

Income/Franchise:

Arizona: New Law Revises Aspects of Entity-Level Taxation for Some Pass-through Entities

S.B. 1579, signed by gov. 5/20/22. Recently enacted legislation contains several provisions pertaining to Arizona's elective entity level tax for pass-through entities [see H.B. 2838 (2021) and previously issued Multistate Tax Alert for more details on this new tax as originally enacted], including some which:

URL: <https://apps.azleg.gov/BillStatus/BillOverview/77561>

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

URL: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-mta-arizona-enacts-elective-arizona-small-business-tax-and-pass-through-entity-level-tax.pdf>

- Specify that the taxable income for an S corporation that has elected to pay entity-level income tax is comprised of the total of all distributive income passed through to shareholders;
- Clarify that partners or shareholders that are individuals, estates or trusts that waive their right to opt out of the election will be included in the election;
- Create a credit for entity level income tax, allowed against tax imposed on an estate and trust, for a taxpayer who is a partner in a partnership or a shareholder of an S corporation that elects to pay the entity-level income tax;
- Provide that the estate or trust and its noncorporate beneficiaries shall apportion the credit in the same proportion as their respective shares of the federal distributive net income of the estate or trust from the partnership or S corporation;
- Establish that the amount of the credit for entity-level income tax is the portion of the tax paid by the partnership or S corporation that is attributable to the partner's or shareholder's share of Arizona taxable income; and
- Prohibit the amount of the credit not used to offset income taxes from being carried forward for more than five consecutive taxable years.

Please contact us with any questions.

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