



**ARIZONA STATE SENATE**  
*Fifty-Sixth Legislature, First Regular Session*

FACT SHEET FOR S.C.R. 1035

surplus; income tax rate; reduction

Purpose

Subject to voter approval, statutorily directs the Joint Legislative Budget Committee (JLBC) to determine certain state revenue metrics beginning in FY 2026 and requires, for each taxable year beginning January 1, 2026, the Arizona Department of Revenue (ADOR) to reduce the individual income tax rate by 50 percent of the structural surplus, as determined by the JLBC.

Background

Individual income tax is levied on the personal income of full-time residents and prorated for part-time residents of Arizona. The starting point for Arizona individual income tax is the federal adjusted gross income. 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 directing ADOR to reduce the individual income tax rate in years with a structural surplus results in a change to individual income tax collections, there may be a fiscal impact to the state General Fund.

Provisions

1. Directs, for FY 2026 and each fiscal year thereafter, the JLBC to determine:
  - a) the growth limit and the amount of excess state tax collections; and
  - b) the structural surplus and the Arizona taxpayer return, if ongoing state General Fund revenues are more than the growth limit.
2. Requires ADOR, for each taxable year beginning January 1, 2026, to reduce the individual income tax rate for the current taxable year so that the amount of the rate reduction equals the Arizona taxpayer return for that taxable year.
3. Defines *Arizona taxpayer return* as 50 percent of the structural surplus.
4. Defines *structural surplus* as the difference between ongoing state General Fund revenues and ongoing state General Fund expenditures after adjusting for revenue and expenditure increases as estimated by the JLBC.
5. Defines *excess state tax collections* as the amount of ongoing state General Fund revenues that exceed the growth limit for the immediately following fiscal year.

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6. Defines *growth limit* as the ongoing state General Fund revenues for FY 2025 as determined by the JLBC, annually increased by the sum of the percentage change in inflation plus the percentage change in population growth.
7. Defines *inflation* and *population growth*.
8. Requires the Secretary of State to submit the proposition to the voters at the next general election.
9. Becomes effective if approved by the voters and on proclamation of the Governor.

Prepared by Senate Research

February 8, 2023

MG/sr