

CAVANAGH

STATE & LOCAL TAX

Arizona SALT Newsletter

Nearly two months after the income tax filing deadline for tax year 2025, on June 13, 2026, Governor Hobbs signed [HB 4168](#), an omnibus tax bill that determined how much of the One Big Beautiful Bill Act ("[OBBBA](#)") Arizona will conform to (full conformity for tax year 2025, but with deviations going forward), and that will implement other changes to Arizona's tax statutes. Except as noted below, these changes will become effective on the general effective date for 2026 Arizona legislation, September 12, 2026.

The changes to Arizona income tax statutes include: (1) Providing for retroactive conformity to the provisions of the Internal Revenue Code ("[IRC](#)") in effect on January 1, 2026 for tax years beginning from and after December 31, 2025, but: (a) capping the amount of itemized deductions for individual income taxpayers for state and local taxes (the "[SALT deduction](#)") at \$10,000 for tax years beginning from and after December 31, 2025, (b) providing an addition to Arizona gross income for both individuals and corporations for the amount of the special depreciation allowance for qualified production property allowed pursuant to section 168(n) of the IRC ("[bonus depreciation](#)") for tax years beginning from and after December 31, 2025, (c) clarifying that Arizona's subtraction from Arizona gross income for corporate income taxpayers for the amount of dividend income received from foreign corporations applies to Net CFC Tested Income ("[NCTI](#)"), retroactive to taxable years beginning from and after December 31, 2024, and (d) providing subtractions from Arizona gross income for individual income taxpayers for the amount: (i) of qualified tips deducted under section 224 of the IRC for tax years beginning from and after December 31, 2024, (ii) of qualified overtime compensation deducted under section 225 of the IRC for tax years beginning from and after December 31, 2024, (iii) of a distribution from an IRC section 530A "Trump Account" for tax years beginning from and after December 31, 2025, (iv) of child and dependent care expenses for qualifying individuals that exceed the amount of the federal Child and Dependent Care Credit available under section 21 of the IRC for tax years beginning from and after December 31, 2025, (v) deducted by qualifying seniors under section 151(d)(5)(c) of the IRC for tax years

beginning from and after December 31, 2024, and (vi) deducted for qualified passenger vehicle loan interest under section 163(h)(4) of the IRC for tax years beginning from and after December 31, 2024; **(2)** Providing for retroactive conformity to other provisions of the OBBBA that went into effect tax years 2022 through 2025; **(3)** Increasing Arizona's optional standard deductions beginning from and after December 31, 2024 (and adjusting them for inflation each year thereafter in the same manner the IRS adjusts for inflation) from: (a) \$12,200 to \$15,750 for single persons and married persons filing separately, (b) \$18,350 to \$23,625 for heads of households, and (c) \$24,400 to \$31,500 for married couples filing joint returns; **(4)** For tax years beginning from and after December 31, 2025, increasing standard deduction amounts by the entire amount of a taxpayer's charitable deductions (rather than by just twenty-five percent of the deductions), not to exceed: (a) \$1,000 for single persons and married persons filing separately, and (b) \$2,000 for married couples filing joint returns; **(5)** Increasing the dependent tax credit from \$100 to \$125 for each dependent under seventeen years of age at the end of the taxable year, effective for tax years beginning from and after December 31, 2025; **(6)** Repealing the credit against Arizona's individual and corporate income taxes for net increases in full-time employees residing in the state and hired into qualified employment positions, retroactive to January 1, 2026, but with a savings clause in effect for existing credits to be carried forward against subsequent tax liabilities; **(7)** Repealing Arizona's corporate income tax credit for purchases of pollution control equipment, but with a savings clause in effect for existing credits to be carried forward against subsequent tax liabilities; **(8)** Eliminating the provision in Arizona law that allowed some individual and corporate income taxpayers to obtain refunds for unused credits for increased research activities, effective for tax years beginning from and after December 31, 2025 (and repealing the statute that allowed the Arizona Commerce Authority to certify taxpayers' eligibility for this credit); and **(9)** reducing the aggregate amount of corporate income tax credits allowed for contributions to school tuition organizations from \$135 million to \$110 million per fiscal year beginning in fiscal year 2026-2027.

The changes to Arizona transaction privilege ("sales") and use tax statutes include:

Prohibiting the Arizona Commerce Authority from certifying new computer data centers to qualify for tax relief between July 1, 2026, and June 30, 2029. Said tax relief refers to the exemptions and deductions and from Arizona's state and local sales and use taxes for sales of, and contracts to install, assemble, repair, or maintain, data center equipment sold to the owner, operator, or qualified colocation tenant of a computer data center.

The changes to Arizona property tax statutes include: Changing qualifications for and limitations relating to the property tax exemption for widows and widowers, persons with total and permanent disabilities, and veterans with disabilities, effective January 1, 2027.

The changes to other tax-related statutes include: **(1)** Altering the state's program to help fund the cost of public infrastructure improvements incurred by cities, towns, or counties that will benefit a qualified manufacturing facility by: (a) reducing the maximum state contribution from eighty percent to seventy-five percent of the cost of the infrastructure improvements for agreements entered into after the effective date of this bill, (b) increasing the total amount the state will pay local jurisdictions from \$200 million to

\$250 million through June 30, 2027, to \$300 million through June 30, 2028, and to \$350 million after June 30, 2028, (c) increasing the minimum capital investment by a qualified manufacturing facility from \$500 million to \$3 billion for facilities in Maricopa or Pima counties and from \$50 million to \$100 million in less populous counties for facilities certified after the effective date of this bill, and (d) requiring the local jurisdiction to fund at least five percent of the cost of the improvement and to provide ADOR with an analysis of the anticipated direct and indirect revenues the state will receive as a result of constructing the manufacturing facility for all agreements entered into on or after the effective date of this bill; and **(2)** Repealing the credit against Arizona's insurance premium taxes for net increases in full-time employees residing in the state and hired into qualified employment positions, retroactive to January 1, 2026, but with a savings clause in effect for existing credit carried forward against subsequent tax liabilities.

To track developments relating to other proposed Arizona tax legislation, I updated [this page](#) on [my website](#), and I will address other bills in future newsletters.

How do you feel about these developments?



James G. Busby, Jr.

Below you will find:

- Details re: my upcoming speaking engagements
- A way to connect with me on LinkedIn
- A link to my website with dozens of articles relating to Arizona SALT issues, my annual summaries of Arizona tax legislation, my previous Arizona SALT Newsletters, information about proposed Arizona SALT legislation, and more
- A way for others to join my e-mail list (**forward this now!**)

**Please contact me with all of your Arizona SALT needs:
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[IPT Annual Conference](#)

June 21-24, 2026
Waikiki Beach, HI
Understanding Local Tax Rules



[Arizona Tax Conference](#)

August 13, 2026
Prescott, AZ
2026 Arizona Tax Legislation

[NASBTS Annual Meeting](#)

October 16, 2026
Philadelphia, PA
Noteworthy Developments in SALT
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