A Dash of SALT

For 2013, Arizona Allows a Bigger Instant Deduction, a Larger Subtraction, and More Income Tax Credits than Ever Before

This month's state and local tax (SALT) column highlights a few changes in Arizona's state income tax laws that may allow taxpayers to reduce their Arizona income tax burden more than they were previously allowed to, if they act before the end of tax year 2013.

CPAs always counsel their clients to plan ahead in order to reduce their income tax bills. For example, all other things being equal, generally taxpayers are encouraged to postpone taxable income into future tax years and to accelerate deductible expenses into the current tax year. Likewise, savvy Arizona taxpayers claim each state income tax credit that they are entitled to for everything from contributions to public schools and private school tuition organizations to credits for donations to the military family relief fund, and everything in between.

In addition to long-standing tax savings opportunities, thanks to Governor Brewer and the Arizona Legislature, 2013 presents some additional opportunities for Arizona taxpayers to trim their tax liabilities. In particular:

> **Arizona Deductions Under § 179 are No Longer Capped at $25,000.** For business equipment acquired on or after January 1, 2013, individuals and corporations that claim deductions under I.R.C. § 179 are no longer required to add back amounts in excess of $25,000 when calculating their Arizona tax deduction for such property. Thus, subject to existing limitations, individuals and corporations may purchase and instantly deduct up to $500,000 worth of qualifying equipment on both their federal and Arizona income tax returns for tax year 2013.
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> However, now that Arizona is tied to federal law on § 179 deductions again, Arizona's $500,000 limit will decrease for tax year 2014, and for future tax years, unless Congress and President Obama agree to renew the $500,000 limit. So, to be safe, taxpayers may want to purchase qualifying equipment in 2013 rather than risk lower § 179 limits in the future.

Maximum Subtractions for Contributions to § 529 Plans More Than Doubled. Individuals may subtract more from Arizona gross income than ever before for contributions to college savings plans established pursuant to § 529 of the I.R.C., as long as the contributions were not deducted when computing federal adjusted gross income.

For single individuals and heads of households, the maximum subtraction increased from $750 to $2,000. For married couples filing jointly, the maximum increased from $1,500 to $4,000.

Taxpayers Who Do Not Itemize their Deductions May Now Claim the Credit for Contributions to Charitable Organizations that Provide Assistance to the Working Poor. For the first time, individuals may claim the credit for contributions to qualifying charitable organizations that provide assistance to the working poor, even if they do not itemize their deductions. For single individuals and heads of households, the maximum credit is $200. For married couples filing jointly, the maximum credit is $400.

The Maximum Credit for Contributions to Charitable Organizations that Provide Assistance to the Working Poor Doubles When the Donation is to a Qualifying Foster Care Organization. In addition to making this credit available to those who do not itemize their deductions, beginning with tax year 2013, if one's donation is to a qualifying foster care charitable organization, the maximum amount of the credit increases from $200 for single individuals and heads of households and $400 for married couples filing jointly to $400 for single individuals and heads of households and $800 for married couples filing jointly.

Qualifying foster care organizations are available on the Arizona Department of Revenue's website. AZ CPA

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