



Douglas A. Ducey
Governor

David Briant
Director

ARIZONA WITHHOLDING TAX RULING

WTR 16-2

(This ruling supersedes Arizona Withholding Tax Ruling WTR 93-1)

This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

ISSUE:

Are amounts paid for employee benefits considered to be a payment of wages subject to Arizona withholding?

RULING:

Amounts paid for employee benefits that are included in wages and subject to mandatory federal withholding are subject to Arizona withholding, unless the employment is excluded from Arizona withholding. Amounts excluded from mandatory federal withholding are similarly excluded from Arizona withholding.

DISCUSSION:

For federal purposes, Internal Revenue Code (I.R.C.) § 3402(a) requires every employer making payment of wages to deduct and withhold upon such wages a tax determined in accordance with prescribed tables or a prescribed mathematical formula. Under I.R.C. § 3401(a), the term "wages" includes all remuneration (other than fees paid to a public official) for services performed by an employee for an employer, including the cash value of all remuneration (including benefits) paid in any medium other than cash; except that "wages" shall not include certain specifically excluded remuneration. Therefore, for federal withholding purposes, employee benefits are included in wages and subject to federal withholding, unless a specific exclusion applies.

For Arizona withholding tax purposes, Arizona Revised Statutes (A.R.S.) §§ 43-102 and 43-105(A) conform the Arizona definition of wages to the federal definition of wages. The Arizona withholding is based on a percentage of gross taxable wages. "Gross taxable

ARIZONA WITHHOLDING TAX RULING

WTR 16-2

(This Ruling Supersedes WTR 93-1)

Page 2

wages" is the amount that meets the federal definition of "wages" contained in IRC § 3401(a) and that will generally be included in box 1 of the employee's federal Form W-2 at the end of the calendar year (i.e. gross wages net of pretax deductions, such as the employee's portion of health insurance premiums). Therefore, amounts paid for employee benefits that are included in wages and are subject to mandatory federal withholding are subject to Arizona withholding, unless the employment is excluded from Arizona withholding,. Amounts excluded from mandatory federal withholding are similarly excluded from Arizona withholding.

APPLICABLE LAW:

A.R.S. § 43-102(A)(1) adopts the provisions of the Internal Revenue Code relating to the measurement of adjusted gross income.

A.R.S. § 43-105 defines the term "Internal Revenue Code" for Arizona income and withholding tax purposes.

A.R.S. § 43-401(A) requires an employer to deduct Arizona withholding from remuneration paid to an employee for services performed in Arizona.

I.R.C. § 3401(a) defines the term "wages" for federal withholding purposes.

I.R.C. § 3402(a)(1) requires every employer making payment of wages to deduct and withhold upon such wages a tax determined in accordance with prescribed tables or a prescribed mathematical formula.

Grant Nülle, Deputy Director

Signed: July 25, 2016

Explanatory Notice

The purpose of a tax ruling is to provide interpretive guidance to the general public and to department personnel. A tax ruling is intended to encompass issues of law which are not adequately covered in statute, case law or administrative rules. A tax ruling is a position statement which provides interpretation, details or supplementary information concerning the application of the law. Relevant statute, case law, or administrative rules, as well as a subsequent ruling, may modify or negate any or all of the provisions of any tax ruling. See

ARIZONA WITHHOLDING TAX RULING
WTR 16-2
(This Ruling Supersedes WTR 93-1)
Page 3

GTP 96-1 for more detailed information regarding documents issued by the Department of Revenue.