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Arizona Revised Statutes Section 43-1014

Entity-level tax election; partnerships; S corporations

A. For taxable years beginning from and after December 31, 2021, the partners or shareholders of a business that is treated as a partnership or S corporation for federal income tax purposes may consent to be taxed at the entity level at a rate of four and one-half percent of the entire portion of its taxable income that is attributable to its resident partners or shareholders and the portion of its taxable income derived from sources within this state that is attributable to its nonresident partners or shareholders for that taxable year. The election under this subsection must be made on or before the due date or extended due date of the business's return under this title.

B. If the election is made under subsection A of this section, all of the following apply:

1. The taxable income of the partnership or S corporation shall be computed under this chapter or chapter 14 of this title, as applicable.
2. If the partnership or S corporation does not pay the amount owed to the department as a result of the election under this section, the department may collect the amount from the partners or shareholders based on the proportionate share of income that is attributable to each partner or shareholder for Arizona tax purposes.
3. The partnership or S corporation shall pay estimated tax pursuant to section 43-581 as necessary.

C. The election under subsection A of this section does not apply to the following:

1. Partners or shareholders that are not individuals, estates or trusts. The portion of the taxable income attributable to a partner or shareholder that is not an individual, estate or trust is not included in the entity-level tax under subsection A of this section.
2. Partners or shareholders who are individuals, estates or trusts and who opt out or waive the right to opt out of the election pursuant to subsection D of this section. The portion of the taxable income attributable to a partner or shareholder who is an individual, estate or trust and who opts out or waives the right to opt out of the election pursuant to subsection D of this section is not included in the entity-level tax under subsection A of this section.

D. A partnership or S corporation that intends to make the election under subsection A of this section shall notify all partners or shareholders who are individuals, estates or trusts of the intent to make the election and that each partner or shareholder who is an individual, estate or trust has the right to opt out of the election. The notice shall allow each partner or shareholder who is an individual, estate or trust at least sixty days after receiving the notice to notify the partnership or S corporation that the partner or shareholder who is an individual, estate or trust is exercising the

partner's or shareholder's right to opt out of the election. If the partner or shareholder who is an individual, estate or trust does not respond within the sixty-day period or waives the right to opt out, the partner or shareholder will be included in the election.

E. The department shall adopt rules and prescribe forms and procedures as necessary to administer this section.