

Due Date for Calendar Year Filer

Your 2023 individual income tax return is due by midnight on April 15, 2024. If you file under a valid extension, your extended due date to file your income tax return is October 15, 2024.

2023 Arizona Standard Deduction Amounts Adjusted

The 2023 Arizona standard deduction amounts are:

- \$ 13,850 for a single taxpayer or a married taxpayer filing a separate return;
- \$ 27,700 for a married couple filing a joint return; and
- \$ 20,800 for individuals filing a head of household return.

Change to Standard Deduction Increase for Charitable Contributions

For taxpayers who do not itemized deductions on their 2023 Arizona income tax return and elect to take the standard deduction, the allowable Standard Deduction Increase was modified. For tax year 2023, the allowable portion of your charitable contributions used to compute your Standard Deduction Increased was increased from 27% to 31% of the qualified charitable contributions made during the tax year. Taxpayers must complete page 3 of their personal income tax form to claim the Standard Deduction Increase. (Arizona Form 140, Form 140PY or Form 140NR).

2023 New Tax Rate of 2.5% for All Income Levels and Filing Status

The Optional Tax Table and the X and Y Tax Table are now obsolete.

Credit for Contributions to Private School Tuition Organizations (Form 323)

The allowable current year credit for contributions to private school tuition organizations was adjusted for inflation purposes. For 2022, the maximum current year credit is:

- \$655 for single and head of household taxpayers.
- \$1,308 for married taxpayers filing a joint return.

Credit for Contributions Made to Certified School Tuition Organizations (Form 348)

The allowable current year credit for contributions to a certified school tuition organization was adjusted for inflation purposes. For 2022, the maximum current year credit is:

- \$652 for single and head of household taxpayers.
- \$1,301 for married taxpayers filing a joint return.

New Individual and Corporate Nonrefundable Tax Credits

Credit for Motion Picture Production Costs (Form 334)

For taxable years beginning from and after December 31, 2022, a tax credit is allowed against production costs paid by a motion picture production company in this state that are subject to taxation by this state and that are directly attributable to a motion picture production. The tax credit may be claimed on either the individual's personal income tax return (Form 140, 140NR, or 140PY) or the Small Business Income tax return, if filing. (Form 140-SBI, 140NR-SBI, or 140PY-SBI)

For more information, see Credit Form 334 and instructions.

2023 CORPORATE INCOME TAX HIGHLIGHTS

Electronic Filing of Corporate Income Tax Returns

Electronic filing of Arizona corporate income tax returns is required for the 2023 taxable year. Please see the department's website at <https://azdor.gov/file-and-pay/e-file-services/approved-vendors> for a list of approved software vendors.

Any corporate taxpayer who is required to file its income tax return electronically may apply to the director for an annual waiver from the electronic filing requirement. The waiver may be granted if any of the following apply:

- The taxpayer has no computer.
- The taxpayer has no internet access.
- Any other circumstance considered to be worthy by the director.

Waivers are granted on an annual basis and expire at the end of the requested tax year. Waivers must be renewed each calendar year. If a waiver is not renewed, you will be subject to statutory electronic filing and payment requirements at the expiration of your waiver.

To request a waiver, submit Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Form 292 is available at: <https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

A waiver is not required if the corporation's income tax return cannot be electronically filed for reasons beyond the corporation's control, including situations in which the corporation was instructed by either the Internal Revenue Service or the Arizona Department of Revenue to file by paper.

Please contact the department at azefile@azdor.gov if you need assistance in electronically submitting your Arizona corporate income tax return.

S Corporations and the Pass-Through Entity Election

For taxable years beginning from and after December 31, 2021 the shareholders of an S Corporation may consent to be taxed at the entity level in Arizona. The Arizona Pass Through Entity (PTE) income tax is assessed at a rate of 2.5% of the income attributable to the S Corporation's resident shareholders and the income derived from sources within Arizona attributable to the nonresident shareholders.

This election must be made by the S Corporation no later than the due date or extended due date of its return. Shareholders that are not individuals or estates and trusts may not participate in this election. Shareholders who are individuals or estates and trusts who opt out of this election also may not participate in this election.

For additional information, see the instructions for Form 120S.

Electronic Funds Transfer

Corporations are required to pay their tax liability by electronic funds transfer (EFT) if the corporation's tax liability is \$500 or more for any taxable year beginning from and after December 31, 2020.

A corporation may apply to the director for an annual waiver from the electronic payment requirement. The application must be received by December 31 of each year. The director may grant the waiver if any of the following applies:

- The corporation has no computer.
- The corporation has no internet access.
- Any other circumstance considered to be worthy by the director exists, including:
 - The corporation has a sustained record of timely payments and
 - The corporation has no delinquent tax account with the department.

To request a waiver, submit Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Form 292 is available at: <https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

NOTE: A corporation who is required to pay by EFT but who fails to do so is subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).

For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.

Extension of Time to File a Return

Effective for taxable years beginning after December 31, 2020 the department may grant an extension request for a maximum of 7 months to a C corporation:

- That has a valid federal extension.
- That filed an Arizona extension request on Arizona Form 120EXT.

NOTE: The maximum length of time for an extension granted to an S Corporation remains 6 months.

Inclusion of Federal Return with Arizona return

The department requests that taxpayers include a copy of their "as-filed" federal return (i.e. federal Form(s) 1120, 1120-S, 1120-F, etc.) and all its schedules and attachments with their Arizona return.

Changes to Tax Credits**Arizona Credit for Increased Research Activities**

For taxable years beginning from and after December 31, 2022, Arizona will permit taxpayers to compute the Credit for Increased Research Activities using:

- The regular method – the excess of Arizona qualified research expenses for the taxable year over the base amount and the Arizona basic research payments; or,
- The Alternative Simplified Credit – the excess of Arizona qualified research expenses for the taxable year over the average Arizona qualified research expenses for the previous three years.

See the instructions for Form 308 for additional information.

Tax Credits Repealed

The Military Reuse Zone Credit, claimed on Form 306, has expired and is no longer available to taxpayers for taxable years beginning from and after December 31, 2022.

The Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets, claimed on Form 319, has expired and is no longer available to taxpayers for taxable years beginning from and after December 31, 2022.

New Tax Credit

Credit for Motion Picture Production Costs, A.R.S. §§ 43-1082 and 43-1165 provide that an individual or corporate refundable tax credit is allowed against production costs that are subject to taxation in Arizona and that are directly attributable to a motion picture production in Arizona. The credit is claimed on Form 334. S Corporations may claim this credit at the corporate level or they may pass the credit through to their shareholders.

2023 PARTNERSHIP HIGHLIGHTS

Partnership Returns

A partnership that has no Arizona income, deductions, or credits for a taxable year is not required to file a partnership return for that year.

Inclusion of Federal Return with Arizona Return

The department requests that partnerships include a copy of their “as-filed” federal Form 1065 and all its schedules and attachments with their Arizona return.

Partnerships and the Pass-Through Entity Election

For taxable years beginning from and after December 31, 2021 the shareholders of a partnership may consent to be taxed at the entity level in Arizona.

NOTE: *S.B. 1734 mandated a change in the starting point to compute Arizona taxable income for partnerships making the PTE election. For taxable years beginning from and after December 31, 2022, the starting point to calculate Arizona taxable income for a partnership making the PTE election is the partnership’s ordinary and rental income including any Arizona additions found in A.R.S. § 43-1021 less any Arizona subtractions found in A.R.S. § 43-1022, **plus**, the items that require separate computation under A.R.S. § 43-1412, paragraphs 1 through 16.*

For taxable year 2023, the Arizona PTE income tax is assessed at a rate of 2.5% of the income attributable to the partnership’s resident partners and the income derived from sources within Arizona attributable to the nonresident partners.

This election must be made by the partnership no later than the due date or extended due date of its return. Partners that are not individuals or estates and trusts may not participate in this election. Partners who are individuals or estates and trusts who opt out of this election also may not participate in this election.

For additional information, see the instructions for Form 165.

Bipartisan Budget Act of 2015 (P.L. 114-74)

For taxable years beginning after December 31, 2017, partnerships must elect NOT to participate in the federal imputed underpayment assessment program. Only those partnerships that issue 100 or fewer statements under Section 6031(b) of the Internal Revenue Code with respect to its partners may elect not to participate.

- If a partnership is issued a federal imputed underpayment adjustment by the IRS, that partnership must file the federal changes to Arizona using Arizona Form 165PA.
- If a partnership does not receive a federal imputed underpayment assessment from the IRS, it will file its federal changes to Arizona on an amended Arizona Form 165.

Electronic Funds Transfer

Partnerships making the PTE election are required to pay their tax liability by electronic funds transfer (EFT) if the partnership’s PTE tax liability is \$500 or more for any taxable year beginning from and after December 31, 2020.

A partnership may apply to the director for an annual waiver from the electronic payment requirement. The application must be received by December 31 of each year. The director may grant the waiver if any of the following applies:

- The partnership has no computer.
- The partnership has no internet access.
- Any other circumstance considered to be worthy by the director exists, including:
 - The partnership has a sustained record of timely payments and
 - The partnership has no delinquent tax account with the department.

To request a waiver, submit Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Form 292 is available at: <https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

NOTE: *A partnership who is required to pay by EFT but who fails to do so is subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).*

For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.

Electronic Filing of Partnership Tax Returns

Electronic filing of Arizona partnership income tax returns is required for the 2023 taxable year. Please see the department’s website at <https://azdor.gov/file-and-pay/e-file-services/approved-vendors> for a list of approved software vendors.

Any partnership that is required to file its income tax return electronically may apply to the director for an annual waiver from the electronic filing requirement. The waiver may be granted and renewed for one subsequent year if any of the following apply:

- The partnership has no computer.
- The partnership has no internet access.
- Any other circumstance considered to be worthy by the director.

Waivers are granted on an annual basis and expire at the end of the requested tax year. Waivers must be renewed each calendar year. If a waiver is not renewed, you will be subject to statutory electronic filing and payment requirements at the expiration of your waiver.

To request a waiver, submit Arizona Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Arizona Form 292 is available at: <https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

A waiver is not required if the partnership tax return cannot be electronically filed for reasons beyond the taxpayer's control, including situations in which the taxpayer was instructed by either the Internal Revenue Service or the Arizona Department of Revenue to file by paper.

Please contact the department at azefile@azdor.gov if you need assistance in electronically submitting your Arizona partnership tax return.

Partnerships filing their partnership return electronically must electronically submit Schedule(s) K-1 and K-1(NR) to the department.

Partnerships filing their partnership return by paper may submit Schedule(s) K-1 and K-1(NR) to the department by CD, DVD, flash drive (Optical Media), or by paper.

Changes to Tax Credits

Arizona Credit for Increased Research Activities

For taxable years beginning from and after December 31, 2022, Arizona will permit taxpayers to compute the Credit for Increased Research Activities using:

- The regular method – the excess of Arizona qualified research expenses for the taxable year over the base amount and the Arizona basic research payments; or,
- The Alternative Simplified Credit – the excess of Arizona qualified research expenses for the taxable year over the average Arizona qualified research expenses for the previous three years.

See the instructions for Form 308 for additional information.

Credits Repealed

- The Military Reuse Zone Credit, claimed on Form 306, has expired and is no longer available to taxpayers for taxable years beginning from and after December 31, 2022.
- The Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets, claimed on Form 319, has expired and is no longer available to taxpayers for taxable years beginning from and after December 31, 2022.

New Tax Credit

- Credit for Motion Picture Production Costs - A.R.S. §§ 43-1082 and 43-1165 provide that an individual or corporate refundable tax credit is allowed against production costs that are subject to taxation in Arizona that are directly attributable to a motion picture production in Arizona. The credit is claimed on Form 334. Partnerships may pass this credit through to its individual and corporate partners.

Due date for Calendar Year Filers

Your 2023 Small Business Income tax return is due by midnight on April 15, 2024. If you file under a valid extension, your extended due date to file your income tax return is October 15, 2024.

2023 Arizona Small Business Income (SBI) Tax

The tax rate applicable to small business taxable income reported on Forms 140-SBI, 140PY-SBI or Form 140NR-SBI was reduced from 3.0% in 2022 to 2.5% for 2023.

New Individual Tax Credits

Credit for Motion Picture Production Costs (Form 334)

For taxable years beginning from and after December 31, 2022, a tax credit is allowed against production costs paid by a motion picture production company in this state that are subject to taxation by this state and that are directly attributable to a motion picture production. The tax credit may be claimed on either the individual's personal income tax return (Form 140, 140NR, or 140PY) or the Small Business Income tax return, if filing. (Form 140-SBI, 140NR-SBI, or 140PY-SBI)

For more information, see Credit Form 334 and instructions.

Due date for 2023 Calendar Year Filers

The 2023 Fiduciary tax return (Form 141AZ) is due by midnight on April 15, 2024. If you file under a valid extension, your extended due date will allow an additional 5 ½ months to September 30, 2024 to file Form 141AZ. **Because September 30, 2024 falls on a weekend, you have until October 2, 2024 to timely file the Arizona 141A tax return.**

NOTE: A *Qualified Funeral Trust (QFT)* using a federal extension (Form 7004) will be allowed the same 6-month extension period to file Arizona Form 141AZ. For Calendar year filers, the return extension due date is October 15, 2024. **Because October 15, 2024 falls on a weekend, you have until October 16, 2024 to timely file the QFT tax return.**

Estates and Trusts 2023 Tax Rates

For tax year 2023 the tax rate for estates and trusts was adjusted. A.R.S. § 43-1311 provides the tax rates subject to estates and trusts. The tax rate for 2023 is 2.5% of the estate or trust's taxable income. There is no longer a separate tax table for estates or trusts.

The tax liability is calculated on 2023 Form 141AZ, line 17.

Form 141AZ Changes

There are two new lines on Form 141AZ to report net fiduciary adjustments allocated to the fiduciary. Line 10a is used to report *positive* adjustment. Line 10b is used to report *negative* adjustment.

Line 11 was modified to include instructions for the fiduciary to compute the “Subtotal” before any other additions or subtractions.

Schedule C, *Fiduciary Adjustment Allocation*, line C16, was modified to report the positive or negative adjustment on page 1 (lines 10a or 10b).

There are two new fiduciary adjustments decreasing federal taxable income.

- Virtual Currency and Non-Fungible Tokens
- Gas Fees or Non-Fungible Token Basis

For more information on these two adjustments, see the instructions for completing Schedule B, line B9, *Other Subtractions from Federal Taxable Income*.

2023 WITHHOLDING HIGHLIGHTS

Electronic Filing of Withholding Tax Returns

Withholding returns shall be filed electronically for taxable years beginning from and after December 31, 2019, or when the department establishes an electronic filing program.

For 2023, the department has **three** methods by which employers may file Form A1-APR electronically. These methods are:

- An employer may register at: <https://efile.aztaxes.gov/AZFSETPortal> [AZ Web File (AZFSET)] to bulk-file its return by uploading a .csv file.
- An employer may register at: <https://aztaxes.gov/Home/Page> (AZTaxes) and use the data input method to submit its return.
- Registered transmitters of AZ Web File (AZFSET) can bulk-file using the transmission method.

Any employer who is required to file its withholding return electronically may apply to the director for an annual waiver from the electronic filing requirement pursuant to Arizona Revised Statutes (A.R.S) § 43-325(F). The waiver may be granted, which may be renewed for one subsequent year, if any of the following apply:

- The employer has no computer.
- The employer has no internet access.
- Any other circumstance considered to be worthy by the director.

A waiver is not required if the withholding return cannot be electronically filed for reasons beyond the employer's control, including situations in which the employer was instructed by the Internal Revenue Service (IRS), or the department to file by paper.

Please contact the department at azwebfilesupport@azdor.gov if you need assistance in electronically submitting your Arizona withholding return.

Submitting Federal Forms W-2, W-2c, W-2G and 1099 (with Arizona withholding) to the Department

Federal Forms W-2, W-2c, W-2G and 1099 are an integral part of the reconciliation process required for Arizona Form A1-APR.

- Submit all federal Forms W-2 and W-2c reporting Arizona wages paid and/or Arizona income tax withheld.
- Submit federal Forms W-2G and/or 1099 reporting Arizona income tax withheld. Federal Forms W-2G and 1099 NOT reporting Arizona income tax withheld are not required to be submitted to the department.

For calendar year 2023, electronic filing of the required federal Attachments is mandatory. An employer may submit supported federal Attachments to the department by:

- Logging into AZTaxes at: <https://aztaxes.gov/Home/Page> to use the data input method, or to upload the supported federal forms as a .txt file.
- Logging into AZ Web File (AZFSET) at: <https://aztaxes.gov/Home/Loginazfset> to upload the supported federal forms as a .txt file.
- Using a registered transmitter to bulk-file via the transmission method.

Employers with a valid federal or Arizona waiver or exemption from electronically filing their returns, or employers submitting unsupported federal Forms may submit the required federal Attachments by paper or on a CD, DVD or flash drive (Optical Media).

NOTE: *The department does not support the electronic filing of all federal withholding forms (e.g. W-2 series, 1099 series). See Pub 701, Submitting Arizona Forms A1-R, or A1-APR, and Federal Forms W-2, W-2c, W-2G and 1099, for a list of the required federal withholding forms that are currently supported by the department for electronic filing.*

Any unsupported federal forms reporting Arizona wages or Arizona income tax withheld must be filed as Optical Media or as paper forms using Form A1-T.

Employers filing Form A1-APR or Form A1-R electronically must submit the supported federal forms electronically through AZTaxes, AZ Web File (AZFSET), or by a registered transmitter.

Federal forms not supported by the department must be submitted by CD, DVD, or flash drive (Optical Media), or as paper forms. To submit these forms, complete and mail Form A1-T to the address on the form. Include the Optical Media or the paper forms with your submission. When submitting Form A1-T, do not include a paper copy of the return. If submitting by Optical Media, see the Section below labeled, "Optical Media" for instructions.

Employers filing Form A1-APR or Form A1-R by paper **may** submit the required federal forms electronically through AZTaxes, or AZFSET. If the employer does not submit the supported federal forms electronically, **all** required federal forms **must** be attached to Form A1-APR as either Optical Media or as paper forms. If submitting by Optical Media, see the Section below labeled "Optical Media" for instructions. If submitting a paper return, mail the return to:

Arizona Department of Revenue
PO Box 29009
Phoenix, AZ 85038-9009

Electronic Funds Transfer

Employers are required to pay their tax liability by electronic funds transfer (EFT) if the employer's tax liability is \$500 or more for any taxable year beginning from and after December 31, 2020.

An employer may apply to the director for an annual waiver from the electronic payment requirement. The application must be received by December 31 of each year. The director may grant the waiver if any of the following applies:

- The employer has no computer.
- The employer has no internet access.
- Any other circumstance considered to be worthy by the director exists, including:
 - The employers has a sustained record of timely payments, and,
 - No delinquent tax account with the department.

To request a waiver, submit Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Form 292 is available at: <https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

NOTE: *An employer who is required to pay by EFT but who fails to do so is subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).*

For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.

2023 EXEMPT ORGANIZATION HIGHLIGHTS

EXEMPT ORGANIZATIONS

Filing Requirement

Effective for taxable year 2018, organizations exempt under Internal Revenue Code § 501 are no longer required to submit Arizona Form 99 or federal Form 990 to the department.

Exempt organizations subject to tax on its unrelated business taxable income as defined in section 512 of the internal revenue code must report that UBTI by filing Arizona Form 99T.

Nonprofit Medical Marijuana Dispensaries

Effective for tax years beginning after December 31, 2017, Nonprofit Medical Marijuana Dispensaries (NMMD) must file Arizona Form 99M. An NMMD must file Arizona Form 99M to meet the filing requirements of A.R.S. § 43-1242. A limited liability company (LLC) that is an NMMD but treated as a disregarded entity must file Arizona Form 99M.

Because NMMDs are not exempt organizations at the federal level, they do not have the option to file the federal return in place of Form 99M. An NMMD that is taxed as an S corporation or a partnership is required to file Arizona Form 120S or Arizona Form 165, as applicable, by the due date of those returns, in addition to filing Form 99M. An NMMD that is organized as a sole proprietorship must also file Arizona Form 140, 140PY, or 140NR, as applicable, by the due date of those returns, in addition to filing Form 99M.

An NMMD may apply for an Arizona extension by filing a completed Form 120EXT by the original due date of the return. The department grants an Arizona extension for filing Form 99M for a period of 6 months. The NMMD cannot use a federal extension to extend the due date of its return. The NMMD must request an Arizona extension on Arizona Form 120EXT.

- *An NMMD organized or taxed as an S corporation:* File one Form 120EXT to apply for an Arizona extension to file Form 99M. File a second Form 120EXT to apply for an Arizona extension of time to file Form 120S. A valid federal extension may be used to file Form 120S, but cannot be used to file Form 99M. No extension payment is due.
- *An NMMD organized or taxed as a partnership:* File one Form 120EXT to apply for an Arizona extension to file Form 99M. File a second Form 120EXT to apply for an Arizona extension of time to file Form 165. A valid federal extension may be used to file Form 165, but cannot be used to file Form 99M.
- *An NMMD organized as a sole proprietorship:* File one Form 120EXT to apply for an Arizona extension to file Form 99M. File a second Form 204 to apply for an Arizona extension of time to file Form(s) 140, 140PY, or 140NR, as applicable. A valid federal extension may be use to file Form(s) 140, 140PY, or 140NR, but cannot be used to file Form 99M.

ORGANIZATIONS WITH UNRELATED BUSINESS TAXABLE INCOME (UBTI):

Electronic Funds Transfer

Organizations are required to pay their tax liability by electronic funds transfer (EFT) if the Organization's tax liability is \$500 or more for any taxable year beginning from and after December 31, 2020.

An organization may apply to the director for an annual waiver from the electronic payment requirement. The application must be received by December 31 of each year. The director may grant the waiver if any of the following applies:

- The organization has no computer.
- The organization has no internet access.
- Any other circumstance considered to be worthy by the director exists, including:
 - The organization has a sustained record of timely payments and
 - No delinquent tax account with the department.

To request a waiver, submit Form 292, *Electronic Filing and Payment Waiver Application*, to the department. Form 292 is available at: <https://azdor.gov/forms/other-forms/electronic-filing-and-payment-waiver-application>.

NOTE: *An organization that is required to pay by EFT but fails to do so is subject to a penalty of 5% of the amount of the payment not made by EFT. See A.R.S. § 42-1125(O).*

For additional information on electronic funds transfer, refer to A.R.S. § 42-1129 and the related Arizona Administrative Code rules (A.A.C. R15-10-301 through R15-10-307) for detailed information.

Extension of Time to File a Return

Effective for taxable years beginning from and after December 31, 2020, the department may grant an extension request for a maximum of 7 months to:

- An NMMD filing Arizona Form 99M that files an Arizona Extension Request on Arizona Form 120EXT.
- An exempt organization filing Arizona Form 99T that has a valid federal extension request.
- An exempt organization filing Arizona Form 99T that files an Arizona extension request on Arizona Form 120EXT.