

Individual Income Tax

Arizona's individual income taxes underwent a phased two-year, \$50 million reduction that ended in the year 2000. In addition to the reduction of tax rates, the dependent exemption for families providing care of elderly was increased from the standard dependent rate of \$2,300 to \$10,000 in 1999.

The state uses a graduated rate structure and the Federal Internal Revenue Code as the basis for tax computation. Arizona taxable income is equal to federal adjusted gross income, modified by a number of state additions and subtractions. This amount is further reduced by exemptions and standard or itemized deductions. Recent changes by the state legislature allow new tax credits for private school tuition and extracurricular school activity contributions, as well as increased credits for charitable contributions. The current rate structures for single and married taxpayers, as well as the personal exemption amounts are shown below.

Arizona Personal Income Tax - Tax Rates and Exemptions

<i>Taxable Income</i> <i>Single</i>	<i>Married</i>	<i>2004 Rate</i>
First \$10,000	First \$20,000	2.87%
Next \$15,000	Next \$30,000	3.20%
Next \$25,000	Next \$50,000	3.74%
Next \$100,000	Next \$200,000	4.72%
Over \$150,000	Over \$300,000	5.04%

Personal Exemptions:

Single	\$2,100
Married	\$4,200
Head of Household	\$4,200
Dependents	\$2,300
Age 65 and over	\$2,100

Source: Arizona Department of Revenue, 2005.