

Arizona Individual Income Tax Significant Changes Effective 2025

1. All Arizona taxpayers pay the same, flat, 2.5% state income tax like in 2024.

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. Charitable Donations are partially deductible even if you don't itemize:

You are allowed to deduct 34% of charitable contributions if you claim the standard deduction. This is up from 33% for 2024. Even if you don't have enough to itemize, submitting the total amount contributed could save a little money. Savings will be charitable contributions multiplied by 34% deduction multiplied by 2.5% flat tax rate.

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 of state income tax per child by saving for their college in this way. (\$60,000 in contributions over the course of at least 15 years to satisfy the annual limits multiplied by Arizona's 2.5% flat tax rate). 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.

**The One Big Beautiful Bill Act (OBBA) has increased the ability to use 529 plans to fund items not previously considered qualified. Beginning with tax year 2026, 529 plan distributions can fund K-12 including home school, tutoring, standardized testing fees (like SAT/ACT) and postsecondary credentialing programs for some fields.