

Income/Franchise:

Arizona: New Law Offers Entity-Level Taxation for Some Pass-through Entities and Small Businesses

H.B. 2838, signed by gov. 7/9/21. Applicable for tax years beginning on or after January 1, 2022, recently signed legislation provides an election for some pass-through entities to pay a new entity-level income tax, which must be made on or before the due date for filing the applicable income tax return, including extensions. Qualifying electing entities (PTEs) must pay income tax at a rate of 4.5% on the taxable income “attributable to its resident partners or shareholders and the portion of its taxable income derived from sources within this state that is attributable to its nonresident partners or shareholders.”

URL: <https://apps.azleg.gov/BillStatus/BillOverview/76039?SessionId=123>

S.B. 1783, signed by gov. 7/9/21. Applicable retroactively for tax years beginning on or after January 1, 2021, recently signed legislation provides for a new entity-level business income tax for some Arizona small businesses whose owners elect to pay tax on their pass-through business income at the entity-level in lieu of paying tax on it under Arizona’s individual income tax provisions. For tax year 2021, electing entities must pay such business income tax at a rate of 3.5%; this tax rate gradually falls to 2.5% for tax year 2025 and thereafter.

URL: <https://apps.azleg.gov/BillStatus/BillOverview/75928?SessionId=123>

See forthcoming Multistate Tax Alert for more details on this legislation, and please contact us with any questions in the meantime.

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