Arizona

#17

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
17 ▼ 3	20 ▼ 4	14 ▼ 5	40 ▼ 5	8 ▲ 1	1 –

IN THE 2027 *Index*

Arizona fell three places overall, from 14th to 17th. Arizona passed conformity legislation with several retroactive provisions, but since the legislation contained no emergency clause, the retroactivity was not legally in effect as of the *Index's* snapshot date of July 1, 2026. This timing, in addition to not conforming to full expensing under Section 168(k), resulted in its corporate income tax ranking falling from 16th to 20th. Arizona's fiscal year 2027 budget, which took effect on July 1, 2026, included a three-year moratorium on tax incentives on new data center tax projects, with a resulting drop in the state's sales and use tax ranking from 35th to 40th due to the suspension of sales tax exemptions for the qualifying equipment purchases of new data centers. The state's tangible personal property (TPP) tax exemption increased from $269,905 to $500,000, slightly improving its property and wealth tax ranking.

Arizona's tax code features all major tax types, but because of tax reforms adopted in recent years, the state ranks well on the *Index*. Arizona performs well on income and property taxes and has one of the most efficient unemployment insurance tax systems in the nation. The state's individual income tax has a flat rate of 2.5 percent, the lowest flat rate in the country, making Arizona among the most competitive of the states that impose individual income taxes. Such a low rate makes the state very attractive to taxpayers who have decided to leave high-tax states, particularly California. The state could further improve its income tax competitiveness by increasing the filing threshold for nonresident workers to match its 60-day withholding threshold. A reform like this would not only reduce compliance burdens for individuals working in the state for just a short period of time, but it would also make the state the least burdensome in the country for nonresident workers.

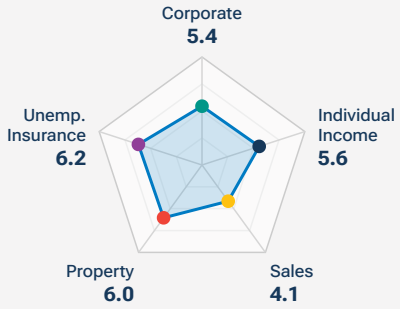
Arizona also has a flat corporate income tax rate of 4.9 percent and avoids imposing harmful gross receipts taxes and capital stock taxes. However, the state does not conform to the federal treatment of bonus depreciation under Section 168(k) and requires that businesses add back to the corporate income tax base any bonus depreciation taken at the federal level. Conforming to these provisions would encourage further in-state investment and make a reasonably competitive tax code even better.

The combined state and local sales tax rate is relatively high, and localities can modify the sales tax base, making the system more complicated than in most states. The state sales tax base is also relatively narrow, below the median national level, because many personal services and some goods are tax-exempt. Expanding the base to include most personal services while keeping business inputs out represents another potentially beneficial tax reform for the state.

Arizona taxes tangible personal property but offers a generous de minimis exemption of $500,000 to minimize compliance costs for small and medium-sized businesses. Furthermore, the state does not impose inheritance, estate, or gift taxes, which makes it more attractive for wealthy households and retirees.

Component scores

out of 10



Arizona and its neighbors

Overall rank, 2027 Index, with change from 2026

Utah	#10	▲ 5
Arizona	**#17**	▼ 3
Nevada	#21	▲ 1
New Mexico	#28	▲ 3
Colorado	#33	▲ 1
California	#49	▼ 1