

Summary of Arizona Small Business Income and Taxation

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On July 9, 2021 Governor Ducey signed into law [Senate Bill 1783](#) establishing [Title 43 Chapter 17](#) (Small Businesses, which provides for an alternative tax for Arizona small business income (SBI). Beginning with tax year 2021, a taxpayer may elect to file a separate **small business income tax return (Form 140-SBI, 140NR-SBI, or 140PY-SBI)** to report their share of Arizona small business gross income.

For tax year 2021, the tax is equal to 3.5% of small business taxable income reported on the SBI tax return.

For tax year 2022, the tax is equal to 3.0% of small business taxable income reported on the SBI tax return.

For tax years beginning from and after December 31, 2022 see the small business income tax return for that tax year for applicable tax rate.

The election is made separately for each tax year and is effective by reporting Arizona small business income on a timely filed Arizona small business income tax return (SBI). The SBI tax return will be considered timely if filed together with the taxpayer's regular income tax return on or before the due date (including valid extensions).

A taxpayer who elects to file an SBI tax return is required to make an adjustment reducing their federal adjusted gross income reported on the **regular individual income tax return (Form 140, 140NR, or 140PY)** by the total amount of Arizona small business gross income reported on their SBI tax return. The Arizona small business gross income is determined by adding the amounts plus the portion of federal Schedule D that represents capital gains (losses) from the disposition of a non-publically traded ownership interest or from the disposition of a capital asset used in a trade or business. Only amounts that are included in the taxpayer's federal adjusted gross income may be included in Arizona small business gross income.

For **Arizona nonresidents**, Arizona small business gross income is that portion of federal adjusted gross income that represents small business income from sources within Arizona.

For **Arizona part-year residents**, Arizona small business income includes all small business income earned while a resident and only that portion of small business income from Arizona sources during the period of non-residency included in the taxpayer's federal adjusted gross income.

The SBI tax return **must** be filed with the regular income

tax return to be accepted. If the taxpayer does not file both returns together, the election may be denied and the adjustment to federal adjusted gross income may be disallowed.

A taxpayer may revoke their election on a timely filed amended Arizona small business tax return (Form 140X-SBI) and corresponding amended Arizona individual income tax return (Form 140X).

Items to consider when filing a small business income tax return

The following is provided to give general information when filing a SBI tax return. For more information relating to required adjustments, allowable tax credits and computing the tax amount, see the SBI instructions before completing the SBI tax return. You may also want to review the instructions for the regular tax return before completing the SBI tax return.

Forms and instructions are available at: <https://azdor.gov/forms>

Due Date (Forms 204 and 204-SBI)

The due date is the same as the due date for a regular individual income tax return. For calendar year filers, the due date is April 15.

If the due date falls on a weekend or holiday, the due date is the next day that is not a Saturday, Sunday or holiday.

If you cannot file your SBI return by the due date, a taxpayer may file Form 204, *Application for Filing Extension*, providing an automatic 6-month extension to file both the regular and SBI tax returns. The extension request must be filed on or before the original due date of the taxpayer's tax return. Taxpayers are not required to file a separate Form 204 for the SBI tax return. Form 204 will also provide the same extension period for the SBI return.

Note: *Keep in mind, an extension request does not provide an extension to pay your small business income taxes. Taxpayers must pay their taxes by the original due date of the return to avoid any late payment penalty.*

Form 204-SBI, *Extension Payment*, is used **only** to remit a required extension payment for the Small Business Income tax return. Do not file this form to request an extension of time to file the SBI tax return. For more information, see Form 204-SBI.

AZ Form 301-SBI, Nonrefundable Individual Tax Credits and Recapture, for Small Business Income

Most nonrefundable income tax credits available to claim on the regular income tax return are also available to claim on the SBI return. A taxpayer that qualifies for any tax credit shown on page 1 of Form 301-SBI must claim that tax credit on the SBI return and not on the regular individual tax return. The credit cannot be “split” between the two tax returns. However, a taxpayer may “transfer” all or a portion of any nonrefundable tax credit remaining (not used) on the SBI return to the regular tax return. To transfer any excess SBI credit amount to the regular return, the taxpayer must have a tax liability remaining on their regular income tax return after applying regular return credits against the tax liability shown on the regular individual income tax return. A taxpayer determines if they are eligible to transfer any credit amount and the amount available to transfer by completing page 3 of Form 301-SBI. If the taxpayer transfers any available credit from the 301-SBI, that amount is entered on Form 301. For more information, see Forms 301-SBI and 301 and their related instructions.

Note: *Tax credits claimed for qualifying contributions to qualified charitable organizations (Credit Forms 321, 322, 323, 348, and 352) cannot be claimed on Form 301-SBI and must be claimed on the taxpayer’s regular tax return.*

Credit for Income Taxes Paid to Other State or Country (Arizona Credit Form 309-SBI)

Senate Bill 1783 (A.R.S. § 43-1701) also established a credit for income taxes paid to other states or country, allowed against Arizona small business income tax liability, for net income taxes imposed by and paid to another state or country on the same Arizona small business taxable income taxed by both Arizona and the other state or country. For more information, see Form 309-SBI.

Small Business Income Estimated Tax Payments

For tax year 2021, a taxpayer is (was) not required to remit SBI estimated tax payments. The Department will not assess a penalty for underpayment of estimated taxes on any amount not remitted.

Note: *The taxpayer is still subject to the late payment penalty (including applicable interest) for the amount of taxes not paid by the original due date of the return. The Department will not assess a late filing penalty on the SBI tax return. If the taxpayer fails to timely file the SBI tax return (either by the normal due date or extended due date), the election will be denied and the adjustment (decrease to federal adjusted gross income) made on the regular tax return for small business income will be disallowed. In this case, all income is reported on the regular income tax form.*

Beginning with tax year 2022, a taxpayer is required to pay estimated tax in four equal installments (25% of the required

annual estimated tax payment) if the taxpayer’s liability is at least \$1,000. Use Form 140ES-SBI, *Individual Estimated Income Tax Payment (Small Business Income Tax Return)*, to remit the required amount of quarterly estimated taxes. Page 2 of Form 140ES-SBI includes a worksheet to determine the required amount of each quarterly tax payments.

The amount of the required payment is the lesser of:

- a. 90% of the tax shown on the return for the tax year or, if no return is filed, 90 percent of the tax for that year;
- b. 100% of the tax shown on the small business income tax return for the preceding tax year — unless the preceding tax year was not 12 months; or the small business did not file a return for the preceding tax year that indicated a liability.

If the taxpayer fails to remit the required estimated tax payment (Form 204-SBI), the Department may assess an underpayment of estimated taxes penalty on any amount not timely remitted.

Composite income tax return in Another State

A small business taxpayer who participates in a composite income tax return in another state may claim a credit for taxes paid to the other state if the taxes paid to the other state are imposed on — and paid directly — by the small business taxpayer and not the entity and if the:

- a. Small business taxpayer makes direct payment to the other state;
- b. Small business taxpayer makes direct payment to the entity filing the composite income tax return;
- c. Entity charges the small business taxpayer’s loan account for the amount of the tax; and
- d. Entity reduces the small business taxpayer’s capital account.

If the taxpayer claims the credit for taxes paid to a foreign country, to use the conversion rate in effect on the date the taxpayer paid the taxes to the foreign country.

If any taxes paid to another state or country are credited or refunded and the taxpayer has been allowed a credit, to immediately report that fact to ADOR.

If any taxes paid to another state or country are credited or refunded, a tax equal to the credit allowed for the taxes credited or refunded by the other state or country to be paid by the taxpayer on notice and demand from ADOR.

For the purpose of the Small Business Income tax return:

1. “Arizona small business” means an activity that generates Arizona small business gross income.
2. “Arizona small business adjusted gross income” of a

resident taxpayer means the Arizona small business gross income subject to the adjustments provided in article 3 of this chapter. A.R.S. § 43-1721 (additions and subtractions to Arizona small business gross income).

NOTE: In computing Arizona small business adjusted gross income, the additions and subtractions provided in sections 43-1021 and 43-1022 shall be made but only to the extent the additions and subtractions directly relate to Arizona small business gross income. The subtraction for SBI provided in section 43-1022, paragraph 28 may not be included as a subtraction under this chapter.

Deductions other than those deductions already reflected in the net amounts reported on the federal schedules prescribed in section 43-1701 may not be taken against Arizona small business adjusted gross income in computing Arizona small business taxable income.

3. “Arizona small business gross income” of a resident taxpayer:

a. Means the sum of the amounts, whether positive or negative, that are included in a taxpayer’s federal adjusted gross income for the taxable year, computed pursuant to the internal revenue code, and that are reported on the following schedules and forms or on equivalent successor schedules and forms designated by the internal revenue service:

- (i) Schedule B, interest and ordinary dividends.
- (ii) Schedule C, profit or loss from business.
- (iii) Schedule E, supplemental income or loss.
- (iv) Schedule F, profit or loss from farming.
- (v) Form 4797, sale of business property.
- (vi) Form 4835, farm rental income and expenses.

b. Includes any amount reported on schedule D, capital gains and losses, that is recognized with respect to either the taxable disposition of an ownership interest in any entity other than a publicly traded entity, or the taxable disposition of capital assets used in connection with a trade or business activity, including goodwill and going concern value.

4. “Arizona small business taxable income” of a resident taxpayer means the Arizona small business adjusted gross income minus any deductions allowable in article 4 of this chapter.

(Arizona Revised Statute Title 43, Chapter 17)

FOR ADDITIONAL INFORMATION:

~ **Browse** ~

www.azdor.gov
www.AZTaxes.gov

~ **Call** ~

(602) 255-3381

Toll-free within AZ: 1-800-352-4090

~ **Write** ~

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Taxpayer Information & Assistance
1600 W. Monroe
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