SINGH PWM GUIDE

The Arizona Retirement Tax Guide

How Arizona's Flat Tax, Social Security Exemption, and
Residency Rules Change Your Federal Strategy

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Published September 16, 2026 · Figures current for tax year 2026

Get the fillable worksheet and be notified when the 2027 numbers publish: singhpwm.com/guides/arizona-retirement-tax-guide

What this guide answers

Arizona does not replace the federal bracket-management strategy in our companion guide, it adds a second, simpler layer on top: a flat 2.5% rate with no separate capital gains bracket, a full exemption for Social Security and military retirement pay, and a handful of one-time elections most retirees never complete. This guide covers exactly those four mechanics: the flat rate's real marginal cost, the Senior Property Valuation Freeze, Arizona's community-property double step-up in basis, and the domicile test that decides whether you are legally an Arizona resident at all. None of this replaces the federal playbook. All of it either saves you money Arizona already offers or protects you from a former state's residency audit.

> **IN SHORT**
>
> - Arizona's flat 2.5% adds to your federal bracket, it does not replace federal bracket management.
> - Community property titling can double the step-up in basis your survivor receives, but only if your accounts are titled correctly before the first death.
> - The Senior Valuation Freeze and domicile documentation are one-time or periodic elections with real deadlines, not automatic.

Contents

1. The Decision in Front of You

> Arizona does not replace the federal bracket-management strategy in our companion guide, The Retirement Tax Playbook. It adds a second, simpler layer on top of it: a flat 2.5% state tax, a full exemption for Social Security and military retirement pay, and a handful of Arizona-specific elections most transplant and long-time retirees alike never actually complete. None of it changes your federal bracket math. All of it changes the final number on your combined return, and several of these elections have hard deadlines or one-time windows that do not wait for you to get around to them.

If you have not read The Retirement Tax Playbook yet, start there. That guide covers the federal mechanics: bracket-fill Roth conversions, RMD sequencing, IRMAA, and the surviving-spouse bracket cliff. This guide assumes you already understand those and layers in exactly what changes when you file as an Arizona resident.

THIS IS WRONG FOR YOU IF

You are not an Arizona resident and have no plans to become one, in which case none of the state-specific elections here apply to you and you should stay with the federal-only guide. It is also the wrong emphasis if you are still deciding whether to retire in Arizona at all; that is a lifestyle and cost-of-living decision this guide does not attempt to make for you.

2.5%
Arizona's flat income tax rate on ordinary income, capital gains, and Roth conversions, 2026

$0
Arizona tax on Social Security benefits and military retirement pay, regardless of amount

$800,000
Illustrative built-in gain a community-property double step-up can erase versus joint tenancy

The companion checklist below walks the four Arizona-specific elections in one page.
Get the Arizona elections checklist.

2. How the Rule Actually Works

> Four mechanics are specific to Arizona and layer on top of everything in the federal playbook: a flat 2.5% rate with no separate capital gains treatment, a full exemption for Social Security and military retirement pay, a $2,500 cap on other qualifying government pensions, and a domicile-based residency test that is stricter than a simple day count. Get any one of these wrong and you either overpay or, worse, draw an audit from a former high-tax state that has not let go of you yet.

The flat 2.5% rate has no separate capital gains bracket

Arizona taxes ordinary income, long-term capital gains, and Roth conversion amounts at the same flat 2.5% rate. There is no 0% capital gains bracket the way there is federally. Every dollar of a Roth conversion or a capital gain harvest costs your federal marginal rate plus 2.5%, flat, regardless of how much room you have left in a federal bracket.[1] Figure 1 shows the true combined marginal cost at each federal bracket.

Social Security and military retirement pay are fully exempt

Arizona does not tax Social Security benefits at all, even the portion the federal government taxes.[2] Military retirement pay has been fully exempt from Arizona income tax since tax year 2021, with no dollar cap, after SB 1828 removed the prior $3,500 limit.[3] These are separate provisions from the pension exclusion below and are not capped.

The $2,500 government pension exclusion is a different, capped benefit

Pension income from Arizona, its political subdivisions, or the U.S. government (not military retirement pay, which is handled above) qualifies for a subtraction of up to $2,500 total, not per pension.[4] This amount is fixed by statute and does not index for inflation. It is easy to conflate with the unlimited military exemption. They are not the same benefit.

Residency runs on domicile, not a simple day count

Arizona determines residency by domicile: where your permanent home is and where you intend to return. Spending more than 183 days in Arizona creates a presumption of residency, but the reverse is not automatically true. A snowbird who spends less than half the year in Arizona can still be domiciled there, and a new Arizona homeowner who has not affirmatively changed their license, voter registration, and other domicile markers can still be legally domiciled in their prior state.[5] Getting this wrong in either direction risks double taxation or an audit from the state you left.

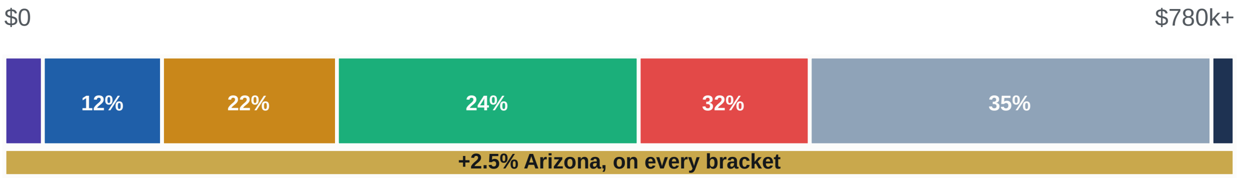
> **THE EDGE CASE PEOPLE MISS**
>
> High-tax states with aggressive residency enforcement (California among them) do not accept a change of address alone. They look at where your doctor, your accountant, your safe deposit box, and your grandchildren are. A retiree who spends six months and a day in Arizona but never changes anything else is exactly the profile these states' auditors are trained to find.

3. What the Numbers Say in 2026

> Three numbers define the Arizona-specific planning environment this year: the true combined marginal rate on a conversion, the exact income limits for the Senior Valuation Freeze, and the dollar value of getting your account titling right before, not after, the first spouse dies.

Arizona does not replace your federal bracket. It adds a flat 2.5% on top of it, on almost everything except Social Security and military pay.

Figure 1. Your real marginal cost of a Roth conversion in Arizona: federal bracket plus the state's flat 2.5%.



Federal 22% bracket in Arizona: 24.5% true marginal cost
Federal 24% bracket in Arizona: 26.5% true marginal cost
Federal 32% bracket in Arizona: 34.5% true marginal cost

Arizona has no separate capital gains rate. Long-term gains are ordinary income here, taxed at the same flat 2.5%. Social Security and military retirement pay are fully exempt from this 2.5%, federal rules aside.

Illustrative. The 2.5% band is constant across all brackets because Arizona taxes ordinary income (including Roth conversion amounts and traditional withdrawals) at one flat rate. Your federal bracket, not your Arizona bracket, is what changes as income rises.

Source: Arizona Department of Revenue, individual income tax rate; IRS Rev. Proc. 2025-32 for federal brackets. Retrieved September 16, 2026.

Federal bracket	+ Arizona 2.5%	True marginal rate
10%	+2.5%	12.5%
12%	+2.5%	14.5%
22%	+2.5%	24.5%
24%	+2.5%	26.5%
32%	+2.5%	34.5%
35%	+2.5%	37.5%
37%	+2.5%	39.5%

Arizona tax treatment by income source, 2026

How Arizona Taxes Common Retirement Income Sources, 2026

Income source	Arizona treatment
Social Security benefits	Fully exempt
Military retirement pay	Fully exempt, no cap
Qualifying government pension (AZ, local, U.S.)	First $2,500 exempt, rest taxed at 2.5%
Traditional IRA / 401(k) withdrawals	Taxed at flat 2.5%
Roth IRA qualified withdrawals	Fully exempt
Long-term capital gains	Taxed at flat 2.5%, no separate rate
Qualified Charitable Distributions	Not included in AGI, so not taxed

Source: Arizona Department of Revenue, individual income tax guidance. Retrieved September 16, 2026.

Senior Property Valuation Freeze income limits, 2026

Arizona Senior Property Valuation Protection Option, 2026 Cycle

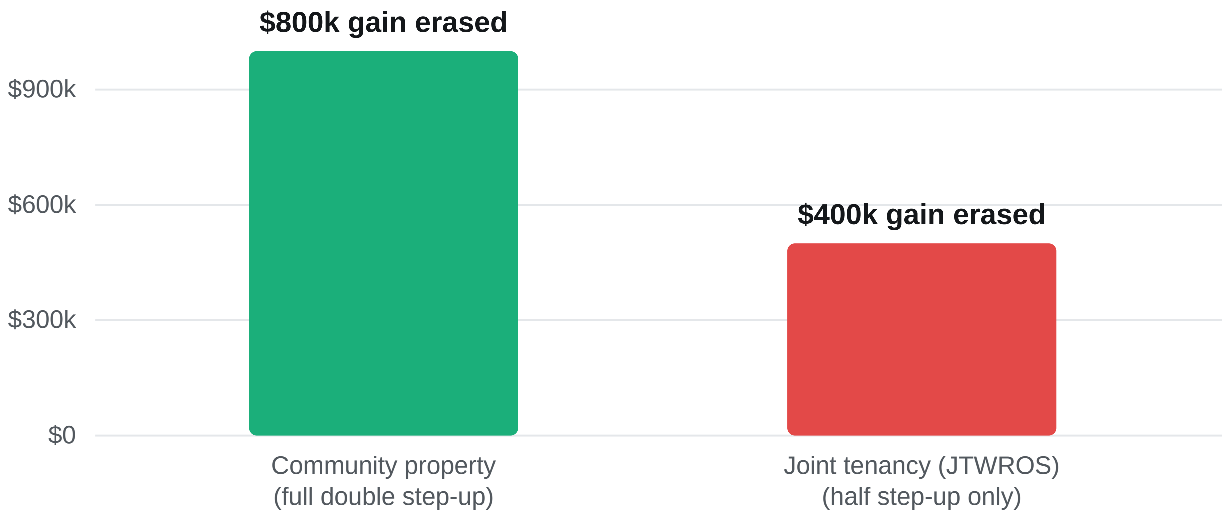
Ownership	Income limit (3-year average, all sources)
Single owner	Under $47,712
Two or more owners	Under $59,640

The assessor averages total income from all sources, taxable and non-taxable, over the three calendar years before you apply. That includes Social Security and VA disability, both of which are otherwise excluded from Arizona taxable income. You must be 65 or older and have owned and occupied the home as your primary residence for at least two full years. The freeze locks your property's assessed valuation for three years and must be renewed or it lapses.[6]

Source: Pima and Maricopa County Assessor offices, 2026 Senior Property Valuation Protection Option guidance. Retrieved September 16, 2026.

A jointly held taxable account titled the wrong way can cost you half of a very large tax break the day your spouse dies.

Figure 2. Step-up in basis at the first spouse's death: community property versus joint tenancy.



Illustrative. Account purchased for $400,000, now worth $1,200,000. Under IRC § 1014(b)(6), Arizona community property gets a full step-up on both halves at the first spouse's death. The same account titled as joint tenants with right of survivorship steps up only the decedent's half, leaving the survivor's half at its original cost basis.

Source: 26 U.S.C. § 1014(b)(6); A.R.S. § 25-211 and § 33-431. Retrieved September 16, 2026.

Titling	Basis before death	Basis after first death	Gain erased
Community property	$400,000	$1,200,000	$800,000
Joint tenancy (JTWROS)	$400,000	$800,000	$400,000

Want your specific titling and residency picture reviewed?

The rules above are generic. Whether your accounts are titled correctly, whether your domicile documentation would hold up, and whether you qualify for the valuation freeze all depend on your specific situation. A Strategic Fit Interview is where we look at exactly that.

Schedule a Strategic Fit Interview

4. The Worked Example

> Tom Ellison, 66, a retired Army colonel, and his wife Barbara, 64, relocated from Illinois to Chandler, Arizona two years ago. Tom's military pension is $58,000 a year, fully exempt from Arizona tax. They have $2.2M in traditional 401(k) and IRA balances, $150,000 in Roth IRAs, and a $500,000 taxable brokerage account they retitled as Arizona community property on the advice of their estate attorney. Layering Arizona's flat 2.5% onto the same managed-sequencing strategy from the companion federal guide still saves them money, illustratively, just less of it than a household in a state with a real capital gains bracket or a higher flat rate.

This example is entirely hypothetical. It is built to be representative of a Singh PWM Arizona household, not a real client, and every number in it is rounded and illustrative.

Getting the Arizona-specific elections right first

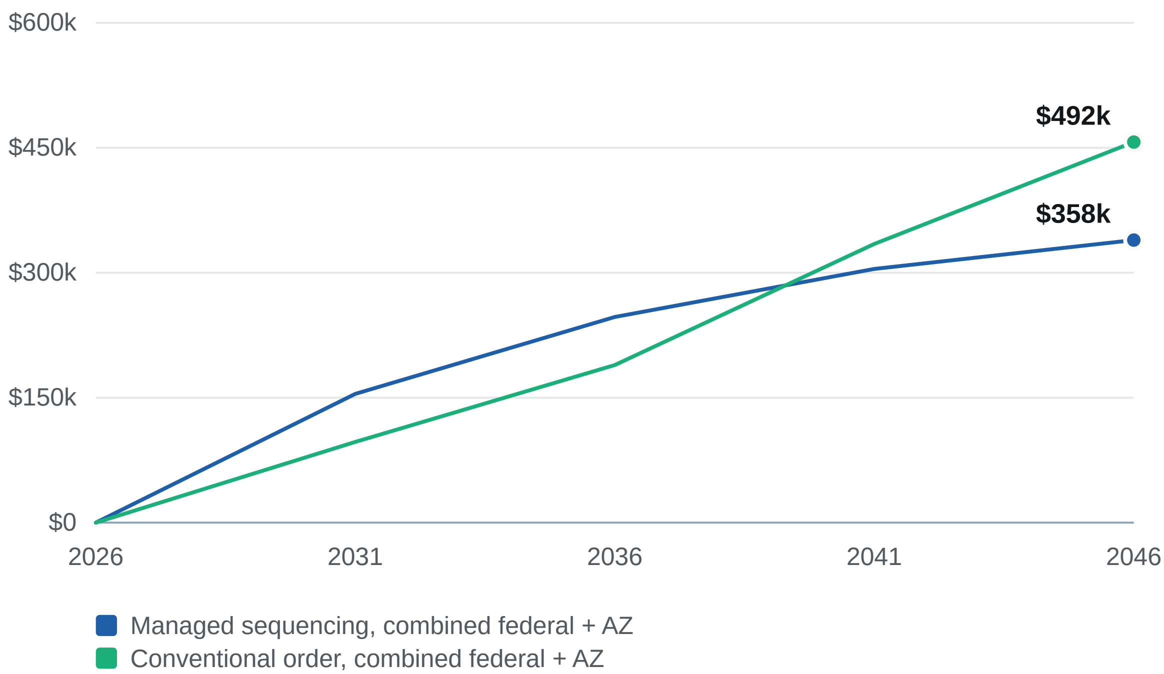
Before any conversion math, the Ellisons did three things most transplants skip. First, they completed Arizona's domicile checklist within their first year: Arizona driver's licenses, voter registration, primary home, and a written record of days spent in each state, so their prior Illinois domicile could not be argued as still active. Second, they retitled their taxable brokerage account from the "joint tenants" designation their Illinois attorney had used to Arizona community property, which will give the survivor a full step-up on the entire account, not just Tom's half, per Figure 2. Third, once they turn 65 and have owned their Chandler home for two years, they will file for the Senior Valuation Freeze before the September 1 deadline.

Layering Arizona onto the federal strategy

With the Arizona-specific items handled, the Ellisons run the same gap-years conversion strategy from the companion guide: convert to fill federal bracket room each year before RMDs begin, now at a true marginal cost of federal-plus-2.5% instead of federal alone. Tom's military pension being fully exempt from Arizona tax (though still federally taxable) gives them extra room, since it does not add to their Arizona taxable income the way a private pension would.

Managed the same way as the federal-only case, but with Arizona layered in, the Ellisons still come out ahead. The dollars are just smaller because Arizona's bite is smaller to begin with.

Figure 3. Cumulative federal plus Arizona tax paid, the Ellisons' two paths, 2026 to 2046.



Illustrative. Assumes a married couple filing jointly and Arizona-domiciled the full year, $2.2M pre-tax, $500,000 taxable, 6% average growth, 2026 rates held constant in real terms. Your household's numbers will differ.

Source: IRS Rev. Proc. 2025-32 and Arizona Department of Revenue, combined for this illustration. Retrieved September 16, 2026.

Year	Managed sequencing	Conventional order
2026	$0	$0
2031	$167,000	$105,000
2036	$267,000	$205,000
2041	$330,000	$363,000
2046	$358,000	$492,000

Your version of this example

The household above is illustrative. If you want to see the same side-by-side run on your actual balances, titling, and residency timeline, that is what the first meeting is for.

Schedule a Strategic Fit Interview

5. The Four Ways This Goes Wrong

> These show up repeatedly in real Arizona retiree and transplant tax situations, and each one is entirely preventable.

1. The Wrong-Titling Trap

What happens: A taxable account stays titled as joint tenants with right of survivorship, often because that is how it was titled in a prior state, instead of Arizona community property. At the first spouse's death, only the decedent's half of the built-in gain steps up.
Who it hits: Couples who moved to Arizona from a non-community-property state and never retitled.
Cost: Capital gains tax on half the built-in gain that a correct titling would have erased entirely, per Figure 2.
Prevention: Retitle taxable accounts as Arizona community property with your custodian and estate attorney.

2. The Undocumented Domicile

What happens: A household spends most of the year in Arizona but never formally changes their license, voter registration, or other domicile markers in their prior state. A high-tax state's residency audit can successfully argue the domicile never actually moved.
Who it hits: Recent transplants from aggressive-enforcement states, and snowbirds who intend to be Arizona residents but have not documented it.
Cost: Back taxes, interest, and penalties from the prior state, on income Arizona already taxed or exempted.
Prevention: Complete a full domicile checklist the year you move, not eventually.

3. The Lapsed Valuation Freeze

What happens: A household qualifies for the Senior Valuation Freeze, applies once, and then forgets the three-year renewal. The freeze lapses automatically and the property reverts to current assessed value.
Who it hits: Long-time Arizona senior homeowners who treated the freeze as a one-time application.
Cost: The property tax savings the freeze was providing, gone the year it lapses.
Prevention: Calendar the renewal date the day the freeze is approved, not three years from now.

4. The Low-Tax Complacency Trap

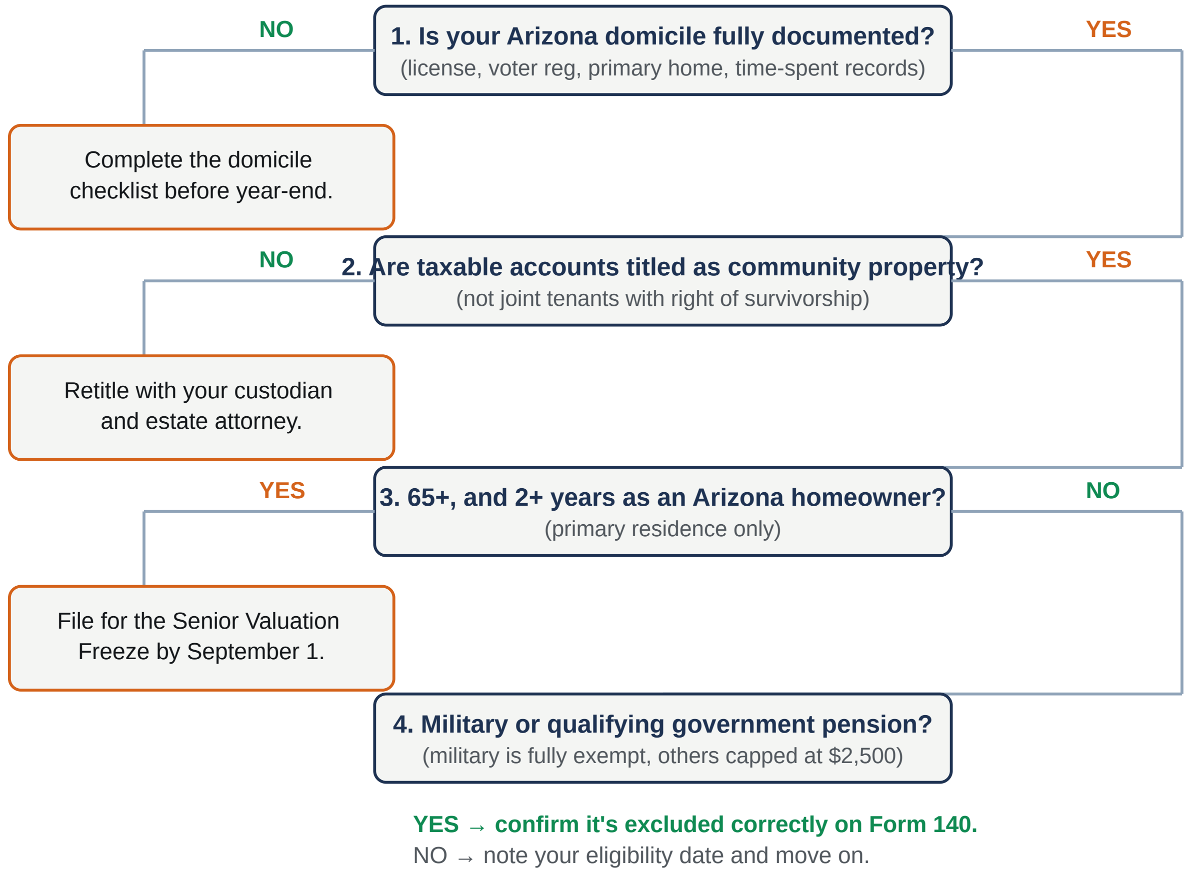
What happens: A household assumes Arizona's flat 2.5% and generous exemptions mean federal bracket management no longer matters. It does. The federal brackets, IRMAA cliffs, and Social Security taxation thresholds from the companion guide are completely unchanged by which state you live in.
Who it hits: Households who relax federal tax planning discipline after moving to a low-tax state.
Cost: The full federal cost of an unmanaged RMD bomb or an unmanaged IRMAA surprise, undiminished by Arizona's low rate.
Prevention: Run the federal playbook exactly as before. Arizona is an addition to that work, not a replacement for it.

6. Your Decision Framework

> Four questions, in order, tell you whether Arizona's tax advantages are actually working for you or just sitting unclaimed.

Four questions, in order, tell you whether Arizona is actually giving you the tax treatment you think it is.

Figure 4. Your Arizona residency and titling decision framework.



A simplified framework, not a substitute for a full residency and estate-titling review.

Source: Singh PWM planning framework, built on Arizona Department of Revenue and county assessor inputs cited throughout this guide.

Question	If yes	If no
1. Domicile fully documented?	Go to question 2	Complete the domicile checklist
2. Accounts titled as community property?	Go to question 3	Retitle with custodian and attorney
3. 65+, 2+ years as AZ homeowner?	File for the Senior Valuation Freeze	Go to question 4
4. Military or government pension?	Confirm correct exclusion on Form 140	Note eligibility date

7. Your Action Plan

> Seven steps, each with an owner, a deadline, and the document you need. Several of these have hard, dated deadlines rather than "whenever you get to it."

1. **Complete Arizona's domicile checklist.** Owner: you. Timing: within your first year as an Arizona resident. Need: Arizona driver's license, voter registration, and a written log of days spent in each state.

2. **Retitle taxable brokerage and real estate accounts as Arizona community property.** Owner: you, your custodian, and your estate attorney. Timing: as soon as possible after establishing residency. Need: current account titling documentation.
3. **Confirm your military or government pension is excluded correctly.** Owner: you or your CPA/EA. Timing: at tax filing. Need: 1099-R and Arizona Form 140 instructions for the applicable subtraction.
4. **Mark your eligibility date for the Senior Valuation Freeze.** Owner: you. Timing: the day you turn 65 or hit two years of homeownership, whichever is later. Need: proof of age and residency duration.
5. **File for the freeze by September 1 of the eligible year.** Owner: you. Timing: annually until filed, then once locked in. Need: county assessor application form and three years of income documentation.
6. **Calendar the three-year freeze renewal the day it is approved.** Owner: you. Timing: immediately upon approval. Need: nothing but the reminder.
7. **Re-run the federal playbook exactly as before, Arizona changes nothing about it.** Owner: you and your advisor. Timing: same cadence as the companion guide. Need: The Retirement Tax Playbook's worksheet.

Most of this is a one-time setup, not an annual burden

The domicile and titling work happens once. The valuation freeze renewal takes ten minutes every three years. If you want a second set of eyes on whether your specific situation is set up correctly, that is exactly what a Strategic Fit Interview covers.

Schedule a Strategic Fit Interview

8. Worksheet

> Fill this in with your own Arizona-specific details before your next tax-planning conversation.

Residency and Domicile

Date you established Arizona domicile	____________
Days spent in Arizona last calendar year	____________
Prior state's domicile markers still active? (license, voting, etc.)	____________

Account Titling

Taxable brokerage account titling	____________
Real estate titling	____________
Estimated built-in gain if retitled to community property	____________

Pensions and Exemptions

Military retirement pay (fully exempt)	____________
Other qualifying government pension (first $2,500 exempt)	____________

Senior Property Valuation Freeze

Age, and years as an Arizona homeowner	____________
3-year average income, all sources	____________
Eligible? Filing or renewal deadline	____________

Notes

Want a second set of eyes on these numbers? Schedule a Strategic Fit Interview.

9. What Changes This

> Arizona's rate and exemptions have been stable since the 2023 flat-tax transition, but two things move every year and one has a hard multi-year clock.

Two dates a year, every year, keep the Arizona-specific savings in this guide from quietly lapsing.

Figure 5. What changes, and when.

The county resets Senior Valuation Freeze income limits annually; the freeze itself must be actively renewed every three years or it lapses automatically.

Source: Maricopa and Pima County Assessor offices; IRS 2026 federal estate tax exemption. Retrieved September 16, 2026.

- **Every January:** county assessors reset the Senior Valuation Freeze income limits for inflation. Check the current year's limits before assuming eligibility.
- **Every three years, per household:** the valuation freeze must be actively renewed or it lapses automatically. This is not on the same calendar for every household, it runs from your approval date.
- **2026:** the federal estate tax exemption is $15M per person / $30M per married couple. Arizona has no separate state estate or inheritance tax, but the federal exemption is worth monitoring if it is relevant to your estate.[7]

Re-check trigger: revisit your domicile documentation any year your time-split between states changes materially, and revisit titling any time you open a new account or a custodian defaults to joint tenancy instead of community property.

If this was useful

Share it with someone it would help. And if you want to talk through how it applies to your situation, the door is open.

Schedule a Strategic Fit Interview

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> *The highest compliment for me is that you share my values and views with the ones you care for. Thank you for your Trust!*

Sources and disclosures

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12. Singh PWM. "2026 Retirement and Tax Reference" and existing Arizona guides (arizona-rmd-tax-planning, pre-retiree-tax-planning-checklist-arizona, retirement-tax-arizona), used as the firm's own previously-verified mirror for the 2.5% rate, Social Security exemption, $2,500 pension exclusion, and community property step-up facts, all independently re-verified this session.