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URGENT ACTION REQUIRED

Regarding Arizona's New State Withholding Form A4

Last year the federal government decided to give a tax break to workers in the middle of the year by reducing the amount of tax withheld from each paycheck.

Unfortunately, this meant the Arizona state income tax withheld went down, as AZ withholding is based on a percentage of the Federal income tax withheld. So somewhere in the middle of the year, Arizona changed its withholding rates and required employers to get new A4's from their employees selecting a new higher withholding tax rate.

The Arizona Department of Revenue (AZ DOR) has been tasked with coming up with a state withholding tax rate that is *independent* of the federal amount withheld. The AZ DOR has now posted the new AZ A-4s at their website: http://www.azdor.gov/LinkClick.aspx?fileticket=9_U8ufG2wH8%3d&tabid=265&mid=884 If this link is broken you can find it by going to the AZDOR.gov forms pages.

Arizona employers must require all their employees to complete new A-4s before July 1, 2010 and start withholding amounts in accordance with those new A-4s on July 1, 2010. The new A-4s list AZ Withholding amounts as a percentage of income; they are not valid until July 1, 2010.

We have attached a copy of the form A-4 along with the instructions for your convenience. Please feel free to contact us if you'd require any additional information or assistance.

Sincerely,



David L. Buterbaugh, CPA

NOTE: This form is effective for wages paid after June 30, 2010.

| | |
|---|-----------------------------|
| Type or print your full name | Your social security number |
| Home address (number and street or rural route) | |
| City or town, state, and ZIP code | |

Arizona Withholding Percentage Election Options

Choose only one:

- 1 My annual compensation is \$15,000 or more. I choose to have Arizona withholding at the rate of
(check only one box): 1.8% 2.7% 3.6% 4.2% 5.1% of my gross taxable wages.
Additional amount to be withheld per paycheck \$ _____
- 2 My annual compensation is less than \$15,000. I choose to have Arizona withholding at the rate of
(check only one box): 1.3% 1.8% 2.7% 3.6% 4.2% 5.1% of my gross taxable wages.
Additional amount to be withheld per paycheck \$ _____
- 3 I hereby elect an Arizona withholding percentage of zero, and I certify that I meet BOTH of the following qualifying conditions for this election:
 - I had NO Arizona tax liability for the prior taxable year, AND
 - I expect to have NO Arizona tax liability for the current taxable year.

| | |
|--|---------------|
| I certify that I have made the percentage election marked above. | |
| _____ SIGNATURE | _____ DATE |

EMPLOYEE'S INSTRUCTIONS

Arizona Revised Statutes (ARS) §43-401 requires your employer to withhold Arizona income tax from your compensation paid for services performed in Arizona for application toward your Arizona income tax liability. Arizona withholding is a percentage of your gross taxable wages of every paycheck.

"Gross taxable wages" is the amount from each paycheck that will be included in box 1 of your federal Form W-2 at the end of the calendar year (i.e. gross wages net of pretax deductions, such as your portion of health insurance premiums). You may also have your employer withhold an additional amount from each paycheck.

Complete this form to elect an Arizona withholding percentage and any additional amount to be withheld from each paycheck. Give the completed form to your employer.

Current Employees

ALL EMPLOYEES ARE REQUIRED TO COMPLETE THIS FORM FOR WAGES PAID AFTER JUNE 30, 2010. Complete this form to elect an Arizona withholding percentage and designate an additional amount to be withheld. If you want to increase or decrease the amount of Arizona withholding in the future, you must complete this form again to change the Arizona withholding percentage or change the additional amount withheld.

New Employees

Complete this form within the first five days of employment to elect an Arizona withholding percentage. You may also have your employer withhold an

additional amount from each paycheck. If you do not complete this form, the department requires your employer to withhold 2.7% of your gross taxable wages until your employer receives a completed form from you.

Electing a Withholding Percentage of Zero

You may elect an Arizona withholding percentage of zero if you meet BOTH of the qualifying conditions for the election. You qualify for the election if: (1) you had no Arizona income tax liability for the prior taxable year, AND (2) you expect to have no Arizona income tax liability for the current taxable year.

Note that Arizona tax liability is gross tax liability less any tax credits, such as the family tax credit, school tax credits, welfare tax credits, or credits for taxes paid to other states. If you make this election, your employer will not withhold Arizona income tax from your wages for payroll periods beginning after the date of your election.

You should be aware that zero withholding does not relieve you from paying Arizona income taxes that might be due at the time you file your Arizona income tax return. Keep in mind that in order to elect zero withholding, you must meet BOTH conditions listed above. Therefore, if you have an Arizona tax liability when you file your return or if at any time during the current year conditions change so that you expect to have a tax liability, you should immediately complete a new Form A-4 and choose a withholding percentage that is applicable to your situation.

Employee's Arizona Withholding Percentage Election

Voluntary Withholding Election by Certain Nonresident Employees

Compensation earned by nonresidents while physically performing work or services in Arizona for temporary periods is subject to Arizona income tax. However, under the provisions of ARS §43-403(A)(5), compensation paid to certain nonresident employees is not subject to Arizona income tax withholding. These nonresident employees need to review their situations and determine whether they should elect to have Arizona income taxes withheld from their wages or compensation. Nonresident employees may request that their employer withhold Arizona income taxes from their Arizona source compensation by completing this form to elect an Arizona withholding percentage.

How do I Determine Which Percentage to Elect?

In an effort to assist employees in electing a withholding percentage, the following simple examples are provided for general guidance. However, each employee must take into consideration the particular facts of their own situation and adjust their election accordingly.

If you want to keep your withholding approximately the same as last year, you can use your federal Form W-2 for 2009 or your last pay stub to calculate which withholding percentage to elect. For example, if box 1 of federal Form W-2 shows \$40,000 in wages and box 17 shows \$1,000 in state income tax withheld, divide box 17 by box 1 to determine your percentage ($1,000 / 40,000 = .025$ or 2.5%). In order to keep your withholding the same as 2009, choose 1.8% ($40,000 \times .018 = 720$) and an additional \$10.77 per biweekly pay period ($1,000 - 720 = 280 / 26 = 10.77$). Be sure to take into account any amount already withheld for 2010.

If you want to withhold more, choose one of the higher percentages or choose to have an additional amount withheld.

CAUTION: Underwithholding can result in payment of tax due when you file your Arizona return and/or underpayment penalties.

If you would rather more closely approximate your tax liability from last year, use your tax liability from your 2009 Arizona income tax return. Divide that number by the number of paydays in calendar year 2010. This will be the amount of withholding you will try to have withheld out of each paycheck. For instance, if your 2009 tax liability was \$1,500 and you are paid every two weeks (26 paydays a year) divide \$1,500 by 26 ($1,500 / 26 = 57.69$). This is your withholding goal per paycheck. Next, divide your withholding goal by your biweekly gross taxable wages, \$2,000 in this example, to determine the percentage of withholding to gross taxable wages ($57.69 / 2,000 = .028845$ or 2.88%). An election of 2.7% would result in \$54.00 ($2,000 \times 2.7\% = 54$) withheld for Arizona from each paycheck (\$1,404 annually), while electing 3.6% would result in \$72.00 ($2,000 \times 3.6\% = 72$) withheld for Arizona from each paycheck (\$1,872 annually). Be sure to take into account any amount already withheld for 2010.

Example: This example assumes these wages are your only income and your employment situation is the same as last year. If you are paid every two weeks and last year's federal Form W-2 shows \$52,000 in box 1 and \$1,800 in box 17, \$900 has already been withheld from your paychecks for 2010, there are 13 paychecks remaining in the calendar year, and you want to keep your withholding approximately the same, the following worksheet shows how to keep your Arizona withholding the same.

| | Example: | | Your Calculation: | |
|--|-----------------------|---------|-------------------|--|
| Line 1: Annual gross taxable wages. | \$52,000 | | | |
| Line 2: Number of paychecks per year. | 26 | | | |
| Line 3: Divide line 1 by line 2. This is wages per paycheck. | $52000 / 26 =$ | \$2,000 | | |
| Line 4: Annual withholding goal. | \$1,800 | | | |
| Line 5: Amount already withheld. | \$900 | | | |
| Line 6: Balance of withholding for the calendar year. | $1800 - 900 =$ | \$ 900 | | |
| Line 7: Number of paychecks remaining in the calendar year. | 13 | | | |
| Line 8: Divide line 6 by line 7. This is your Arizona withholding goal per paycheck. | $900 / 13 =$ | \$69.23 | | |
| Line 9: Percentage: divide line 8 by line 3. | $69.23 / 2000 =$ | 3.4615% | | |
| Line 10: Withholding percentage that is less than line 9. Check this box on line 1 of Form A-4. | 2.7% | | | |
| Line 11: Multiply line 10 by line 3. | $2.7\% \times 2000 =$ | \$54.00 | | |
| Line 12: Subtract line 11 from line 8. Enter this amount in the additional amount space on line 1 of Form A-4. | $69.23 - 54.00 =$ | \$15.23 | | |