

General Overview

● The new withholding tax reduction law will become effective January 1, 2010. It allows individual income taxpayers to authorize their employer(s) to reduce their state withholding tax amount in order to make donations to a charitable organization, public school, and/or a school tuition organization. (ACSTO is a school tuition organization.) Employer participation in this is strictly voluntary. Private school tuition tax credit donations can be sent to ACSTO by the employer quarterly and ACSTO will help facilitate this process. The public school tax credit and the working poor tax credit will each be facilitated by the qualified schools or non-profit organizations that accept those donations.

● ACSTO will provide further information prior to January 1, 2010 to more specifically explain our understanding of this law and our procedures regarding it. We are in the process of developing forms and publications helpful in presenting this to an employer, but they may not be completed immediately as it is not yet clear what forms and/or specific procedures the Arizona Department of Revenue will implement for this new withholding reduction.

● The chart below shows examples of how the maximum donation amounts would break down by common pay periods. The figures are approximate.

	\$1000	\$500
Weekly	\$19.23	\$9.62
Bi-Weekly	\$38.46	\$19.23
Bi-Monthly	\$41.67	\$20.83

Figures above are examples only. Please consult your tax advisor for questions about your specific situation.

Important Facts for Employees

● The primary advantage of using this option for you as an employee is that it allows you to make your donation without having to provide the money up front or in one large sum.

● This does not reduce your actual state tax liability. It simply changes the order in which your tax credit donation(s) and your state taxes are collected and paid should you choose to participate.

● It is your responsibility to present this to your employer, keeping in mind that this is voluntary on their part. ACSTO will provide specific forms to you and your employer for this process, and we will be available to answer any questions that we can.

● The donation portions withheld will be sent quarterly and will be accepted by payroll date, rather than by postmark date on the check since the law allows employers to send in the donation within 15 days after the end of each calendar quarter.

● The donation portions withheld during each pay period cannot exceed your Arizona state tax withholdings being reduced for that same pay period. Therefore, it is important for you to clearly communicate how much and in what priority the donations should be withheld and paid by your employer if you are opting to use more than one Arizona state tax credit.

● It is advisable for you to consult your tax advisor regarding your specific expectations for your state tax liability, withholdings and intended donation amount(s). The maximums that can be claimed under the private school tuition tax credit are \$500 for a single person and \$1000 for a married couple filing jointly. If your donation exceeds your state tax liability, the excess portion may be claimed on the following year's taxes for up to a total of 5 years.

● You may make a separate donation directly to ACSTO if your withholding reduction amounts for this tax credit will not total up to the actual dollar amount you would like to donate, so long as that donation is postmarked by December 31st of the tax year for which you want to claim the credit.

● **ACSTO will send a receipt to you each January stating the total of your tuition tax credit donation for the prior tax year**, whether that came from withholding reductions, regular donations, or any combination of both.

● **Here is our procedure** for employees who will be making donations through withholding reductions:

Step 1 – Contact ACSTO to give us your contact information, mailing address for receipt, intended total donation amount, employer name, and recommendation information.

Step 2 – ACSTO will provide you with 2 forms, a form for you to keep for your records, and a form to sign and give to your employer.

Step 3 – Your employer, if they agree to participate, will reduce your state tax withholdings by a prorated amount per pay period and will proceed to withhold and send in the donation for you quarterly.

Step 4 – In January after the end of the tax year, your employer will provide you and the Arizona Department of Revenue with a statement showing the total donation amount withheld and paid. ACSTO will also mail you a receipt showing the total of your donation to use with form 323 in claiming your tax credit.

Important Facts for Employers

- **The primary advantage to you as an employer for providing this is that it is a benefit to your employee(s) at minimal cost to you.**
- **Participation is voluntary on each employer's part.** ACSTO will facilitate this process to the best of our ability, and we are happy to answer any questions we can.
- **Employee communication regarding this withholding reduction is confidential information.**
- **Employers will be required to provide a statement** to each employee participating as well as to the Arizona Department of Revenue, indicating the total amount donated through withholding reduction donations for the tax year each year, or upon that employee leaving your employ. ACSTO will also be providing each donor a receipt showing the total of their donation for that year.

References:

- House Bill 2287 “Tax credits; withholding tax reduction”
- ARS 43-401

ACSTO

ARIZONA CHRISTIAN SCHOOL
TUITION ORGANIZATION, INC.

Withholding Reduction Donations

Informational Brochure



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