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Arizona announces lower income tax withholding rates for 2022 and 2023

Summary

- *As a result of legislation enacted in 2021, the Arizona income tax rates have been lowered for 2022 and 2023.*
- *The Arizona Department of Revenue has issued an updated Form A-4 which employees may use immediately to take advantage of tax cuts that were effective January 1, 2022.*

The Arizona Department of Revenue [announced](#) that [SB 1828](#), enacted in 2021, substantially lowers individual income tax rates effective for tax year 2022 and 2023, and the current [Form A-4, Arizona Withholding Percentage Election](#) (rev. 1-1-2022), does not reflect these rate cuts. Accordingly, the Department has published a revised Form A-4 (10-28-2022), which employees may begin using immediately.

The updated A-4 gives employees a range of withholding percentages as follows:
0.5%, 1.0%, 1.5%, 2.0%, 2.5%, 3.0% and 3.5%

Previously, the A-4 gave employees a range of withholding percentages as follows:
0.8%, 1.3%, 1.8%, 2.7%, 3.6%, 4.2% and 5.1%

The Department provides the following FAQs:

What if the employee does not update their old Arizona Form A-4?

The employer should select 2.0% on behalf of the employee. The new default Arizona withholding rate is 2.0%.

What if the employee wants their Arizona taxes to be overwithheld?

Employees will still have the option of selecting a higher Arizona withholding rate than their wages might dictate and there is still a line to add an additional amount of Arizona withholding.

What should the employer do with the new completed A-4 forms?

The employer should retain the A-4 with their employee and tax records. The employee may want to retain a copy for their records as well. Do not send the new A-4 form to the Arizona Department of Revenue.

If the employer uses a substitute electronic A-4 form for their employees (rather than a paper A-4), can the electronic form simply be updated to reflect the new withholding rate percentages?

Yes.

Background

SB 1828, enacted in 2021, included a measure to phase out the current graduated personal income rates and replace them with a flat tax of 2.5% in several phases crossing tax years 2022 through 2024. The tax cuts were contingent on meeting general fund revenue collection goals.

Through October 28, 2022, employees could elect a percentage of withholding ranging from 0.8% to 5.1% on Arizona [Form A-4](#). Now, the Department states that the tax rates to be reflected on the 2022 Arizona personal tax return will be 2.55% and 2.98% in accordance with SB 1828.

Arizona Governor Doug Ducey [announced](#) that due to the state's surging economy, a [letter](#) was issued to the Arizona Department of Revenue with instructions to implement a 2.5% flat tax in tax year 2023, not in 2024 as originally anticipated.

It is estimated that the average Arizona taxpayer will receive a 13% income tax reduction starting in 2023, saving families approximately \$350 a year.

Contact us for more information

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