

INDIVIDUAL INCOME TAX

LIST OF ARIZONA'S NON-CONFORMING AND OTHER STATE TAX ADJUSTMENTS (DISSIMILAR OR NOT APPLICABLE FOR FEDERAL TAX PURPOSES) - 2013

COMMONLY APPLICABLE

INCREASES TO STATE TAXABLE INCOME AND/OR STATE INCOME TAX:

- Non-Arizona municipal bond interest
Adjustment for federally tax exempt municipal bond interest received in the taxable year from sources other than Arizona.
- Federal bonus depreciation
Limits federally deductible bonus depreciation to 10% of the allowance for state purposes. Without an extension of the federal bonus depreciation provision's December 31, 2013 expiration date, Arizona's bonus depreciation adjustment will be zero in 2014.
- Charitable contributions eligible for Arizona state tax credit (Form 301)
Charitable contributions eligible for Arizona Working Poor Tax Credit, Arizona Public School Contributions Tax Credit, and Arizona School Tuition Organization Contributions Tax Credit reduce state itemized deductions. (Arizona allows a credit in lieu of the itemized deduction.)
- Partnership or Fiduciary income adjustment on Arizona Schedule K-1
May result in an increase or decrease to state income.

DECREASES TO STATE TAXABLE INCOME AND/OR STATE INCOME TAX:

- Medical expenses
Medical expenses are 100% deductible as an Arizona itemized deduction. Federal itemized deductions are disallowed if they don't meet the Federal threshold.
- Additional personal exemptions for individuals 65 and over, the blind, dependents, and qualifying parents or grandparents.
An additional Arizona personal exemption deduction for each of the following instances multiplied by the number of qualifying individuals:

<u>Qualifying Individuals:</u>	<u>Additional Exemption Amount:</u>
Individuals 65 and over	\$ 2,100
Blind	\$ 1,500
Dependents	\$ 2,300
Qualifying parents and grandparents	\$ 10,000
- Interest on US Savings Bonds
A state deduction equal to the federal taxable amount of interest earned on United States savings bonds.

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- State and/or local government pension
A state deduction for pension income received from the United States Government Retirement Disability Fund, Arizona State Retirement System, and other federal and Arizona retirement systems and/or funds. The deduction is equal to amount received up to a maximum of \$2,500.
- Social security and railroad retirement benefits
A state deduction equal to the total amount of federally taxable social security or railroad retirement benefits received.
- Net operating loss adjustment
Arizona re-calculated net operating losses deductible in the current taxable year when carried forward from prior taxable year (maximum of 20 years) or carried back from subsequent taxable years (maximum of 2 year).
- 529 (Education Savings Account) contributions
A state deduction for contributions to a 529 college savings account during the taxable year. The deduction is equal to the amount contributed, up to a maximum of \$2,000 (single) or \$4,000 (married filing joint) – effective January 1, 2013.
- Adoption expenses
Arizona state deduction for adoption expenses (e.g. adoption counseling, legal and agency fees, other nonrecurring costs of adoption) paid in the taxable year the adoption order is granted. Deduction is equal to amount paid or \$3,000, whichever is less.
- Capital Gains on assets acquired after December 31, 2011
A state deduction for net long term capital gain (LTCG) included in federal adjusted gross income equal to 10% of the LTCG in 2013, 20% of the LTCG in 2014, and 25% of the LTCG for all subsequent years. (43-1022.37 of House Bill 2815)
- Income Tax refunds from other states

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ADDITIONS TO INCOME:

- Ordinary income portion of lump-sum distributions excluded on the federal tax return
- Medical savings account (MSA) distributions
- Pension adjustments (pensions taxed pre-1979 and used the percentage exclusion method)
- Adjustment for Married persons filing separate returns (one-half of community income from all sources)
- Items previously deducted for Arizona purposes
- Claim of right adjustment for amounts repaid in current year
- Claim of right adjustment for amounts repaid in prior taxable years
- Addition to S corporation income due to credits claimed
- Solar hot water heater plumbing stub outs and electric vehicle recharge outlet expenses deducted on federal return eligible for AZ credit.
- Wage expense for employers on TANF recipients deducted on federal return eligible for AZ credit
- Motion picture expenses deducted on federal return eligible for AZ credit
- Agricultural water conservation system expenses deducted on federal return eligible for AZ credit.
- Adjusted basis in property for which credit for investment in qualified small business claimed
- Depreciation or amortization for a water conservation system in which AZ credit is claimed.
- Nonqualified withdrawals from 529 college savings plans
- Original issue discount on reacquisition of debt instruments
- Early withdrawal of Arizona, county, city or school retirement contributions.
- Qualified health insurance plans deducted on federal return eligible for AZ credit
- Sole proprietorship loss of an Arizona nonprofit medical marijuana dispensary included in Federal AGI
- Other expenses deducted federal and eligible for AZ credit

DECREASES TO STATE TAXABLE INCOME AND/OR STATE INCOME TAX:

SUBTRACTIONS FROM INCOME:

- Arizona state lottery winnings included as income on the federal return (max \$5,000)
- Certain wages of American Indians
- Deposits and employer contributions into medical savings accounts (MSA)
- Wages for active service as a member of US armed services
- Previously reported gain on decedent's installment sale
- Federally taxable Arizona municipal interest
- Qualified wood stove, wood fireplace, or gas fired fireplace conversion costs
- Claim of right adjustment for amounts repaid in prior taxable years

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DECREASES TO STATE TAXABLE INCOME AND/OR STATE INCOME TAX (Continued):

SUBTRACTIONS FROM INCOME (Continued):

- Certain expenses not allowed for federal purposes
- Distributions for World War II victims
- Installment sale income from another state taxed by the other state in a prior taxable year
- Agricultural crops given to Arizona charities
- Basis adjustment for property sold or otherwise disposed of during the taxable year
- Previously deferred discharge of indebtedness income adjustment
- Original issue discount on reacquisition of business debt instrument
- Sole proprietorship income of an Arizona nonprofit medical marijuana dispensary included in federal AGI

ADJUSTMENTS TO ITEMIZED DEDUCTIONS:

- Interest deduction claimed as federal credit (Form 8396)
- Federal itemized deductions related to income not subject to Arizona tax