



MULTISTATE INCOME/FRANCHISE TAX

Arizona updates IRC conformity and addresses OBBBA

Tax Alert

Overview

On June 13, 2026, Arizona House Bill 4168 (“[H.B. 4168](#)”), an omnibus taxation measure, was enacted into law. Among other changes, H.B. 4168 updates Arizona’s conformity to the Internal Revenue Code (“IRC”) to the version in effect on January 1, 2026, incorporates provisions of the One Big Beautiful Bill Act (the “OBBBA”) that are retroactively effective across several prior conformity windows, and requires an addition to Arizona gross income for the special depreciation allowance for qualified production property under IRC section 168(n). These provisions carry retroactive effective dates tied to tax years beginning after December 31, 2024 and taxable years beginning after December 31, 2025, depending on the provision.

This Tax Alert summarizes the federal conformity provisions of H.B. 4168.

Updated IRC conformity date

H.B. 4168 amends Arizona Revised Statutes (“A.R.S.”) section 43-105 to add a new conformity provision stating that, for taxable years beginning from and after December 31, 2025, Internal Revenue Code means the IRC of 1986, as amended, in effect on January 1, 2026, including those provisions that became effective during 2025 with the specific adoption of all retroactive effective dates, but excluding any changes enacted after January 1, 2026.

H.B. 4168 also amends the general definition of Internal Revenue Code in Title 42 at A.R.S. section 42-1001 to reference the IRC in effect as of January 1, 2026 (from January 1, 2025), including provisions that became effective during 2025 (from 2024) with the specific adoption of their retroactive effective dates. The amendments to A.R.S. sections 42-1001 and 43-105 apply retroactively to taxable years beginning from and after December 31, 2024.

Incorporation of retroactively effective OBBBA provisions

H.B. 4168 amends the prior-year conformity windows in A.R.S. section 43-105 to incorporate the provisions of the OBBBA that are retroactively effective during those windows. As amended, the provision specifies that Internal Revenue Code includes the retroactively effective provisions of the OBBBA for the following taxable year windows:

- Taxable years beginning from and after December 31, 2024 through December 31, 2025 (IRC in effect January 1, 2025).
- Taxable years beginning from and after December 31, 2023 through December 31, 2024 (IRC in effect January 1, 2024).
- Taxable years beginning from and after December 31, 2022 through December 31, 2023 (IRC in effect January 1, 2023).

- Taxable years beginning from and after December 31, 2021 through December 31, 2022 (IRC in effect January 1, 2022), where the OBBBA is added to the previously enumerated acts (the CHIPS and Science Act of 2022, the Inflation Reduction Act of 2022, and the Consolidated Appropriations Act, 2023).

Decoupling from IRC section 168(n) special depreciation allowance

In connection with the updated conformity, H.B. 4168 decouples from the special depreciation allowance for qualified production property under IRC section 168(n). The bill amends A.R.S. section 43-1021 (individual additions) and A.R.S. section 43-1121 (corporate additions) to require an addition to Arizona gross income for taxable years beginning from and after December 31, 2025, for the amount of the special depreciation allowance for qualified production property allowed under IRC section 168(n) for the taxable year, to the extent not previously added. As noted, both the individual addition under A.R.S. § 43-1021 and the corporate addition under A.R.S. § 43-1121 apply for taxable years beginning from and after December 31, 2025.

Corporate foreign dividend subtraction

H.B. 4168 amends A.R.S. section 43-1122(9), under which certain amounts are treated as foreign dividends for purposes of the corporate subtraction for dividend income from foreign corporations. As amended, the paragraph refers to "the income described in section 951A of the Internal Revenue Code" in place of "global intangible low-taxed income as defined in section 951A of the internal revenue code." Gross-up income described in IRC section 78 and subpart F income defined in IRC section 952 continue to be treated as foreign dividends. A.R.S. section 43-1122, as amended, applies retroactively to taxable years beginning from and after December 31, 2024.

Other changes enacted under H.B. 4168

In addition to the conformity provisions discussed above, H.B. 4168 includes several other changes, including a limitation of the itemized deduction for state and local taxes to \$10,000, in lieu of the federal itemized deduction for state and local taxes allowed under IRC section 164(b)(7), for taxable years beginning from and after December 31, 2025. The bill also revises various individual income tax subtractions, deductions, and credits, repeals certain income tax credits, modifies the individual and corporate research and development credit, changes the distribution of transaction privilege tax revenues for manufacturing-facility infrastructure, and imposes a moratorium on the acceptance of applications for new computer data center transaction privilege tax and use tax relief.

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