

Arizona Individual Income Tax Significant Changes Effective 2023

1. **State Income Tax Brackets have been lowered and simplified:**

Arizona had four tax brackets for 2021 ranging from 2.59% to 4.5%. Legislative changes, including AZ Senate Bill 1828, reduced the state tax brackets to two, 2.55% and 2.98% for tax year 2022. Beginning with tax year 2023 state income tax is calculated at a flat rate of 2.5% regardless of income.
2. **Tax Credit Increases:**

The dollar-for-dollar credits for contributions to eligible Arizona Qualified Charitable Organizations (QCOs), Qualified Foster Care Organizations (QFCOs), and Private School Tuition Organizations (PSTOs) are adjusted for inflation. The only credit not affected by these is the credit for donations to Public Schools. The current limits are available on our website at <https://www.oneilsteiner.com/az-tax-credits.html>
3. **Increased Standard Deduction for Charitable Donations:**

Your Arizona standard deduction is increased by a percentage of your charitable contributions. This percentage was increased from 27% to 31%. Charitable donations that are eligible for dollar-for-dollar state tax credits are not eligible.
4. **529 College Savings Plan Contribution Deduction Increase:**

Arizona increased the deduction for making contributions to 529 College Savings Plans beginning with tax year 2021. The current regulations allow for a deduction up to \$2,000 per beneficiary for single taxpayers, up to \$4,000 for married couples filing joint returns. While this isn't new this year, the change is large enough we thought we should include it again. For example, a married couple with four children could contribute \$4,000 to 529 College Savings Plans for each and claim an Arizona income tax deduction of \$16,000. Assuming each child's college education will cost \$60,000 (if they are lucky) a family could save \$1,500 per child in state income tax by saving for their college in this way. (\$60,000 in contributions broken up over multiple years to satisfy the annual limits multiplied by 2.5% flat tax rate beginning in 2023). Otherwise, the same tuition and fees would generate no state income tax savings, if not funded through 529 College Savings Plan contributions.