
Summary of Tax Law Changes

2021 Regular Session

July 22, 2021

JLBC

Key Points

- The Fiscal Year (FY) 2022 budget makes several changes to the state income tax
 - Reduces income tax rates
 - Makes several other changes
- A separate bill, SB 1783, allows certain categories of income to be taxed at different rates
- We estimate these changes will eventually cost the state approximately \$(2.0) billion, most of which is attributable to the income tax rate reductions

TY 2020 Changes

- ❑ Arizona conformed its tax code to all the federal TY 2020 changes
- ❑ Removes the 80.0% limit on Net Operating Losses (NOL)
- ❑ Allows a 5-year carryback on TY 2018-2020 NOL
- ❑ Removes the \$250k/\$500k limit on losses by pass-through entities
- ❑ We estimate conformity will have a one-time cost to the state of \$(625) million over several years

Original TY 2021 Income Tax Rate Schedule

<u>Tax Rate</u>	<u>Taxable Income (S)</u>	<u>Taxable Income (MFJ)</u>
2.59%	\$0-\$27k	\$0-\$55k
3.34%	\$27k-\$55k	\$55k-\$109k
4.17%	\$55k-\$164k	\$109k-\$327k
4.50%	\$164k-\$250k	\$327k-\$500k
8.00%*	\$250k and above	\$500k and above

* This includes the 4.50% top marginal rate plus the 3.50% Prop 208 surcharge

** Brackets have not yet been adjusted for inflation

Revised TY 2021 Income Tax Rate Schedule

- Creates a 4.5% Maximum Tax Rate

<u>Tax Rate</u>	<u>Taxable Income (S)</u>	<u>Taxable Income (MFJ)</u>
2.59%	\$0-\$27k	\$0-\$55k
3.34%	\$27k-\$55k	\$55k-\$109k
4.17%	\$55k-\$164k	\$109k-\$327k
4.50%	\$164k and above	\$327k and above

* Brackets have not yet been adjusted for inflation

TY 2022 Changes

- Reduces the # of Rates

<u>Tax Rate</u>	<u>Taxable Income (S)</u>	<u>Taxable Income (MFJ)</u>
2.55%	\$0-\$27k	\$0-\$55k
2.98%	\$27k-\$250k	\$0-\$500k
4.50%	\$250k and above	\$500k and above

* Brackets have not yet been adjusted for inflation

TY 2023 Changes

- Dependent on Meeting Revenue “Triggers”

- If FY 2022 (which began July 1) General Fund revenue exceeds \$12.8 billion, the following rates will take effect in TY 2023:

<u>Tax Rate</u>	<u>Taxable Income (S)</u>	<u>Taxable Income (MFJ)</u>
2.53%	\$0-\$27k	\$0-\$55k
2.75%	\$27k-\$250k	\$0-\$500k
4.50%	\$250k and above	\$500k and above

* Brackets have not yet been adjusted for inflation

TY 2024 Changes

- Also Dependent on Revenue Triggers

- If annual General Fund revenue exceeds \$13.0 billion, a single 2.50% tax rate will replace the 2-tier rate
- The 4.50% maximum marginal rate will still apply

SB 1783

- ❑ Allows certain classes of income to be taxed at different rates
- ❑ Schedules B, C, E, F, parts of Schedule D, Form 4797, and Form 4835
- ❑ These income classes will be taxed at the following rates:
 - 3.5% in TY 2021
 - 3.0% in TY 2022
 - 2.8% in TY 2023 and 2024
 - 2.5% in TY 2025 and after

Other Tax Changes in the Budget

- Adjusts the charitable contribution deduction for inflation
- Fully exempts veterans' pension from income tax
- Creates a new state tax credit equal to 50% of federal low-income housing tax credit, capped at \$4.0 million annually
- Phases in a 16.0% Class 1 property tax assessment ratio over 4 years
- Increases Homeowner's rebate to 50%