REFERENCE TITLE: income tax; subtractions; standard deduction

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

HB 2531

Introduced by
Representative De Los Santos

AN ACT

AMENDING SECTIONS 43-301, 43-323, 43-1022 AND 43-1041, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

Section 1. Section 43-301, Arizona Revised Statutes, is amended to read:

43-301. Individual returns; definition

A. A full-year or part-year resident individual shall file a return with the department if, for the taxable year, the individual's gross income was greater than the amount of the standard deduction allowed under ~~subsection~~ SECTION 43-1041, subsection A as adjusted for inflation pursuant to section 43-1041, subsection H OR I.

B. A nonresident individual shall file a return with the department if, for the taxable year, the individual's gross income was greater than the amount under subsection A of this section determined for a full-year or part-year resident individual multiplied by the percentage that the individual's Arizona gross income is of the individual's federal adjusted gross income.

C. In the case of a husband and wife, the spouse who controls the disposition of or who receives or spends community income as well as the spouse who is taxable on such income is liable for the payment of taxes imposed by this title on such income. If a joint return is filed, the liability for the tax on the aggregate income is joint and several.

D. This section applies regardless of whether an individual is required to file a return under the internal revenue code or whether the individual has any federal adjusted gross income for the taxable year.

E. For the purposes of this section, "gross income" means gross income as defined in the internal revenue code minus income included in gross income but excluded from taxation under this title.

Sec. 2. Section 43-323, Arizona Revised Statutes, is amended to read:

43-323. Place and form of filing returns

A. All returns required by this title shall be in such a form as the department may from time to time prescribe and shall be filed with the department.

B. The department shall prescribe a short form return for individual taxpayers who:

1. Are eligible and elect to pay tax based on the optional tax tables pursuant to section 43-1012.

2. Elect to claim the optional standard deduction pursuant to section 43-1041, subsection A, but not the increased amount for charitable deductions under section 43-1041, subsection ~~I~~ J.

3. Elect not to file for credits against income tax liability other than those contained in sections 43-1072, 43-1072.01, 43-1072.02, 43-1073 and 43-1073.01.

4. Are not required to add any income under section 43-1021 and do not elect any subtractions under section 43-1022, except for the exemptions allowed under section 43-1023.

C. The department may provide a simplified return form for individual taxpayers who:

1. Are eligible and elect to pay tax based on the optional tax tables pursuant to section 43-1012.

2. Are residents for the full taxable year.

3. File as single individuals or married couples filing joint returns under section 43-309.

4. Are not sixty-five years of age or older or blind at the end of the taxable year.

5. Claim no exemptions under section 43-1023 for the taxable year.

6. Elect to claim the optional standard deduction under section 43-1041, subsection A, but not the increased amount for charitable deductions under section 43-1041, subsection ~~I~~ J.

7. Are not required to add any income under section 43-1021 and do not elect to claim any subtractions under section 43-1022 or file for any credits under chapter 10, article 5 of this title, except the credits provided by sections 43-1072.01, 43-1072.02 and 43-1073.

8. Do not elect to contribute a portion of any tax refund as provided by any provision of chapter 6, article 1 of this title. Notwithstanding any provision of chapter 6, article 1 of this title, a simplified return form under this subsection shall not include any space for the taxpayer to so contribute a portion of a refund.

D. The department shall prepare blank forms for the returns and furnish them on request. Failure to receive or secure the form does not relieve any taxpayer from making any return required.

E. An individual income tax preparer who prepares more than ten original income tax returns that are timely filed during any taxable year that begins from and after December 31, 2017 shall file electronically all individual tax returns prepared by that tax preparer, for that taxable year and each subsequent taxable year. An individual income tax preparer may not charge a separate fee to the taxpayer for filing a return using the department's electronic filing program. This subsection does not apply if the taxpayer elects to have the return filed on paper or if the return cannot be filed electronically for reasons outside of the tax preparer's control.

F. Fiduciary returns, partnership returns, withholding returns and corporate returns shall be filed electronically for taxable years beginning from and after December 31, 2019, or when the department establishes an electronic filing program, whichever is later. Any person who is required to file electronically pursuant to this subsection may apply to the director, on a form prescribed by the department, for an annual waiver from the electronic filing requirement. The director may grant the waiver, which may be renewed for one subsequent year, if any of the following applies:

1. The taxpayer has no computer.

2. The taxpayer has no internet access.

3. Any other circumstance considered to be worthy by the director exists.

G. A waiver is not required if the return cannot be electronically filed for reasons beyond the taxpayer's control, including situations in which the taxpayer was instructed by either the internal revenue service or the department of revenue to file by paper.

Sec. 3. Section 43-1022, Arizona Revised Statutes, is amended to read:

43-1022. Subtractions from Arizona gross income

In computing Arizona adjusted gross income, the following amounts shall be subtracted from Arizona gross income:

1. The amount of exemptions allowed by section 43-1023.

2. Benefits, annuities and pensions in an amount totaling not more than $2,500 received from one or more of the following:

(a) The United States government service retirement and disability fund, the United States foreign service retirement and disability system and any other retirement system or plan established by federal law, except retired or retainer pay of the uniformed services of the United States that qualifies for a subtraction under paragraph 26 of this section.

(b) The Arizona state retirement system, the corrections officer retirement plan, the public safety personnel retirement system, the elected officials' retirement plan, an optional retirement program established by the Arizona board of regents under section 15-1628, an optional retirement program established by a community college district board under section 15-1451 or a retirement plan established for employees of a county, city or town in this state.

3. A beneficiary's share of the fiduciary adjustment to the extent that the amount determined by section 43-1333 decreases the beneficiary's Arizona gross income.

4. Interest income received on obligations of the United States, minus any interest on indebtedness, or other related expenses, and deducted in arriving at Arizona gross income, that were incurred or continued to purchase or carry such obligations.

5. The excess of a partner's share of income required to be included under section 702(a)(8) of the internal revenue code over the income required to be included under chapter 14, article 2 of this title.

6. The excess of a partner's share of partnership losses determined pursuant to chapter 14, article 2 of this title over the losses allowable under section 702(a)(8) of the internal revenue code.

7. The amount allowed by section 43-1025 for contributions during the taxable year of agricultural crops to charitable organizations.

8. The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the

credit for employer paid social security taxes on employee cash tips and the Indian employment credit that the taxpayer received under sections 45A, 45B, 51(a) and 1396 of the internal revenue code.

9. The amount of exploration expenses that is determined pursuant to section 617 of the internal revenue code, that has been deferred in a taxable year ending before January 1, 1990 and for which a subtraction has not previously been made. The subtraction shall be made on a ratable basis as the units of produced ores or minerals discovered or explored as a result of this exploration are sold.

10. The amount included in federal adjusted gross income pursuant to section 86 of the internal revenue code, relating to taxation of social security and railroad retirement benefits.

11. To the extent not already excluded from Arizona gross income under the internal revenue code, compensation received for active service as a member of the reserves, the national guard or the armed forces of the United States, including compensation for service in a combat zone as determined under section 112 of the internal revenue code.

12. The amount of unreimbursed medical and hospital costs, adoption counseling, legal and agency fees and other nonrecurring costs of adoption. The subtraction under this paragraph may be taken for the costs that are described in this paragraph and that are incurred in prior years, but the subtraction may be taken only in the year during which the final adoption order is granted. The amount subtracted may not exceed:

(a) In taxable years beginning before December 31, 2025, $3,000. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife may not exceed $3,000.

(b) In taxable years beginning from and after December 31, 2025, $5,000 for a single individual or head of household.

(c) For taxable years beginning from and after December 31, 2025, $10,000 for a married couple filing a joint return. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife may not exceed $10,000.

13. The amount authorized by section 43-1027 for the taxable year relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

14. The amount by which a net operating loss carryover or capital loss carryover allowable pursuant to section 43-1029, subsection F exceeds the net operating loss carryover or capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code.

15. Any amount of qualified educational expenses that is distributed from a qualified state tuition program determined pursuant to section 529 of the internal revenue code and that is included in income in computing federal adjusted gross income.

16. Any item of income resulting from an installment sale that has been properly subjected to income tax in another state in a previous taxable year and that is included in Arizona gross income in the current taxable year.

17. For property placed in service:

(a) In taxable years beginning before December 31, 2012, an amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year computed as if the election described in section 168(k) of the internal revenue code had been made for each applicable class of property in the year the property was placed in service.

(b) In taxable years beginning from and after December 31, 2012 through December 31, 2013, an amount determined in the year the asset was placed in service based on the calculation in subdivision (a) of this paragraph. In the first taxable year beginning from and after December 31, 2013, the taxpayer may elect to subtract the amount necessary to make the depreciation claimed to date for the purposes of this title the same as it would have been if subdivision (c) of this paragraph had applied for the entire time the asset was in service. Subdivision (c) of this paragraph applies for the remainder of the asset's life. If the taxpayer does not make the election under this subdivision, subdivision (a) of this paragraph applies for the remainder of the asset's life.

(c) In taxable years beginning from and after December 31, 2013 through December 31, 2015, an amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year as computed as if the additional allowance for depreciation had been ten percent of the amount allowed pursuant to section 168(k) of the internal revenue code.

(d) In taxable years beginning from and after December 31, 2015 through December 31, 2016, an amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year as computed as if the additional allowance for depreciation had been fifty-five percent of the amount allowed pursuant to section 168(k) of the internal revenue code.

(e) In taxable years beginning from and after December 31, 2016, an amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year as computed as if the additional allowance for depreciation had been the full amount allowed pursuant to section 168(k) of the internal revenue code.

18. With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer that complied with section 43-1021, paragraph 11 with respect to that property, the amount of depreciation that has been allowed pursuant to section 167(a) of the internal revenue code to the extent that the amount has not already reduced Arizona taxable income in the current or prior taxable years.

19. The amount contributed during the taxable year to college savings plans established pursuant to section 529 of the internal revenue code on behalf of the designated beneficiary to the extent that the contributions were not deducted in computing federal adjusted gross income. The amount subtracted may not exceed:

(a) $2,000 per beneficiary for a single individual or a head of household.

(b) $4,000 per beneficiary for a married couple filing a joint return. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife may not exceed $4,000 per beneficiary.

20. The portion of the net operating loss carryforward that would have been allowed as a deduction in the current year pursuant to section 172 of the internal revenue code if the election described in section 172(b)(1)(H) of the internal revenue code had not been made in the year of the loss that exceeds the actual net operating loss carryforward that was deducted in arriving at federal adjusted gross income. This subtraction only applies to taxpayers who made an election under section 172(b)(1)(H) of the internal revenue code as amended by section 1211 of the American recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by section 13 of the worker, homeownership, and business assistance act of 2009 (P.L. 111-92).

21. For taxable years beginning from and after December 31, 2013, the amount of any net capital gain included in federal adjusted gross income for the taxable year derived from investment in a qualified small business as determined by the Arizona commerce authority pursuant to section 41-1518.

22. An amount of any net long-term capital gain included in federal adjusted gross income for the taxable year that is derived from an investment in an asset acquired after December 31, 2011, as follows:

(a) For taxable years beginning from and after December 31, 2012 through December 31, 2013, ten percent of the net long-term capital gain included in federal adjusted gross income.

(b) For taxable years beginning from and after December 31, 2013 through December 31, 2014, twenty percent of the net long-term capital gain included in federal adjusted gross income.

(c) For taxable years beginning from and after December 31, 2014, twenty-five percent of the net long-term capital gain included in federal adjusted gross income. For the purposes of this paragraph, a transferee that receives an asset by gift or at the death of a transferor is considered to have acquired the asset when the asset was acquired by the transferor. If the date an asset is acquired cannot be verified, a subtraction under this paragraph is not allowed.

23. If an individual is not claiming itemized deductions pursuant to section 43-1042, the amount of premium costs for long-term care insurance, as defined in section 20-1691.

24. The amount of eligible access expenditures paid or incurred during the taxable year to comply with the requirements of the Americans with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9, article 8 as provided by section 43-1024.

25. For taxable years beginning from and after December 31, 2017, the amount of any net capital gain included in Arizona gross income for the taxable year that is derived from the exchange of one kind of legal tender for another kind of legal tender. For the purposes of this paragraph:

(a) "Legal tender" means a medium of exchange, including specie, that is authorized by the United States Constitution or Congress to pay debts, public charges, taxes and dues.

(b) "Specie" means coins having precious metal content.

26. Benefits, annuities and pensions received as retired or retainer pay of the uniformed services of the United States in amounts as follows:

(a) For taxable years through December 31, 2018, an amount totaling not more than $2,500.

(b) For taxable years beginning from and after December 31, 2018 through December 31, 2020, an amount totaling not more than $3,500.

(c) For taxable years beginning from and after December 31, 2020, the full amount received.

27. For taxable years beginning from and after December 31, 2020, the amount contributed during the taxable year to an achieving a better life experience account established pursuant to section 529A of the internal revenue code on behalf of the designated beneficiary to the extent that the contributions were not deducted in computing federal adjusted gross income. The amount subtracted may not exceed:

(a) $2,000 per beneficiary for a single individual or a head of household.

(b) $4,000 per beneficiary for a married couple filing a joint return. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife may not exceed $4,000 per beneficiary.

28. For taxable years beginning from and after December 31, 2020, Arizona small business gross income but only if an individual taxpayer has elected to separately report and pay tax on the taxpayer's Arizona small business adjusted gross income on the Arizona small business income tax return.

29. To the extent not already excluded from Arizona gross income under the internal revenue code, the value of virtual currency and

non-fungible tokens the taxpayer received pursuant to an airdrop at the time of the airdrop. This paragraph may not be interpreted as providing a subtraction for any appreciation in value that occurs from holding the virtual currency after the initial receipt of the airdrop. For the purposes of this paragraph:

(a) "Airdrop" means the receipt of virtual currency through a means of distribution of virtual currency to the distributed ledger addresses of multiple taxpayers.

(b) "Non-fungible token" has the same meaning prescribed in section 43-1028.

(c) "Virtual currency" has the same meaning prescribed in section 43-1028.

30. The amount allowed as a subtraction by section 43-1028 for gas fees not already included in the taxpayer's virtual currency or non-fungible token basis.

31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER 31, 2028, AN AMOUNT EQUAL TO THE AMOUNT ALLOWED AS AN ENHANCED DEDUCTION FOR SENIORS PURSUANT TO SECTION 151(d)(5)(C) OF THE INTERNAL REVENUE CODE.

32. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER 31, 2028, AN AMOUNT EQUAL TO THE AMOUNT ALLOWED AS A DEDUCTION FOR QUALIFIED TIPS PURSUANT TO SECTION 224 OF THE INTERNAL REVENUE CODE BUT ONLY TO THE EXTENT THE QUALIFIED TIPS ARE INCLUDED IN ARIZONA GROSS INCOME.

33. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER 31, 2028, AN AMOUNT EQUAL TO THE AMOUNT ALLOWED AS A DEDUCTION FOR QUALIFIED OVERTIME COMPENSATION PURSUANT TO SECTION 225 OF THE INTERNAL REVENUE CODE BUT ONLY TO THE EXTENT THE QUALIFIED OVERTIME COMPENSATION IS INCLUDED IN ARIZONA GROSS INCOME.

Sec. 4. Section 43-1041, Arizona Revised Statutes, is amended to read:

43-1041. Optional standard deduction

A. A taxpayer may elect to take a standard deduction as follows:

1. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2019 THROUGH DECEMBER 31, 2024:

(a) In the case of a single person or a married person filing separately, the standard deduction is $12,200, subject to subsection H of this section.

~~2.~~ (b) In the case of a single person who is a head of a household, the standard deduction is $18,350, subject to subsection H of this section.

~~3.~~ (c) In the case of a married couple filing a joint return, the standard deduction is $24,400, subject to subsection H of this section.

2. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024:

(a) IN THE CASE OF A SINGLE PERSON OR A MARRIED PERSON FILING SEPARATELY, THE STANDARD DEDUCTION IS $15,750, SUBJECT TO SUBSECTION I OF THIS SECTION.

(b) IN THE CASE OF A SINGLE PERSON WHO IS A HEAD OF A HOUSEHOLD, THE STANDARD DEDUCTION IS $23,625, SUBJECT TO SUBSECTION I OF THIS SECTION.

(c) IN THE CASE OF A MARRIED COUPLE FILING A JOINT RETURN, THE STANDARD DEDUCTION IS $31,500, SUBJECT TO SUBSECTION I OF THIS SECTION.

B. The standard deduction provided for in subsection A of this section is in lieu of all itemized deductions allowed by section 43-1042, which are to be subtracted from Arizona adjusted gross income in computing taxable income.

C. The standard deduction is allowed if the taxpayer so elects. The election is made by the taxpayer claiming on the tax return the amount provided for in this section in lieu of the itemized deductions allowed under section 43-1042. Electing to file a short form return or a simplified return that does not allow itemized deductions to be claimed is considered to be an election to claim the standard deduction.

D. In the case of a husband and wife, the standard deduction provided for in subsection A of this section is not allowed to either if the taxable income of one of the spouses is determined without regard to the standard deduction.

E. The standard deduction provided for by subsection A of this section is not allowed in the case of a taxable year of less than twelve months on account of a change in the accounting period.

F. Except as provided in subsection G of this section, a change of an election to take, or not to take, the standard deduction for any taxable year may be made after the filing of the return for that year.

G. A taxpayer is not allowed to change an election to take, or not to take, the standard deduction if:

1. The spouse of the taxpayer filed a separate return for any taxable year corresponding, for the purposes of subsection D of this section, to the taxable year of the taxpayer unless both of the following apply:

(a) The spouse makes a change of election with respect to the standard deduction for the taxable year covered in the separate return consistent with the change of election sought by the taxpayer.

(b) The taxpayer and spouse consent in writing to the assessment, within such a period as may be agreed on with the department, of any deficiency, to the extent attributable to the change of election, even though at the time of filing the consent the assessment of the deficiency would otherwise be prevented by the operation of any law or rule of law.

2. The tax liability of the taxpayer or the taxpayer's spouse for the taxable year has been compromised.

H. For each taxable year beginning from and after December 31, 2019 THROUGH DECEMBER 31, 2024, the department shall adjust the dollar amounts prescribed by subsection A, ~~paragraphs~~ PARAGRAPH 1~~, 2 and 3~~ of this section for inflation in the same manner in which the federal basic standard deduction is adjusted for inflation pursuant to section 63 of the internal revenue code.

I. FOR EACH TAXABLE YEAR BEGINNING FROM AND AFTER DECEMBER 31, 2025, THE DEPARTMENT SHALL ADJUST THE DOLLAR AMOUNTS PRESCRIBED BY SUBSECTION A, PARAGRAPH 2 OF THIS SECTION FOR INFLATION IN THE SAME MANNER IN WHICH THE FEDERAL BASIC STANDARD DEDUCTION IS ADJUSTED FOR INFLATION PURSUANT TO SECTION 63 OF THE INTERNAL REVENUE CODE.

~~I.~~ J. For taxable years beginning from and after December 31, 2018, the standard deduction allowed under subsection A of this section shall be increased by the amount equal to twenty-five percent of the total amount of a taxpayer's charitable deductions that would have been allowed if the taxpayer elected to claim itemized deductions under section 43-1042 rather than elect the standard deduction. For taxable years beginning from and after December 31, 2021, the department shall adjust the percentage prescribed in this subsection according to the average annual change in the metropolitan Phoenix consumer price index published by the United States department of labor, bureau of labor statistics, except that the adjusted percentage may not exceed one hundred percent. The revised percentage shall be raised to the nearest whole percent and may not be revised below the amounts prescribed in the prior taxable year.

Sec. 5. Retroactivity

This act applies retroactively to taxable years beginning from and after December 31, 2024.