



*The taxpayer's watchdog for over 85 years*

# ARIZONA TAX RESEARCH ASSOCIATION NEWSLETTER VOLUME 86 NUMBER 1 JANUARY 2026

## 2026 ATRA Legislative Program

### Introduction/State Budget

ATRA's legislative program is developed each year with recognition that the Legislature and Governor's highest priority for the session should be passing a state budget that is balanced and sustainable.

ATRA will provide updated state budget recommendations to the Legislature after the JLBC and the Office of Strategic Planning and Budgeting (OSPB) have submitted their budget recommendations in January.

Clearly, from a public finance standpoint, the most immediate issue facing policymakers in 2026 is the state's income tax response to conforming to the federal changes made in H.R. 1 in 2025. Those changes impact Arizona tax filings for 2025 taxes which begin in January 2026. In addition to the tax compliance challenges created for income tax filers, the conformity decisions lawmakers make will likely have significant impacts on the Fiscal Year 2027 budget. The legislature and governor should act rapidly in order avoid the chaos associated with taxpayers being required to file amended returns.

### Taxation

**Property tax reform.** ATRA has led the effort to reform Arizona's property tax system and reduce the disparity in tax treatment between business and residential property. As a result of previous ATRA-backed legislation passed in 2005, 2007, 2011, 2021, and 2022, ATRA achieved its decades-long goal of reducing the class one (business) assessment ratio to 15% beginning in tax year 2027.

ATRA has long advocated for reductions in the reliance in the business personal property tax and successfully advanced several reforms over the last 30 years. The passage of Proposition 130 in 2022 provided the opportunity for further increases in the business personal property tax exemption and led to the passage last year of an ATRA-backed effort to double the exemption from \$248k to \$500k.

**Prevent greater access to the property tax.** For the 2026 session, ATRA will oppose efforts by the state and local governments, as well as special districts, to increase access to the property tax base.

In addition, ATRA will advocate for the continued compliance with the state's Truth-in-Taxation (TNT) law. Since its passage in 1998, the state has consistently complied with the TNT law and the state controlled tax rate (Qualifying Tax Rate) has declined each year since 2013. While that rate can rise or fall due to fluctuations in the real estate market, ATRA believes adherence to the TNT law is an important principle that has and will continue to benefit taxpayers over time.

**Leg Program**, *Continued from page 1*

**Targeted Property Tax Breaks.** For decades, ATRA has led the effort at the Capitol to oppose rifle-shot property tax breaks to specific taxpayers. Too often, these bad precedents create a path dependency leading to more inequity in the system. ATRA will continue to support policies that provide for equitable treatment among property taxpayers and oppose efforts that undermine that important policy principle.

*For the 2026 session, ATRA will pursue the following legislation:*

**Property Tax**

**General Obligation (G.O) Bond Reform.** ATRA will support legislative efforts to create greater transparency in K12 schools district's requests for bonds. This reform would require districts to provide voters with the list of specific capital improvements along with anticipated costs.

**Destruction of Property.** Prior to 2024, Arizona law required county assessors to prorate the property value when improvements were removed, demolished or destroyed after the lien date but during the tax year. This ensured taxpayers were not taxed on property that no longer existed. Legislation enacted in 2024 amended that section of law to limit proration of taxes to only improvements that are destroyed by an act of God (e.g., fire, flood, natural disaster) and such property could remain in the same classification for up to five years. The intent was to protect homeowners in northern Arizona whose homes were destroyed by wildfires and were experiencing delays in rebuilding due to insurance claim issues. The unintended consequence of narrowing the definition, however, eliminated proration relief for all other destroyed property owners. ATRA will pursue legislation to reinstate protections for all destroyed property, regardless of the cause. **Sen. Mesnard**

**Sales Tax**

**TPT Sourcing Rules.** The 2024 legislative session included a bill that called for a major change to Arizona's TPT sourcing laws for businesses with a physical presence in Arizona. ATRA opposed that change and it did not become law. In the 2025 session, ATRA pursued legislation designed to clarify Arizona's TPT sourcing law. That proposed legislation, which was held in the Senate, would have codified an ADOR draft ruling on sourcing of retail sales for in-state businesses to the business location.

Specifically, this year's bill will make clear that sourcing for retail TPT transactions is the **business location of the seller**. The bill will also clarify that business location is a "physical space that a person can occupy, such as an office or a room in a house, and in which business is carried on." **Rep. Olson**

**Direct Pay Permits for TPT.** Current Arizona law authorizes direct pay permits solely for use tax, but not Transaction Privilege Tax (TPT). ATRA will support legislation to establish a direct pay permit framework in Arizona that gives qualified businesses the flexibility to self-assess and pay taxes owed directly to the Department, rather than paying at the point of sale. The proposal would allow direct pay permit holders to issue direct pay certificates to any retailer, seller or lessor for purchases or leases of tangible personal property and to prime contractors for certain high-value construction projects.

See **Leg Program**, Page 3

**ARIZONA TAX RESEARCH ASSOCIATION**

Byron Williams.....Chairman  
Kevin J. McCarthy.....President  
Jennifer Stielow.....Vice President  
Kathleen Farnsworth.....Office Manager

Published by the Arizona Tax Research Association, a nonprofit organization whose purpose is to promote efficient and effective use of tax dollars through sound fiscal policies. Permission to reprint is granted to all publications giving appropriate credit to the Arizona Tax Research Association.

1814 W. Washington Street  
Phoenix, Arizona 85007  
(602) 253-9121

[www.arizonatax.org](http://www.arizonatax.org)

**Leg Program**, *Continued from page 2***Income Tax**

**Federal Tax Conformity.** As a static conformity state, Arizona policymakers are annually faced with the task of updating Arizona's income tax base to either align with updates in the federal tax code or decouple from changes they disagree with. Following Congress' passage of H.R. 1 in 2025, Arizona's process for updating the individual and corporate income tax codes will be significantly more difficult.

In most years, the annual conformity bill is a non-event at the Capitol and ATRA, for the sake of simplicity, encourages lawmakers to conform to the federal tax code. However, the desire to maintain consistency between the federal and Arizona income tax codes sometimes collides with negative impacts on taxpayers (as occurred with the Tax Cuts and Jobs Act in 2017) or significant impacts on the state general fund as is the case this year.

ATRA strongly encourages lawmakers and Governor Hobbs to resolve any conformity disagreements rapidly in order to minimize the number of taxpayers that may be required to file amended returns. The forms already made available to taxpayers are inconsistent with Governor Hobbs' position on conformity as well as the conformity bill passed out of the joint meeting of the Senate Finance and House Ways and Means Committees on January 14, 2026.

**Corporate Income Taxation of Foreign-Source Dividend Income.** With the passage of H.R.1, the taxation of foreign-source dividends under what was formally Global Intangible Low-Taxed Income (GILTI) is now taxed as Net CFC Tested Income (NCTI). Arizona currently does not tax GILTI and A.R.S. § 43-1122(9) should be amended to reflect that the new NCTI is exempt foreign dividend income. ATRA will pursue legislation to include NCTI to the subtractions from Arizona gross income. **Rep. Olson**

**Public Finance**

**Government Property Lease Excise Tax (GPLET) Reform.** GPLET continues to be a highly controversial feature of Arizona's public finance system. ATRA participated in several major successful GPLET reform efforts in 2010, 2017, and 2018 to limit cities use of their tax exempt status to harvest property taxes for private projects. However, a historic Arizona Supreme Court Gift Clause decision in 2021 (*Schires v. Carlat*) has made those reforms potentially moot. Arizona's Gift Clause states that a municipality may not "give or loan its credit in the aid of, or make any donation or grant, by subsidy or otherwise, to any individual, association, or corporation." To determine a violation of the Gift Clause, the courts rely on the *Wisturber* two-pronged test to determine whether the expenditure has a public purpose and if the consideration received by the government is grossly disproportionate to the amount paid to the private entity. In considering the direct payments that were bargained for in the case, the court determined that the agreement failed *Wisturber's* second prong and therefore violated the Gift Clause. To reduce Gift Clause challenges to future GPLET agreements, ATRA will pursue legislation to limit the abatement of taxes to all entities except school districts. This change will reduce the size of the gift for gift clause purposes as well as ensure K12 school districts are not negatively impacted by the lost tax revenue. **Sen. Mesnard**

**Informational Pamphlets; Property Tax Estimates.** Several Arizona statutes require local governments to provide estimates of the property tax increases associated with truth-in-taxation notices, override elections, and bond elections. Currently those estimates require the use of a \$100K home and a \$1M business. ATRA will pursue legislation to update those estimates to include an estimate for a \$400K home and a \$2M business. **Rep. Olson**

See **Leg Program**, Page 3

**Leg Program**, *Continued from page 3*

**Prop 123 Reboot.** ATRA has been on record for several years supporting a return to the voters to reauthorize an increased draw on the state land trust for purposes of funding the K12 schools. ATRA will again support a voter referral that, similar to Prop 123 in 2015, where the proceeds support the current demands placed on the state general fund for K12 schools. Additionally, ATRA believes the referral should avoid creating another funding cliff in ten years. In an effort to make the new reauthorization permanent, ATRA would support a decrease in the annual percentage draw of 6.9%. Finally, ATRA supports the funds being distributed on a per student basis.

**Pinal RTA Refunds.** The Arizona Supreme Court in *Vangilder v. Arizona Department of Revenue* invalidated the Pinal County Transportation Excise Tax. All businesses that reported and paid the tax for the period from April 2018 to March 2022 have been eligible to request refunds to ADOR. The deadline for those refund requests is April 9, 2026. According to ADOR, roughly half of the \$80 million that was illegally collected remains unclaimed. ATRA will work with lawmakers to ensure the unclaimed refunds are properly returned to Pinal County taxpayers.