



ARIZONA STATE SENATE
Fifty-Sixth Legislature, First Regular Session

FACT SHEET FOR S.B. 1260

small businesses; income tax; rate

Purpose

Retroactive to taxable years beginning January 1, 2023, aligns the Arizona small business income tax rate with the individual income tax rate of 2.5 percent.

Background

A *small business taxpayer* is any individual taxpayer who reports income that constitutes small business gross income on the taxpayer's federal income tax return. Beginning in TY 2021, a small business taxpayer may elect to file a return for the taxable year with the Arizona Department of Revenue (ADOR) to report the taxpayer's share of Arizona small business gross income. The election must be made separately for each taxable year and is effective by reporting Arizona small business adjusted gross income on a timely filed Arizona small business income tax return (A.R.S. §§ [43-104](#) and [43-302](#)).

An Arizona small business taxpayer that annually elects to file their Arizona small business taxable income is subject to tax at a rate of: 1) 3.5 percent for TY 2021; 2) 3 percent for TY 2022; 3) 2.8 percent for TYs 2023 and 2024; and 4) 2.5 percent for TY 2025 and each year thereafter ([A.R.S. § 43-1711](#)).

In 2021, the Legislature directed ADOR to use a single individual income tax rate of 2.5 percent following receipt of a notification that the state General Fund had met a specific threshold. As of September 29, 2022, the threshold was met and the individual income tax rate for TY 2023 and each year thereafter is 2.5 percent ([JLBC-OSPB Notice](#)).

If accelerating the reduction of the tax rate to 2.5 percent of small business taxable income results in a change in income tax collections, there may be a fiscal impact to the state General Fund.

Provisions

1. Accelerates the reduction of the Arizona small business income tax rate to 2.5 percent by two taxable years.
2. Makes technical and conforming changes.
3. Becomes effective on the general effective date, retroactive to taxable years beginning January 1, 2023.