

Employer's Instructions for the Employee's Arizona Withholding Election

Arizona Form A-4

For information or help, call one of these numbers:

Phoenix (602) 255-3381
From area codes 520 and 928, toll-free (800) 352-4090

Tax forms, instructions, and other tax information

If you need tax forms, instructions, and other tax information, go to the department's website at www.azdor.gov.

Withholding Tax Procedures and Rulings

These instructions may refer to the department's withholding tax procedures and rulings. To view or print these, go to our website and click on *Legal Research* then click on *Procedures* or *Rulings* and select a tax type from the drop down menu.

Publications and Brochures

To view or print the department's publications and brochures, go to our website and click on *Publications*.

Arizona Revised Statutes (A.R.S.) § 43-401(E) requires an employer to make Form A-4 available to employees at all times and to inform employees of the Arizona withholding election options.

Arizona income tax withholding 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, it is the amount included in box 1 of the employee's federal Form W-2 at the end of the calendar year.

Employees elect the percentage of their gross taxable wages they wish to be withheld. They may also elect to have an extra amount withheld from each paycheck.

EMPLOYEE INFORMATION - COMPLETING ARIZONA FORM A-4

- All employees are required to complete Form A-4.
- New employees must complete Form A-4 within 5 days of employment. If the employee fails to complete the form, the employer must withhold 2.7% of the employee's wages until the employer receives a completed Form A-4 from that employee.
- Current employees must complete an updated Form A-4 to elect a different Arizona withholding percentage or to change any extra amount to be withheld from his or her paycheck.
- An employee may elect an Arizona withholding percentage of zero ("0") if that employee expects to have no Arizona income tax liability for the current taxable year.
 - o If an employee makes this election, his or her employer will not withhold Arizona tax from his or her paycheck for all payroll periods beginning after the date of the employee's election.
 - o Each employee claiming to be exempt from Arizona withholding must renew this election annually.
- A qualifying nonresident employee may use Form A-4 to voluntarily elect to have a portion of his or her wages withheld to be applied to his or her Arizona income tax liability.

EMPLOYMENT REQUIRING WITHHOLDING

Withholding tax shall be deducted from the compensation of:

- Wages paid to an Arizona resident whose compensation is for services performed within this state.
- Wages paid to a nonresident employee who is in this state solely for athletic or entertainment purposes.
- Wages paid to part-time or seasonal agricultural employees whose principal duties are operating any mechanically-driven device in such operations.

EMPLOYMENT EXCLUDED FROM WITHHOLDING

NOTE: *An employee exempted from withholding tax may not be exempted from paying Arizona income tax.*

No withholding amount shall be deducted from:

- Wages paid to an employee of a common carrier when that employee is a nonresident of Arizona and regularly performs services inside and outside the state.
- Wages paid for domestic service in a private home.
- Wages paid for casual labor not in the course of the employer's trade or business.
- Wages paid for part-time or seasonal agricultural labor whose services to the employer consist solely of labor in connection with the planting, cultivating, harvesting or field packing of seasonal agricultural crops.
- Wages paid to a nonresident of Arizona who is solely in this state on a temporary basis for the purpose of performing disaster recovery from a declared disaster during a disaster period.
- Wages paid to a nonresident of Arizona engaged in any phase of motion picture production, if the employer applies for an exemption from the withholding provisions, and the department determines that the nonresident would be allowed a credit for taxes paid to his or her state of residency or domicile.
- Wages paid to a nonresident of Arizona who is:
 - o An employee of an individual, fiduciary, partnership, corporation, or limited liability company (multi-state business) having property, payroll and sales in this state, or of a related entity having more than fifty percent (50%) direct or indirect common ownership. (All companies are owned at least 50% by the same interest[s].)
 - o Physically present in this state for less than sixty (60) days in a calendar year for the purpose of performing a service that will benefit the employer or the related entity. For purposes of determining the number of days of service in this state, days spent in the following activities are not included:
 - o In transit
 - o Engaging in personal activities
 - o Participating in training or professional development activities or attending meetings that are not directly connected to the Arizona operations of the employer or related entity.

The examples on page 2 illustrate three different situations in which a nonresident employee is performing services in Arizona for a multi-state business for less than 60 days during

a calendar year. In these examples, the employer has met the qualifying criteria for this exemption and is not required to withhold Arizona income taxes from compensation paid to the employee for services performed in Arizona.

Example 1:

Corporation A is the U.S. domestic parent of Corporation B, a wholly owned foreign subsidiary corporation. Corporation A has property, payroll and sales in Arizona. Corporation B operates in China and does not have property, payroll and sales in Arizona. Individual R, an Arizona nonresident, is an employee of Corporation B. Individual R performs services for Corporation B in Arizona for 45 days during calendar year 2016.

Example 2:

Corporation F, based in California, is the common parent of Corporation W. Corporation F does not have property, payroll and sales in Arizona. Corporation W does have property, payroll and sales in Arizona. Individual L, an Arizona nonresident, is an employee of Corporation F. Individual L performs services for Corporation F in Arizona for 55 days during calendar year 2016.

Example 3:

Individual D owns 60 percent of Corporation K and 51 percent of Corporation S. Individual N owns 40 percent of Corporation K and 49 percent of Corporation S. Corporation S has property, payroll and sales in Arizona. Corporation K, based in California, does not have property, payroll and sales in Arizona. Individual T, an Arizona nonresident, is an employee of Corporation K. Individual T performs services for Corporation K in Arizona for 35 days during calendar year 2016.

EMPLOYMENT FOR WHICH WITHHOLDING MAY BE ELECTED

- A nonresident Arizona employee of a multi-state business in this state for less than 60 days may elect to have Arizona withholding amounts subtracted from his or her paycheck and the employer must withhold tax based on the employee's election to do so.
- A multi-state business may elect to withhold tax from the nonresident employee before the 60 day limitation has elapsed.