Arizona Individual Income Tax Significant Changes Effective 2024

1. State Income Tax Brackets have been lowered and simplified: All Arizona taxpayers pay a flat 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 31% to 33%. Charitable donations that are eligible for dollar-for-dollar state tax credits are not eligible.

4. 529 College Savings Plans are even more attractive with recent federal changes:

   Arizona allows for a deduction up to $2,000 per beneficiary for single taxpayers, up to $4,000 per beneficiary for married couples filing joint returns. For example, a married couple with four children could contribute $4,000 to 529 College Savings Plans for each child 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.

   *Tax-free rollovers to Roth IRAs: Some are concerned that 529 plans may not be advantageous if a child does not go to college or receives scholarship to cover costs. Recent law changes allow for tax-free rollovers from 529 plans to Roth IRAs for the beneficiary. While there are limits (including a $35,000 lifetime limit) this allows at least a significant amount of unused education savings to be converted to retirement savings tax free.

   **Grandparent loophole: Previously any distributions from a grandparent's 529 plan were reported as untaxed student income that could reduce financial aid eligibility by up to 50% of the distribution. With the new FAFSA in effect for the 2024-2025 school year gifts and distributions from grandparent owned 529 plans are no longer considered when determining financial aid.