



ARIZONA STATE SENATE
Fifty-Seventh Legislature, Second Regular Session

FACT SHEET FOR S.B. 1633

income tax; subtraction; primary residence

Purpose

Establishes, for taxable years beginning January 1, 2027, an individual income tax subtraction for the amount of any net capital gains derived from the sale or exchange of a taxpayer's primary residence.

Background

A capital gain is acquired when an individual sells an asset for more than the asset cost. Capital gains are classified as long-term or short-term gains. A long-term capital gain applies to assets that an individual holds for at least one year before disposal. A short-term capital gain applies to assets that are held for one year or less ([IRS](#)).

Individual income tax is levied on Arizona residents' taxable income. The tax base begins with Arizona gross income, which is equivalent to the taxpayer's federal adjusted gross income (FAGI). Statute authorizes various amounts to be added or subtracted when computing an individual's Arizona adjusted gross income which is further reduced by standard or itemized deductions to arrive at Arizona taxable income.

To arrive at FAGI, federal law allows an individual income tax subtraction for the amount of taxable net capital gains derived from the sale or exchange of a taxpayer's principal residence. The federal subtraction is capped at \$250,000 for single filers or \$500,000 for married couples filing jointly ([26 U.S.C. § 121](#)).

Statute allows a 25 percent individual income tax subtraction for net long-term capital gains included in FAGI for the taxable year that is derived from any asset acquired after December 31, 2011 ([A.R.S. § 43-1022](#)).

If establishing an individual tax subtraction for the amount of any net capital gains derived from the sale or exchange of a taxpayer's primary residence results in a change to individual income tax collections, there may be a fiscal impact to the state General Fund.

Provisions

1. Establishes, for taxable years beginning January 1, 2027, an individual income tax subtraction for the amount of any net capital gains included in FAGI for the taxable year that is derived from the sale or exchange of a taxpayer's property, if the property was the taxpayer's primary residence for at least five of the preceding taxable years.
2. Becomes effective on the general effective date.