

REFERENCE TITLE: **property tax; exemption; income limit**

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

HB 2973

Introduced by
Representative Keshel

AN ACT

**AMENDING SECTION 42-11111, ARIZONA REVISED STATUTES; RELATING TO PROPERTY
TAX EXEMPTIONS.**

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 42-11111, Arizona Revised Statutes, is amended
3 to read:

4 42-11111. Exemption for property; widows and widowers; persons
5 with a total and permanent disability; veterans
6 with a disability; definitions

7 A. The property of widows and widowers, of persons with total and
8 permanent disabilities and of veterans with service or nonservice
9 connected disabilities who are residents of this state is exempt from
10 taxation as provided by article IX, section 2, Constitution of Arizona,
11 and subject to the conditions and limits prescribed by this section.

12 B. Pursuant to article IX, section 2, subsection F, Constitution of
13 Arizona, the exemptions from taxation under this section are allowed as
14 provided in subsections C, D and E of this section.

15 C. The property of a veteran with a service-connected disability
16 whose disability rating by the United States department of veterans
17 affairs is one hundred percent is fully exempt from taxation. The
18 surviving spouse of a veteran whose property is eligible for the exemption
19 under this subsection may continue to claim the full exemption as long as
20 the surviving spouse uses the property as the surviving spouse's primary
21 residence and the surviving spouse does not remarry.

22 D. The property of a veteran with a nonservice-connected disability
23 whose disability rating by the United States department of veterans
24 affairs is one hundred percent or less or with a service-connected
25 disability whose disability rating by the United States department of
26 veterans affairs is less than one hundred percent is exempt in the amount
27 of \$4,188. The limit under this subsection is further limited by
28 multiplying the total exemption amount by the percentage of the veteran's
29 disability, as rated by the United States department of veterans affairs.

30 E. The property of a widow or widower or a person with a total and
31 permanent disability is exempt in the amount of:

32 1. \$4,188 if the person's total assessment does not exceed the
33 amount provided in paragraph 2 of this subsection.

34 2. No exemption if the person's total assessment exceeds \$28,459.

35 F. On or before December 31 of each year, the department shall
36 increase the following amounts:

37 1. The total allowable exemption amount under subsection D and
38 subsection E, paragraph 1 of this section based on the average annual
39 percentage increase, if any, in the GDP price deflator in the two most
40 recent complete state fiscal years.

41 2. Beginning in tax year 2026, the total assessment limit amount
42 under subsection E, paragraph 2 of this section based on the average
43 annual percentage increase, if any, in the federal house price index for
44 the two most recent complete state fiscal years.

1 3. The total income limit amounts under subsection H, paragraphs 1
2 and 2 of this section based on the average annual percentage increase, if
3 any, in the GDP price deflator in the two most recent complete state
4 fiscal years.

5 G. For the purpose of determining the amount of the allowable
6 exemption pursuant to subsection E of this section, the person's total
7 assessment shall not include the value of any vehicle that is taxed under
8 title 28, chapter 16, article 3.

9 H. Pursuant to article IX, section 2, subsection F, Constitution of
10 Arizona, to qualify for this exemption, the total income from all sources
11 of the claimant and the claimant's spouse and the income from all sources
12 of all of the claimant's children who resided with the claimant in the
13 claimant's residence in the year immediately preceding the year for which
14 the claimant applies for the exemption shall not exceed:

15 1. ~~\$34,901~~ \$135,000 if none of the claimant's children under
16 eighteen years of age resided with the claimant in the claimant's
17 residence.

18 2. ~~\$41,870~~ \$150,000 if one or more of the claimant's children
19 residing with the claimant in the claimant's residence either:

20 (a) Were under eighteen years of age.

21 (b) Had a total and permanent physical or mental disability, as
22 certified by competent medical authority as provided by law.

23 I. For the purposes of subsection H of this section, "income from
24 all sources" means the sum of the following, excluding the items listed in
25 subsection J of this section:

26 1. Adjusted gross income as defined by the department.

27 2. The amount of capital gains excluded from adjusted gross income.

28 3. Nontaxable strike benefits.

29 4. Nontaxable interest that is received from the federal government
30 or any of its instrumentalities.

31 5. Payments that are received from a retirement program and paid
32 by:

33 (a) This state or any of its political subdivisions.

34 (b) The United States through any of its agencies,
35 instrumentalities or programs, except as provided in subsection J of this
36 section.

37 6. The gross amount of any pension or annuity that is not otherwise
38 exempted.

39 J. Notwithstanding subsection I of this section, income from all
40 sources does not include monies received from:

41 1. Cash public assistance and relief.

42 2. Railroad retirement benefits.

43 3. Payments under the federal social security act (49 Stat. 620).

44 4. Payments under the unemployment insurance laws of this state.

45 5. Payments from any veterans pensions.

- 1 6. Workers' compensation payments.
2 7. Loss of time insurance.
3 8. Gifts from nongovernmental sources, surplus foods or other
4 relief in kind supplied by a governmental agency.
5 K. A widow or widower, a person with a total and permanent
6 disability or a veteran with a disability shall establish eligibility for
7 exemption under this section by filing an affidavit with the county
8 assessor under section 42-11152 when initially claiming the exemption.
9 Each year thereafter, the person or the person's representative shall
10 annually calculate income from the preceding year to ensure that the
11 person still qualifies for the exemption and notify the county assessor in
12 writing of any event that disqualifies the person from further exemption.
13 Regardless of whether the person or representative notifies the assessor
14 as required by this subsection, the property is subject to tax as provided
15 by law from the date of disqualification, including interest, penalties
16 and proceedings for tax delinquencies. Disqualifying events include:
17 1. Except as provided in subsection C of this section, the person's
18 death.
19 2. The remarriage of a widow or widower.
20 3. The person's income from all sources exceeding the limits
21 prescribed by subsection H of this section.
22 4. The conveyance of title to the property to another owner.
23 L. Any dollar amount of exemption that is unused in a tax year
24 against the limited property value of property and improvements owned by
25 the individual may be applied for the tax year against the value of
26 personal property subject to special property taxes, including the taxes
27 collected pursuant to title 5, chapter 3, article 3 and title 28, chapter
28 16, article 3.
29 M. An individual is not entitled to property tax exemptions under
30 more than one category as a widow or widower, a person with a total and
31 permanent disability or a veteran with a disability even if the individual
32 is eligible for an exemption in more than one category.
33 N. For the purposes of this section:
34 1. "Competent medical authority" means any of the following:
35 (a) An individual licensed under title 32, chapter 8, 13, 14, 17,
36 19.1, 25 or 29 or a comparable law of another state.
37 (b) A registered nurse practitioner as defined in section 32-1601.
38 (c) The United States department of veterans affairs, as evidenced
39 by a disability award letter.
40 2. "Federal house price index" means the average measure of
41 movement of single-family house prices in the United States published by
42 the federal housing finance agency, or its successor, for this state.
43 3. "GDP price deflator" means the average of the four implicit
44 price deflators for the gross domestic product reported by the United

1 States department of commerce or its successor for the four quarters of
2 the state fiscal year.

3 4. "Person with a total and permanent disability" means a person
4 who is unable to engage in any substantial gainful activity, for pay or
5 profit, by reason of any physical or mental impairment that is expected to
6 last for a continuous period of at least twelve months or result in death
7 within twelve months as certified by a competent medical authority.

8 5. "Veteran" means an individual who has served in, and been
9 discharged, separated or released under honorable conditions from, active
10 or inactive service in the uniformed services of the United States,
11 including:

12 (a) All regular, reserve and national guard components of the
13 United States army, navy, air force, marine corps and coast guard.

14 (b) The commissioned corps of the national oceanic and atmospheric
15 administration.

16 (c) The commissioned corps of the United States public health
17 service.

18 (d) A nurse in the service of the American red cross or in the army
19 and navy nurse corps.

20 (e) Any other civilian service that is authorized by federal law to
21 be considered active military duty for the purpose of laws administered by
22 the United States secretary of veterans affairs.