

# Arizona tax changes this year: What to know

## ASU law professor, tax expert helps untangle state tax code ambiguity

By Marshall Terrill , ASU News  
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Let's face it: Tax season is rarely anyone's favorite time of year. And this time around, there's an added wrinkle as Arizona's tax code is in flux.

Arizona lawmakers are debating which of the recent federal tax changes the state should adopt. Taxpayers are left wondering how to proceed with filing their Arizona taxes as the guidelines may shift before the April deadline.

While the proposed changes would not alter Arizona's flat 2.5% income tax rate, they would reduce taxable income across the board. It's a shift that could dramatically cut state revenues. Unlike the federal government, Arizona is constitutionally barred from running deficits, meaning any significant revenue loss would likely translate directly into cuts to public services.

ASU News spoke with [Adam Chodorow](#), the Jack E. Brown Professor of Law at the [Sandra Day O'Connor College of Law](#) at Arizona State University, to better understand some of the facets of the proposed changes.

*Note: Answers have been edited for length and/or clarity.*

**Question: What happens if someone files their Arizona taxes now and the state tax policy changes before April 15?**

**Answer:** It is hard to calculate how much you owe if you don't know what the rules are. If you make a guess as to what Arizona will do and file your taxes, you may need to amend your return if it turns out you were wrong. Thus, it may pay to wait to see what happens.

If you don't earn tips or overtime or engage in activities that the federal changes touch upon, such as purchasing equipment for your business, you can probably go ahead and file now with little risk that whatever happens will affect your state tax liability. What you don't want to do is miss the filing deadline because that could subject you to interest and penalties.

**Q: Let's talk about some specific changes this year, such as raising the state standard deduction to \$15,750 for single filers and \$31,500 for joint filers. What would the impact of adopting this provision be?**

**A:** While I love taxes, I have to admit that I hate doing them. The idea behind the standard deduction was that you could just take the deduction without any need to document anything and save yourself a bunch of time and aggravation. However, if your itemized deductions are greater than the standard deduction, you're basically giving away money if you take the standard deduction.

Increasing the standard deduction helps all taxpayers who take it, but at the cost of lower state revenues. Yet, while it helps everyone, it really helps out those at the bottom of the income scale. Taxpayers get the deduction regardless of whether they incurred the expenses, and those at the bottom will likely receive a greater benefit.

**Q: What impact would a new \$6,000 deduction for taxpayers over 65 have, and how does it compare to how Arizona currently treats retirement and Social Security income?**

**A:** Federal law allows everyone 65 or over to take a \$6,000 deduction, regardless of whether they take Social Security (you can defer it until you're 70). Those who start Social Security before they turn 65 don't get a deduction. As a result, it simply operates as an extra tax break for folks 65 or over.

(But in Arizona) we already don't tax Social Security benefits.

**Q: Allowing deductions for interest on loans for new U.S.-made vehicles — does this function more as tax relief, industrial policy or both?**

**A:** This one is designed to create incentives for people to buy cars made in America, as distinct from American cars. Rather than pay people directly to buy American, it offers them a deduction they would not normally be entitled to — in this case, car loan interest. Presumably, the goal is to create incentives not just for buyers, but also for car companies to move their production to the U.S.

On the plus side, this deduction is available to taxpayers regardless of whether they take the standard deduction. On the negative side, it expires in 2029, and there is no guarantee that it will be extended. The provision's temporary nature arises because the [OBBA](#) was enacted as part of the reconciliation process, and budget rules limit the cost of reconciliation bills.

**Q: Historically, has there been a previous time when the tax code for a given year was still being debated even as filing season had begun?**

**A:** Every time Congress changes the tax code, states have to decide whether to conform their own income taxes. When one party holds the governor's office and both chambers of the legislature, there are typically no issues. They hammer it out well in advance. When we have a split government, as we do now, it can get more complicated.

One of the problems here is that the One Big Beautiful Bill Act made a number of different changes, each of which could have significant revenue consequences. Thus, states have to figure out how much money they can afford to lose and what services they might have to cut if they were to adopt some or all of these provisions.

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