

# Individual Income Tax – 2021 Highlights

## Due Date for Calendar Year Filer

Your 2021 individual income tax return is due by midnight on April 18, 2022. If you file under a valid extension, your extended due date to file your income tax return is October 17, 2022.

## Arizona 2021 Changes

Some of these changes include:

- 2021 Arizona Standard Deduction Amounts Adjusted

The 2021 Arizona standard deduction amounts are:

- ☐ \$ 12,550 for a single taxpayer or a married taxpayer filing a separate return;
- ☐ \$ 25,100 for a married couple filing a joint return; and
- ☐ \$ 18,800 for individuals filing a head of household return.

- 2021 Changes to Income Tax Forms

Due to recent modifications to Forms 140, 140NR, and 140PY, certain additions and subtractions (adjustments to Arizona Gross Income) have been moved from pages 1 and 2 to pages 5 (additions) and page 6 (subtractions).

- Change to Standard Deduction Increase for Charitable Contributions

Taxpayers who did not itemize deductions on their 2021 federal return and elect to take the standard deduction on the 2021 Arizona tax return and claim the allowable standard deduction increase, are not required to reduce the total amount of the 2021 qualifying charitable contributions by the amount for which the taxpayer took the allowable deduction on their federal return.

- 2021 Individual Income Tax Brackets Adjusted for Inflation

For 2021, the Arizona individual income tax brackets on Tax Table X & Y were adjusted for inflation.

The 2021 Optional Tax Table (for taxpayers with taxable income less than \$50,000) was also adjusted for inflation. For specific amounts, see the Optional Tax Table and Tax Table X & Y.

- 2021 Tax Surcharge

Beginning with tax year 2021, Prop 208, passed by voters in the last election, requires individuals with taxable income of more than \$250,000 (single and married filing separate) and more than \$500,000 (married filing joint and head of household) to remit an additional tax surcharge.

For taxpayers subject to the additional tax surcharge, Tax Tables X and Y were modified for 2021 to provide examples to help taxpayers compute and report their regular tax and tax surcharge amount on their respective income tax return (Forms 140, 140NR, and 140PY).

- Arizona Small Business Income (SBI) Tax

On July 9, 2021 Governor Doug Ducey signed into law Senate Bill 1783 creating a small business income tax by enacting Arizona Revised Statute (A.R.S.) § 43-1701 effective for tax years beginning from and after December 31, 2020. The small business income tax rate for tax year 2021 is 3.5% on the amount of a taxpayer's computed Arizona small business taxable income.

Taxpayers filing Arizona Form 140, 140NR, or 140PY with small business income reported on Federal Schedules B, C, D, E, F, and Form 4797 and included in their federal adjusted

gross income may voluntarily elect to report their small business income on the corresponding Arizona Small Business Income Tax return [Form 140-SBI (full-year resident), 140NR-SBI (nonresident), or 140PY-SBI (part-year resident)]. This election is made annually (by simply timely filing an SBI return) and does not bind the taxpayer to report small business income separately in subsequent tax years.

Taxpayers who elect to report small business income on one of the forms listed above are required to adjust their regular income tax return by reducing their federal adjusted gross income by the amount of small business income reported on the SBI return.

Several new forms were created relating to the SBI tax form. They include, but are not limited to, the following.

- Form 301-SBI (nonrefundable tax credits claimed on the SBI tax return).
- Form 309-SBI (Credit for taxes paid to another state or country on Arizona small business income).
- Form 204-SBI for making extension payments for the small business income tax return.

For more information including filing requirements, see the SBI form and instructions applicable for your residency status.

- Subtraction for Contributions to a 529 College Savings Plan

Recent legislation amended the amount of allowable contributions directly made to a 529 College Savings Plan on behalf of the designated beneficiary that can be subtracted from Arizona gross income to the extent that contributions were not deducted in computing federal adjusted gross income.

For tax year 2021, taxpayers may subtract the amount contributed during the year up to a total of \$2,000 per beneficiary (\$4,000 for a married couple filing a joint return). If you are married filing separate returns, either you or your spouse may take the subtraction, or you may divide it between you, but the total subtraction taken by both of you cannot be more than \$4,000 per beneficiary.

- Subtraction for Contributions to 529A (ABLE) Accounts

In addition to the allowable subtraction for contributions to a 529 College Savings Plan, certain individual taxpayers may also take a subtraction for contributions made during the taxable year to a 529A, Achieving a Better Life Experience Account (ABLE), during the taxable year on behalf of the designated beneficiary to the extent that contributions were not deducted in computing federal adjusted gross income.

For tax year 2021, taxpayers may subtract the amount contributed during the year up to a total of \$2,000 per beneficiary (\$4,000 for a married couple filing a joint return). If you are married filing separate returns, either you or your spouse may take the subtraction, or you may divide it between you, but the total subtraction taken by both of you cannot be more than \$4,000 per beneficiary.

- Individual Tax Credits - Charitable Contributions: Forms 321, 322, 323, 348, and 352

The following credit forms were recently modified to require all taxpayers to provide the date of each contribution claimed on the specific tax credit form.

- Form 321: Contributions to Qualifying Charitable Organizations
- Form 322: Contributions Made or Fees Paid to Public Schools
- Form 323: Contributions to Private School Tuition Organizations
- Form 348: Contributions to Certified School Tuition Organizations
- Form 352: Contributions to Qualifying Foster Care Charitable Organizations

- **Tax Credit for Contributions Made or Fees Paid to Public Schools (Form 322)**  
 In 2021, Arizona legislation was passed to limit the qualified contributions or fees paid to community school meal programs. The amendment provides that an amount paid by an individual to receive a meal or a meal card does not qualify as a fee or donation for community school meal programs.
- **Credit for Contributions to Private School Tuition Organizations (Form 323)**  
 The allowable current year credit for contributions to private school tuition organizations was adjusted for inflation purposes. For 2021, the maximum current year credit is:
  - \$611 for single and head of household taxpayers.
  - \$1,221 for married taxpayers filing a joint return.
- **Credit for Contributions Made to Certified School Tuition Organizations (Form 348)**  
 The allowable current year credit for contributions to a certified school tuition organization was adjusted for inflation purposes. For 2021, the maximum current year credit is:
  - \$608 for single and head of household taxpayers.
  - \$1,214 for married taxpayers filing a joint return.
- **New Individual and Corporate Nonrefundable Tax Credit (Form 353, Healthy Forest Production Tax Credit)**  
 Arizona Revised Statutes §§ 43-1076.01 and 43-1162 provide for nonrefundable individual and corporate income tax credits for processing qualifying forest products. “Qualifying forest products” means dead standing and fallen timber, and forest thinnings associated with the harvest of small diameter timber, slash, wood chips, peelings, brush and other woody vegetation, removed from federal, state and other public forest land and from private forest land. Co-owners of a facility that processes qualifying forest products, including partners in a partnership and shareholders of an S Corporation, may each claim a pro rata share of the credit allowed based on ownership interest. For more information, see Credit Form 353 and instructions.
- **Required Adjustments to Arizona Gross Income Related to Medical Marijuana Dispensary, Testing Facilities and/or Adult Use Marijuana (including dual licensees) (Forms 140, 140NR, 140PY, 140-SBI, 140NR-SBI and 140PY-SBI)**  
 The following is a list of four required adjustments to Arizona Gross Income related to Medical Marijuana Dispensary, Testing Facilities and/or Adult Use Marijuana (including dual licensees). If any of these apply, see the instructions for the form(s) you are filing. If you are filing a Small Business Income Tax Return, these adjustments are reported on that return. (Note: line references are for the 2021 tax returns.)
  1. Sole Proprietorship Loss of an Arizona Nonprofit Medical Marijuana Dispensary included in Federal Adjusted Gross Income from Schedule C. (Addition)  
 Forms 140, 140NR, and 140PY (page 5)  
 Forms 140-SBI (line 25); 140NR-SBI (line 24); 140PY-SBI (line 25)
  2. Sole Proprietorship Income of an Arizona Nonprofit Medical Marijuana Dispensary included in Federal Adjusted Gross Income from Schedule C. (Subtraction)  
 Forms 140, 140NR, and 140PY (page 6)  
 Forms 140-SBI (line 45); 140NR-SBI and 140PY-SBI (line 42)
  3. Sole Proprietorship – Marijuana Establishment, Testing Facilities and Dual Licensees that Elected to Operate on a For-profit Basis. (Subtraction)

Forms 140, 140NR, and 140PY (page 6)

Forms 140-SBI (line 46); 140NR-SBI and 140PY-SBI (line 43)

4. S Corporation Shareholders of Marijuana Establishments, Testing Facilities and Dual Licensees that Elected to Operate on a For-profit Basis: individual shareholders pro-rata share of expenses related to sales of recreational products. (Subtraction)

Forms 140, 140NR, and 140PY (page 6)

Forms 140-SBI (line 47); 140NR-SBI and 140PY-SBI (line 44)