

Summary of Arizona Taxes

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This publication is for general information about Arizona taxes. For complete details, refer to the Arizona Revised Statutes and the Arizona Administrative Code. In case of inconsistency or omission in this publication, the language of the Arizona Revised Statutes and the Arizona Administrative Code will prevail.

Personal Income Tax

Arizona's personal income tax is levied on residents and nonresidents earning income in Arizona. A taxpayer is required to file an income tax return if the taxpayer meets the filing threshold for their filing status. Income thresholds are provided in the instructions under "Do You Have to File?" for each form listed below.

- Full-year residents file Form 140, 140A, or 140EZ.
- Part-year residents file Form 140PY.
- Nonresidents file Form 140NR

The starting point for Arizona's individual income tax computation for resident individuals is the federal adjusted gross income (Arizona gross income). This amount is then subject to certain additions and subtractions to arrive at Arizona taxable income. Since the starting point for the Arizona income tax computation for resident individuals is the federal adjusted gross income, income taxable for federal purposes will likewise be taxable for Arizona purposes, unless such income is specifically excludable under Arizona law.

All income earned or received while you are a resident (if taxable to the federal government) is taxable to Arizona with a few exceptions. The most common addition in arriving at Arizona taxable income is interest income from non-Arizona municipal bonds. The Resident Income Tax Return, Arizona Form 140, instructions contain a complete list of the additions to income.

Subtractions in arriving at Arizona taxable income include interest income received from United States government obligations, Social Security income received under Title II of the Social Security Act, and railroad retirement benefits received from the Railroad Retirement Board under the Railroad Retirement Act. Arizona also allows a subtraction of up to \$2,500 for U.S. Government civil service and military pensions and Arizona state or local pension income. Public retirement pensions from states other than Arizona do not qualify for this subtraction. Arizona also allows a subtraction for 100% of benefits, annuities, and pensions

as retired or retainer pay of the uniformed services of the United States received during the tax year.

Arizona statutes also provide for either a standard deduction or itemized deductions. Arizona allows itemized deductions as claimed on the federal income tax return, plus a more liberal medical deduction. Since Arizona itemized deductions are tied to the federal itemized deductions, the amount of home mortgage interest and property taxes which can be deducted for federal purposes may likewise be deducted for Arizona purposes. If a taxpayer chooses not to itemize deductions, a standard deduction may be taken. These amounts are adjusted annually for inflation. For taxpayers who take the standard deduction, they may increase the amount of the standard deduction for qualified charitable contributions. To determine the amount of the allowable increase standard deduction, a taxpayer completes a worksheet included with the individual income tax return. See the income tax form and instructions for more information.

Refundable Tax Credits

Arizona also allows a property tax credit for low income, full year residents, age 65 or older, or recipients of Title 16 Supplemental Security Income (SSI) if they own or rent property upon which Arizona property tax is paid. For more information, please refer to the Arizona Form 140PTC, *Property Tax Refund (Credit) Claim*.

Arizona also allows a credit for the increased excise tax. Taxpayers must meet certain criteria for this credit. For more information, please refer to Arizona Form 140ET, *Credit for Increased Excise Taxes*.

Non-Refundable Tax Credits

Arizona law allows numerous non-refundable tax credits that may be claimed and used to reduce a taxpayer's income tax liability on Forms 140, 140PY, or 140NR. If the taxpayer does not have a tax liability for the current year that a credit is claimed or the amount of credit claimed exceeds the tax liability, taxpayers may carryover the amount of credit not used to the next five succeeding tax years to reduce future tax year liability.

For more information and a list of these tax credits, see the instructions for Forms 140, 140PY, or 140NR. Non-refundable tax credit forms and instructions are available on our website at azdor.gov/forms/tax-credits-forms.

Arizona Small Business Income Tax

Beginning tax year 2021, taxpayers may elect to report their small business income separately using the applicable Small Business Tax return. For more information on Arizona’s small business income, see Publication 712, *Summary of Arizona Small Business Income*.

Arizona Transaction Privilege Tax

Arizona transaction privilege taxes are imposed on persons engaged in certain business classifications, including retail sales. In addition to the transaction privilege tax imposed by the state/county and Arizona cities, some cities may impose an additional transaction privilege tax on certain types of transactions that are otherwise taxable. Although the transaction privilege tax is usually passed on to the consumer, it is actually a tax on the vendor for the privilege of doing business in Arizona. Please review Title 42 Chapter 5 Article 2 for information on the business activities that are taxable.

Arizona Use Taxes

The State of Arizona imposes a use tax under A.R.S. §42-5155(A). The tax is imposed on any person who uses, stores, or consumes in Arizona any tangible personal property purchased from a retailer upon which tax has not been collected by the retailer. The person’s liability is not extinguished until the tax has been paid to this state. Some of the cities in Arizona may impose a use tax. If the seller has economic or physical nexus with Arizona then use tax is not applicable, the seller must collect the transaction privilege tax.

General Property Taxes

Arizona does not have a property tax on household goods. Taxing jurisdictions set tax rates on the basis of the total assessed valuation within their boundaries and the amount of the levy to be raised. For additional information, contact the assessor’s office of the specific county you are seeking information.

Estate and Inheritance Tax

Federal law repealed the federal state death tax credit (upon which the Arizona estate tax was based) which effectively cancelled the Arizona estate tax. Following the federal repeal, the Arizona legislature repealed the Arizona estate tax provisions (Laws 2006, Ch. 262, §3). Arizona does not impose an inheritance or gift tax. An inheritance tax waiver is not required for decedents dying after 2004 as there is no possibility of tax due.

Vehicle License Tax

Arizona charges a Vehicle License Tax (VLT) in lieu of a personal property tax on vehicles. The Arizona

Department of Transportation administers this tax. For additional information, visit their website at azdot.gov or servicearizona.com.

For Additional Information, call:

Phoenix.....(602) 255-3381
Toll free from area codes 520 & 928..... 800-352-4090

Write:

Arizona Department of Revenue
Taxpayer Information & Assistance
1600 W. Monroe
Phoenix AZ 85007

Browse:

ADOR Website..... www.azdor.gov
Pay Online..... www.AZTaxes.gov

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