



MULTISTATE INCOME/FRANCHISE TAX

Arizona enacts broad changes to individual income tax and amends other taxes

Tax Alert

Overview

On June 30, 2021, Arizona Governor Doug Ducey signed into law Arizona Senate Bills [1827](#) and [1828](#) (SB 1827 and 1828), which provide for several changes to Arizona's individual income tax as well as other taxes.

This Tax Alert provides a summary of some of the more relevant provisions in the bills.

Individual income tax provisions

SB 1827 and 1828 provide many changes to Arizona's individual income tax system, including but not limited to:

- SB 1827 section 4 creates an aggregate individual income tax rate cap of 4.5% effective for taxable years beginning January 1, 2021.
- SB 1828 section 13 requires the Directors of the Joint Legislative Budget Committee and the Office of Strategic Planning and Budget to notify the Arizona Department of Revenue ("Department") by September 30, 2023, and by September 30 annually thereafter until a state general fund notice is provided to the Department, whether the previous fiscal year's state general fund revenue was either: a) between \$12,782,800,000 and \$12,976,300,000 (stage one revenue notice); or b) \$12,976,300,000 or more (stage two revenue notice).
- SB 1828 section 15 creates, for individual income tax, a two-tier tax rate structure for tax year 2022 of: a) 2.55% for single/married filing separately taxpayers with taxable income less than or equal to \$27,272 and for married filing joint/head of household with taxable income less than or equal to \$54,544; and b) 2.98% for single/married filing separately taxpayers with taxable income of \$27,273 or more and for

married filing joint/head of household with taxable income of \$54,545 or more.

- SB 1828 section 15 also requires the Department, on receipt of the fiscal year 2022 revenue notice or the stage one revenue notice, to use the following tax rates beginning January 1 of the following tax year: a) 2.53% for single/married filing separately taxpayers with taxable income less than or equal to \$27,272 and for married filing joint/head of household with taxable income less than or equal to \$54,544; and b) 2.75% for single/married filing separately taxpayers with taxable income of \$27,273 or more and for married filing joint/head of household with taxable income of \$54,545 or more.
- SB 1828 section 15 requires the Department, beginning January 1 of the tax year following the receipt of the stage two revenue notice, to implement a 2.5 percent tax rate.
- SB 1828 section 16 exempts from individual income tax, beginning with tax year 2021, the full amount of a benefit, annuity, and pension received as a retired member of the uniformed services of the United States.
- SB 1828 sections 18 and 21 create the healthy forest production tax credit for individual and corporate income tax, beginning January 1, 2021, and provides statutory guidelines to determining eligibility, calculating the amount of the credit, and claiming the credit.

Other tax provisions

- SB 1828 section 20 creates a corporate income tax subtraction for the contribution in aid of construction for water and wastewater utilities to the extent the amount was included in federal taxable income.
- SB 1828 sections 7, 8, and 9 creates a deduction from the retail transaction privilege tax base and the use tax base for “containment structures” that are used directly to meet or exceed rules or regulations adopted by the federal or state government to prevent, monitor, control, or reduce water or air pollution. This applies retroactively to January 1, 2016 and limits the aggregate refund amount to \$10,000.
- SB 1828 sections 10 and 16 reduce the assessed valuation for Arizona property tax purposes of Class 1 property from 18% to 16% in .5% increments over two years beginning January 1, 2022. Class 1 property consists of properties in mining, telecommunication companies, utilities, standing timber, airport delivery, oil and gas production, pipelines, shopping centers, golf courses and most other commercial uses.

Get in touch

[Scott Schiefelbein](#)

[Cindy James](#)

[James Westling](#)



30 Rockefeller Plaza
New York, NY 10112-0015
United States

This alert contains general information only and Deloitte is not, by means of this alert, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This alert is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte shall not be responsible for any loss sustained by any person who relies on this alert.

As used in this document, "Deloitte" means Deloitte Tax LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about to learn more about our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2021 Deloitte Development LLC. All rights reserved.