 2009 through June 30, 2010, the amount withheld will continue to be 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 percentages for wages paid on or after May 1, 2009 through December 31, 2009, will be different than the percentages for wages paid on or after January 1, 2010 through June 30, 2010. The percentages for wages paid on or after **May 1, 2009 through December 31, 2009** are listed in Chart 3 below. The percentages for wages paid on or after **January 1, 2010 through June 30, 2010** are listed in Chart 4 below.

CHART 3			
Withholding percentage options for wages paid on or after May 1, 2009 through December 31, 2009			
Annual compensation is less than \$15,000		Annual compensation is \$15,000 or more	
Old rate	New rate	Old rate	New rate
10%	11.5%		
19%	21.9%	19%	21.9%
23%	26.5%	23%	26.5%
25%	28.8%	25%	28.8%
31%	35.7%	31%	35.7%
37%	42.6%	37%	42.6%

CHART 4			
Withholding percentage options for wages paid on or after January 1, 2010 through June 30, 2010			
Annual compensation is less than \$15,000		Annual compensation is \$15,000 or more	
Old rate	New rate	Old rate	New rate
11.5%	10.7%		
21.9%	20.3%	21.9%	20.3%
26.5%	24.5%	26.5%	24.5%
28.8%	26.7%	28.8%	26.7%
35.7%	33.1%	35.7%	33.1%
42.6%	39.5%	42.6%	39.5%

When will the withholding tables for amounts withheld on or after July 1, 2010 be available?

The department plans to have the new withholding tables available sometime in the late spring of 2010.

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 to inform employees of the available Arizona withholding options.

Will the new withholding percentages automatically apply to current employees?

Yes. An employer is required to change an employee's Arizona withholding percentage to the applicable new percentage *unless the employee completes the revised Arizona Form A-4 or Form A-4V to elect a different percentage.*

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

Yes. For wages paid through June 30, 2010, an employee subject to mandatory Arizona withholding may elect the 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, the employer does not have to change to employee's withholding to one of the percentages listed in Chart 3 or Chart 4. For wages paid on or after July 1, 2010, an employee that elected a zero withholding percentage will have to make a new withholding election based on the department's withholding tables.

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.

How do the new withholding percentage options apply to employees hired on or after May 1, 2009?

- A new employee must complete the revised 2009 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 must withhold Arizona income tax from the employee's wages at the greater of the applicable minimum percentage (11.5% or 21.9%).
- A new employee who is an Arizona resident working outside of Arizona may elect voluntary Arizona income tax withholding for 2009 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 applicable minimum percentage (11.5% or 21.9%).

How do the new withholding percentage options apply to employees hired on or after January 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 must withhold Arizona income tax from the employee's wages at the greater of the applicable minimum percentage (10.7% or 20.3%).
- 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 wages at the greater of either the percentage elected by the employee or the applicable minimum percentage (10.7% or 20.3%).

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

The withholding percentages do not apply to an employee 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 Arizona withholding based on the withholding tables. If the new employee does not complete the revised Arizona Form A-4, the employer must withhold Arizona income tax from the employee's wages at a minimum that will be determined prior to the department issuing the tables.