



# Small Business Income Frequently Asked Questions

April 2022

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## **Q: What is the Arizona Small Business Income tax?**

A: Arizona's small business income tax allows individual taxpayers to elect to have their Arizona small business gross income removed from their regular individual income tax return and taxed on a separate Arizona small business income tax return.

## **Q: What is small business income comprised of?**

A: "Arizona small business gross income" of a resident taxpayer:

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:

Schedule B, interest and ordinary dividends.

Schedule C, profit or loss from business.

Schedule E, supplemental income or loss.

Schedule F, profit or loss from farming.

Form 4797, sale of business property.

Form 4835, farm rental income and expenses.

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.

## **Q: When can I first elect to file an Arizona Small Business Income tax return?**

A: For taxable years beginning from and after December 31, 2020, a small business 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.

## **Q: Where can I find the Arizona Small Business Income statutes?**

A: The Arizona Small Business Income Tax statutes are found in Arizona Revised Statutes Title 43 Chapter 17. You can also read the bill at <https://www.azleg.gov/legtext/55leg/1R/bills/SB1783S.pdf>.

## **Q: Does a taxpayer need to have a small business to make the small business income tax election?**

A: No, a taxpayer does not need to have a small business

in order to make the small business income election. A small business taxpayer means any individual taxpayer who reports on their federal income tax return any income that constitutes Arizona small business gross incomes as defined in A.R.S. § 43-1701.

## **Q: How does a taxpayer make the small business income tax election?**

A: A taxpayer makes the small business income tax election by filing a timely Small Business Income Tax return along with their timely filed individual income tax form (Form 140, Form 140NR, or Form 140PY).

## **Q: When must the Small Business Income Tax election be made?**

A: The small business income tax election must be made on a timely filed return including valid extensions. Elections made after the original due date or valid extended due date will not be considered effective.

## **Q: What additions/subtractions are allowed on the small business income return?**

A: The Arizona small business return is subject to most of the additions and subtractions provided in the individual income tax chapter to the extent the adjustments directly relate to the small business income.

## **Q: What deductions can I take on the small business income return?**

A: Deductions claimed on the federal return are only included in the Arizona small business return if they are already included in the net amounts reported on the federal schedules listed in the definition of "Arizona small business gross income."

## **Q: What business credits can I take on the small business income return?**

A: Most nonrefundable income tax credits available to claim on the regular income tax return are also available to claim on the SBI return. If you qualify for any tax credit shown on page 1 of Form 301-SBI, you 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, you may "transfer" all or a portion of any nonrefundable tax credit remaining (not used) on the SBI return.

# Small Business Income Frequently Asked Questions



April 2022

www.azdor.gov

## **Q: How do I transfer a credit amount from Form 301-SBI to Form 301?**

A: To transfer a credit amount, you must have a tax liability remaining on your regular income tax return after applying regular return credits against the tax liability shown on the regular individual income tax return. You can determine if you are eligible to transfer any credit amount and the amount available to transfer by completing page 3 of Form 301-SBI. If you transfer any available credit from Form 301-SBI, that amount is entered on Form 301. For tax year 2021, the transfer amount is reported on Form 301, line 63. For more information, see Forms 301-SBI and 301 and their related instructions

## **Q: Is there a credit for income paid to other states for the small business income liability?**

A: Yes, A.R.S. § 43-1701 establishes a Credit for Income Taxes Paid to Other States, 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.

## **Q: What is the tax rate on small business income?**

A: If an Arizona small business taxpayer makes the election under Arizona Revised Statutes (A.R.S.) § 43-302, there shall be levied, collected, and paid for each taxable year on the Arizona small business taxable income. For tax year 2021, an amount equal to 3.5% of the Arizona small business taxable income. For tax year 2022, an amount equal to 3.0% of the Arizona small business taxable income.

## **Q: When is the Arizona small business income tax return due?**

A: 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. Because April 15, 2022 falls on a federal holiday, taxpayers have until April 18, 2022 to timely file their 2021 Arizona tax returns. The small business income tax return is considered timely if filed together with the regular income tax return on or before the due date (including valid extensions).

## **Q: How do I file the new small business income tax return?**

A: A taxpayer who elects to file an small business income 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 small business income tax return. 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.

## **Q: I am a nonresident. How do I factor the gross income?**

A: 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.

## **Q: I am a part-year resident. How do I factor the gross income?**

A: 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.

## **Q: I am a small business but forgot/did not know to file Form 140-SBI. What do I do now?**

A: You will need to amend your Form 140 by filing a Form 140X with your amended additions and subtractions, along with filing an original Form 140-SBI, 140NR-SBI or 140PY-SBI, prior to the original due date of the return or extended due date of the return for which you had a valid extension. The Form 140-SBI must be filed timely for the election to be effective.

## **Q: I am a small business and need to change my Form 140 and/or Form 140-SBI. How do I do this?**

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

## **Q: Are there estimated payments for Form 140-SBI for tax year 2021?**

A: No. For tax year 2021, a taxpayer is 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.



# Small Business Income Frequently Asked Questions

April 2022

www.azdor.gov

**Q: Will there be estimated payments for small business income tax return for tax year 2022?**

A: No. For tax year 2022, a taxpayer is 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.

**Q: Do I need to file a separate extension for the small business income tax return?**

A: If you cannot file your SBI return by the due date, a taxpayer may file Form 204, Application for Filing Extension, providing an automatic six-month extension to file both the regular and SBI tax returns. The extension request must be filed on or before the original due date. Because Friday, April 15, 2022 is an observed federal Holiday (Emancipation Day), taxpayers have until Monday, April 18, 2022 to file their 2021 tax returns. 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. Because October 15, 2022 falls on a weekend, taxpayers have until October 17, 2022 to timely file their 2021 Arizona tax return(s).

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.

**Q: Can I get an extension to pay my small business income tax?**

A: No. An extension to file your small business income tax form does not extend the time to pay your small business income tax. You must still pay your small business tax liability by the original due date of the return. For tax year 2021, the original due date is April 18, 2022. Complete Form 204-SBI, Extension Payment, to make an extension payment for your small business income tax return. Mail the completed form along with your payment to the address shown on Form 204-SBI. Form 204-SBI is used only to remit a required extension payment for the Small Business Income tax return. If you are making the required extension payment by credit card or electronic payment using AZTaxes.gov, do not mail this form to the department. We will apply your extension tax payment to your account. Keep a copy of Form 204-SBI for your records.

**Q: I filed a federal extension. Do I need to file a state extension for small business income?**

A: No. Taxpayers who filed an extension with the Internal Revenue Service do not have to do so with the state, but they must check the Filing Under Extension box 82F on the Arizona tax returns when they file.

**Q: I filed an electronic Form 140-SBI but I need to make a paper payment. What do I need to send in?**

A: We encourage taxpayers to make payments online by e-check or credit card under “Make a Payment” and “140V-SBI.”

To avoid processing delays of your paper payment, taxpayers must provide their tax identification numbers and tax periods they want the payments applied to by sending Form 140V-SBI. Please do not send a paper copy of a return with payment.

**Q: On Form 140-SBI, do I enter my business name and address or personal identification?**

A: Enter your individual name (and spouse name, if filing a joint return) as shown on your individual income tax return and address, not your business information.

**Q: How do I make a payment for my small business income return?**

A: We encourage taxpayers to make payments online by e-check or credit card under “Make a Payment” and “140V-SBI.”

To avoid processing delays of your paper payment, taxpayers must provide their tax identification numbers and tax periods they want the payments applied to by sending Form 140V-SBI. Please do not send a paper copy of a return with payment.

**Q: How do I request a payment plan for my small business income return?**

A: If unable to pay tax liability in full, you can request a monthly installment plan by visiting AZTaxes.gov. Under the Individual menu, select Request a Payment Plan. The process to establish a payment plan request in ADOR’s system will take approximately 60 days after the tax liability is billed. Once submitted, you will be provided a confirmation number and a monthly installment payment amount.



# Small Business Income Frequently Asked Questions

April 2022

[www.azdor.gov](http://www.azdor.gov)

**Q: Where is my small business income return refund?**

A: Please check Where's My Refund on [AZTaxes.gov](http://AZTaxes.gov). Overpayment (refund) will not be sent until Form 140 and Form 140-SBI are processed.

If a taxpayer has an overpayment on Form 140, but a tax due on Form 140-SBI, the refund will be applied to the Form 140-SBI tax due before the refund is processed.

If a taxpayer has an overpayment on Form 140-SBI, but tax due on Form 140, the refund will be applied to the Form 140 tax due before the refund is processed.

**Q: If I have a tax due on one return but the other return's overpayment will pay for the tax due, do I need send in a payment?**

A: If a taxpayer has an overpayment on Form 140, 140NR, or 140PY, but a tax due on Form 140-SBI, 140NR-SBI, or 140PY-SBI, the refund will be applied to the Form 140-SBI, 140NR-SBI, or 140PY-SBI tax due before the refund is issued.

If a taxpayer has an overpayment on Form 140-SBI, 140NR-SBI, or 140PY-SBI, but tax due on Form 140, 140NR, or 140PY, the refund will be applied to the Form 140, 140NR, or 140PY tax due before the refund is issued.

Do not send a payment for the tax due if the overpayment will cover the tax due.

**Q: I filed my small business return 8 weeks ago. Why have I not received my refund or you did not cash my check?**

A: The Arizona Department of Revenue is committed to conducting a thorough review of income tax returns to ensure accuracy and to protect taxpayers from identity theft. If you filed a small business return, your refund may be held until mid-March to verify your qualifications.

**Q: Where can I find approved software vendors to e-file my return?**

A: See Individual: [azdor.gov/e-services/approved-vendors](http://azdor.gov/e-services/approved-vendors).

**Q: What if I have a specific tax-related question about the new Small Business Income tax?**

A: 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.

If you need specific tax assistance, please email [AskTaxPolicy@azdor.gov](mailto:AskTaxPolicy@azdor.gov).