
2010 CORPORATE INCOME TAX HIGHLIGHTS

EMANCIPATION DAY AFFECTS APRIL 15 DUE DATE IN 2011 - Because Emancipation Day is a legal holiday recognized by the IRS, the April 15 due date in Arizona is affected. Returns and payments due on April 15, 2011, will be considered timely if made by the next business day: Monday, April 18, 2011.

WITHHOLDING RATES AND WITHHOLDING BASE CHANGED - In accordance with SB1185 (2009), the Department made new withholding forms available on its internet website in early April 2010. All employees were required to file a revised Arizona Form A-4 to take into account the changes to the withholding tax rates and withholding tax base. Employees already subject to voluntary withholding were required to file a revised Arizona Form A-4V. Recipients of pensions and annuities already subject to withholding were required to file a revised Arizona Form A-4P. An additional withholding rate has been made available on the revised forms for 2011. The withholding rates adopted as of July 1 remain on the new forms. The annual compensation limitation has been removed and the requirements for claiming an exemption from withholding have changed. The 2011 versions of the Arizona Form A-4, Form A-4P and Form A-4V are available on the department's website at www.azdor.gov.

2009 NONCONFORMITY - Each year the Arizona legislature considers whether to amend Arizona Revised Statutes § 43-105 to conform to changes made to the Internal Revenue Code during the prior year. On April 27, 2010, the Governor signed House Bill 2156, which incorporated the federal changes made in 2009 into Arizona's definition of "internal revenue code." However, House Bill 2156 also included additions to and subtractions from income that have the affect of Arizona not conforming to the following changes that affect corporations, S corporation shareholders, partnerships and their partners: (1) an election to exclude discharge of indebtedness income from the reacquisition of a business debt instrument on your 2009 federal return; (2) the exclusion of original issue discount on a debt instrument described in number 1 from income on your 2009 federal return; and (3) a cash gift made during 2010 to aid Haiti earthquake victims deducted on your 2009 federal return. If you have already filed your 2009 return and any of items 1 through 3 above apply to you, you must amend your 2009 Arizona return. To get a form or for more information on this topic, visit the department's web site at www.azdor.gov.

NEW REFUNDABLE TAX CREDIT FOR RENEWABLE ENERGY INDUSTRY - If a taxpayer expanded or located a qualified renewable energy operation in Arizona, the taxpayer may qualify for the refundable credit for renewable energy industry. Approval through the Department of Commerce is required. See Form 342 for details.

CREDIT FOR INCREASED RESEARCH ACTIVITIES RATES CHANGE - In 2008, the Arizona Legislature passed HB 2391, which changed the rates for the credit for increased research activities for tax years 2010 through 2017. For tax years beginning from and after December 31, 2009, the credit will be calculated at 22% of the first \$2.5 million in allowable expenses and 13% of the allowable expenses exceeding \$2.5 million. For tax years prior to December 31, 2009, the rates were 20% and 11%, respectively. The rates will increase for tax years beginning from and after December 31, 2010, to 24% and 15%, respectively. The pre-2010 percentages will return for taxable years beginning from and after December 31, 2017. See Form 308 for more details.

A PORTION OF THE CREDIT FOR INCREASED RESEARCH ACTIVITIES MAY BE REFUNDABLE FOR QUALIFIED TAXPAYERS - Starting with taxable year 2010, a portion of the credit for increased research activities may be refundable to qualified taxpayers. Approval through the Arizona Department of Commerce is required. See Form 308 for details.

PAYROLL SERVICE COMPANIES REQUIRED TO REGISTER WITH THE DEPARTMENT - For withholding returns due from and after May 31, 2011, payroll service companies are required to file returns electronically and make payments electronically on behalf of their clients. Failing to do so will result in a penalty of \$25 for each return not filed electronically and a penalty of \$25 for each payment not made electronically, unless the failure is due to reasonable cause. For more information on this topic, visit the department's web site at www.azdor.gov.

EFT PENALTY - For reporting periods beginning from and after February 28, 2011, taxpayers required to make corporate estimated payments or withholding payments via EFT that fail to do so will be subject to a penalty of 5%. See ARS § 42-1125(O).