



ARIZONA HOUSE OF REPRESENTATIVES

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Majority Research Staff

House: APPROP DP 15-1-2-0

HB 4168: taxation; omnibus; 2026-2027

Sponsor: Representative Livingston, LD 28

House Engrossed

Overview

Makes changes related to taxation in the transaction privilege tax (TPT) and use tax, individual and corporate income tax and property tax statutes.

History

Current law conforms Arizona's income tax calculation to the Internal Revenue Code (IRC) of 1986, as amended, in effect on January 1, 2025, including those provisions that became effective during 2024 with the specific adoption of all retroactive effective dates, but excluding any changes to the code enacted after January 1, 2025. ([A.R.S. § 43-105](#))

Generally, each year changes are made to the IRC that affect the Arizona income tax calculation. Tax conformity with the IRC is deemed necessary because the calculation of Arizona corporate income tax begins with federal taxable income and the federal adjusted gross income (FAGI) is the starting point for individual income tax. These amounts are then modified by additions and subtractions to arrive at the Arizona taxable income.

On July 4, 2025, major federal tax changes were enacted through H.R. 1 that impact federal taxable income and FAGI which the state would conform to by updating the statutory definition of the IRC.

The individual and corporate Research and Development Tax Credit is allowed against income tax liability for increased research activities conducted in Arizona, including research conducted at a state university that is funded by the taxpayer. The Research and Development Tax Credit is nonrefundable or refundable up to the aggregate statutory cap. The nonrefundable portion of the Research and Development Tax Credit is administered by the Department of Revenue (DOR) and the refundable portion is administered by the Arizona Commerce Authority (A.R.S. §§ [41-1507](#); [43-1074.01](#); [43-1168](#)).

Provisions

1. Updates the statutory definition of IRC to include all provisions in effect as of January 1, 2026, with the specific adoption of all the retroactive effective dates, but excluding any changes to the IRC enacted after January 1, 2026. (Sec. 9, 12)
2. Updates the definition of IRC, for Tax Year (TY) 2025 to include the provisions of Public Law 119-21 that became retroactively effective during TY 2025. (Sec. 12)
3. Specifies the taxable years for the retroactive provisions associated with Public Law 119-21. (Sec. 12)

☐ Prop 105 (45 votes)

☐ Prop 108 (40 votes)

☐ Emergency (40 votes)

☐ Fiscal Note

Additions to Arizona Gross Income

4. Includes, effective for taxable years beginning January 1, 2026, an addition to Arizona Gross Income (AGI) for the amount of special depreciation allowance for qualified production property allowed under Section 168(n) of the IRC. (Sec. 22)

Subtractions from Arizona Gross Income

5. Includes, for taxable years beginning January 1, 2025, the following subtractions from AGI to the extent they are not already excluded from AGI under the IRC:
 - a. the amount of qualified tips received during the TY that is deducted under Section 224 of the IRC;
 - b. the amount of qualified overtime compensation received during the TY that is deducted under Section 225 of the IRC; and
 - c. the amount deducted for a qualified senior, who turns 65 years old during the TY, under Section 151(d)(5)(c) if the IRC. (Sec. 15)
6. Includes, for taxable years beginning January 1, 2026, the following subtractions from AGI to the extent they are not already excluded from AGI under the IRC:
 - a. the amount of a distribution from an account established pursuant to Section 530(a) of the IRC (Trump Account); and
 - b. the amount of child and dependent care expenses for a qualifying individual paid or incurred by the taxpayer for the taxable year that exceeds the amount of the federal Credit for Child and Dependent Care Expenses that the taxpayer received. (Sec. 15)
7. Includes, for Tax Year 2025, the following subtraction from AGI to the extent not already excluded from AGI under the IRC, the amount of qualified passenger vehicle loan interest under Section 163(h)(4). (Sec. 17)

Deductions from Taxable Income

8. Adjusts the standard deduction to \$15,750 for a single person or married person filing separately, \$23,625 for a single person who is a head of a household and \$31,500 for a married couple filing a joint return. (Sec. 16)
9. Allows, for taxable years beginning January 1, 2026, a taxpayer that takes the standard deduction to increase the deduction by an amount equal to the total amount of the taxpayer's charitable contributions, rather than up to 25 percent of qualifying contributions, and caps the contributions at:
 - a. \$1,000 for a single person or married person filing separately; and
 - b. \$2,000 for a married couple filing jointly. (Sec. 16)
10. Limits, beginning with taxable years beginning January 1, 2026, the itemized deduction for state and local taxes to \$10,000. (Sec. 17)

Dependent Tax Credit

11. Increases the dependent tax credit for dependents who are under 17 years old at the end of the taxable year, effective January 1, 2026, from \$100 to \$125. (Sec. 18, 36)

Repealed Tax Credits

12. Repeals, effective January 1, 2026, the following tax credits:
 - a. the insurance premium, individual and corporate Credit for New Employment (Sec. 3, 8, 19, 24, 34, 36);
 - b. the corporate income tax credit for pollution control equipment (Sec. 13, 27, 34, 36); and

- c. the refundable portion of the individual and corporate income tax credit for increased research activity. (Sec. 8, 20, 26, 34, 35, 36)

Distribution of Revenues for Infrastructure Improvements for Manufacturing Facilities (effective retroactively to July 1, 2026)

- 13. Reduces the maximum percentage of the total amount paid to a city, town or county from 80% to 75% of the total cost of the public infrastructure improvements. (Sec. 10)
- 14. Increases the maximum cap on total amounts paid to all cities, towns or counties for infrastructure improvements related to manufacturing facilities to the following:
 - a. through June 30, 2027, \$250,000,000;
 - b. through June 30, 2028, \$300,000,000; and
 - c. beginning July 1, 2028, \$350,000,000. (Sec. 10)
- 15. Increases the minimum capital investment from \$500,000,000 to \$3,000,000,000 if the manufacturing facility is located in a county that has a population of 800,000 or more and from \$50,000,000 to \$100,000,000 if the county population is less than 800,000. (Sec. 10)
- 16. Requires the city, town or county to provide at least 5% of the construction funding for the infrastructure improvements. (Sec. 10)
- 17. Requires the city, town or county to provide DOR with an analysis of the anticipated direct and indirect revenues the state will receive as a result of constructing the manufacturing facility and outlines what is required to be included in the analysis. (Sec. 10)
- 18. Requires DOR to retain the analysis and allows DOR to provide it upon request. Prohibits DOR from disclosing information that qualifies as a trade secret, is confidential proprietary information or is confidential information. (Sec. 10)
- 19. Outlines the requirements for DOR's processing and payment of eligible requests for payments. (Sec. 10)
- 20. Requires DOR to post on their website the intergovernmental agreements and the development agreements entered into with a city, town or county. (Sec. 10)
- 21. Outlines the requirements that DOR must follow prior to posting the development agreement. (Sec. 10)
- 22. Defines *trade secret*, *eligible request for payment*, *public infrastructure* and *remaining capacity*. (Sec. 10)
- 23. Provides that requests for payments from local governments received by DOR between June 1, 2025 and the general effective date shall be processed and paid beginning on the general effective date. (Sec. 32)

Veteran's Property Tax Exemption (effective for taxable years beginning January 1, 2027)

- 24. Includes veterans whose disability status is total disability based on individual unemployability to those who qualify for the exemption from property tax on their primary residence. (Sec. 11)
- 25. Provides a full exemption to a widow or widower of a 100% disabled veteran with a service-connected disability who was or would have been eligible for the exemption. (Sec. 11)

26. Removes the income limits for disabled veterans and their surviving spouse to be eligible to receive either a full or partial property tax exemption on their primary residence. (Sec. 11, 34)
27. Provides a partial exemption to a widow or widower of a disabled veteran, other than a disabled veteran with 100% service-connected disability, including when the deceased veteran could have qualified but did not do so when alive. (Sec. 11)
28. Retains the income limit for widows, widowers and persons with total and permanent disability while excluding disabled veterans and their surviving spouse from the income limits. (Sec. 11)
29. Provides that a surviving spouse of a disabled veteran can transfer the property tax exemption to a subsequent primary residence by filing an exemption transfer with the county assessor within 60 days. (Sec. 11)
30. Defines *income from all sources*. (Sec. 11)

Miscellaneous

31. Clarifies the dividend income that is included in the corporate subtraction from AGI. (Sec. 23)
32. Decreases the cap on the aggregate dollar level of the Corporate Low-Income Student Tuition Tax credit from \$135,000,000 to \$110,000,000 annually beginning in FY 2027. (Sec. 28)
33. States that after payment of operating expenses and debt service at least 80% of the Rio Nuevo District transaction privilege tax diversion program funding be expended on transaction privilege tax generating programs. (Sec. 29)
34. States, as session law, that all Pinal County transportation excise tax monies that remain in the escrow account established to hold these monies or that are held by DOR after the refunds have been processed must remain in these accounts until otherwise appropriated by the legislature. Applies retroactively to April 10, 2026. (Sec. 30)
35. Prohibits, as session law, the Arizona Commerce Authority from accepting applications for any new computer data center from July 1, 2026 through June 30, 2029 and that no new computer data center can qualify for the data center transaction privilege tax exemptions during this period. (Sec. 31)
36. Establishes, as session law, the non-appropriated Unemployment Insurance Operating Fund (UIOF) for the administrative costs of the unemployment insurance (UI) program. Requires that experience-rated employers pay a fee equal to 3.15% of their UI tax liability each quarter to Department of Economic Security (DES) in Calendar Year 2027 and that the first \$8,000,000 be deposited into the UIOF and any remaining monies be deposited into the UI Benefits Fund. Requires DES to hold employers harmless by reducing each employer's UI tax liability by 3.5% each quarter. Repeals this session law January 1, 2027. (Sec. 33)
37. Contains an applicability clause. (Sec. 34)
38. Contains retroactivity provisions. (Sec. 35)
39. Contains a savings clause. (Sec. 36)
40. Makes technical and conforming changes.