

State of Arizona
House of Representatives
Forty-ninth Legislature
Second Regular Session
2010

HOUSE BILL 2156

AN ACT

AMENDING SECTIONS 42-1001, 43-105, 43-1021, 43-1022, 43-1042, 43-1121 AND
43-1122, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 42-1001, Arizona Revised Statutes, is amended to
3 read:
4 42-1001. Definitions
5 In this title, unless the context otherwise requires:
6 1. "Board" or "state board" means either the state board of tax
7 appeals or the state board of equalization, as applicable.
8 2. "Court" means the tax court or superior court, whichever is
9 applicable.
10 3. "Department" means the department of revenue.
11 4. "Director" means the director of the department.
12 5. "Internal revenue code" means the United States internal revenue
13 code of 1986, as amended and in effect as of January 1, ~~2009~~ 2010, including
14 those provisions that became effective during ~~2008~~ 2009 with the specific
15 adoption of their retroactive effective dates but excluding all changes to
16 the code enacted after January 1, ~~2009~~ 2010.
17 Sec. 2. Section 43-105, Arizona Revised Statutes, is amended to read:
18 43-105. Internal revenue code; definition; application
19 A. FOR THE PURPOSES OF COMPUTING INCOME TAX PURSUANT TO THIS TITLE,
20 FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2009, "INTERNAL
21 REVENUE CODE" MEANS THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS
22 AMENDED, IN EFFECT ON JANUARY 1, 2010, INCLUDING THOSE PROVISIONS THAT BECAME
23 EFFECTIVE DURING 2009 WITH THE SPECIFIC ADOPTION OF ALL FEDERAL RETROACTIVE
24 EFFECTIVE DATES, BUT EXCLUDING ANY CHANGE TO THE CODE ENACTED AFTER JANUARY
25 1, 2010.
26 ~~A-~~ B. For purposes of computing income tax pursuant to this title,
27 for taxable years beginning from and after December 31, 2008 THROUGH DECEMBER
28 31, 2009, "internal revenue code" means the United States internal revenue
29 code of 1986, as amended, in effect on January 1, 2009, including those
30 provisions that became effective during 2008 with the specific adoption of
31 all federal retroactive effective dates, ~~but excluding any change to the code~~
32 ~~enacted after January 1, 2009~~ AND INCLUDING THOSE PROVISIONS OF THE AMERICAN
33 RECOVERY AND REINVESTMENT ACT OF 2009 (P.L. 111-5) EXCEPT SECTION 1211, THE
34 CONSUMER ASSISTANCE TO RECYCLE AND SAVE ACT OF 2009 (P.L. 111-32) AND THE
35 WORKER, HOMEOWNERSHIP, AND BUSINESS ASSISTANCE ACT OF 2009 (P.L. 111-92)
36 EXCEPT SECTION 13 THAT ARE RETROACTIVELY EFFECTIVE DURING TAXABLE YEARS
37 BEGINNING FROM AND AFTER DECEMBER 31, 2008 THROUGH DECEMBER 31, 2009.
38 ~~B-~~ C. For purposes of computing income tax pursuant to this title,
39 for taxable years beginning from and after December 31, 2007 through December
40 31, 2008, "internal revenue code" means the United States internal revenue
41 code of 1986, as amended, in effect on January 1, 2008, including those
42 provisions that became effective during 2007 with the specific adoption of
43 all federal retroactive effective dates and including those provisions of the
44 economic stimulus act of 2008 (P.L. 110-185), the heroes earnings assistance
45 and relief tax act of 2008 (P.L. 110-245), the heartland, habitat, harvest

1 and horticulture act of 2008 (P.L. 110-246), the housing assistance tax act
2 of 2008 (P.L. 110-289), the emergency economic stabilization act of 2008
3 (P.L. 110-343) ~~and~~, the worker, retiree, and employer recovery act of 2008
4 (P.L. 110-458), **THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009**
5 **(P.L. 111-5) EXCEPT SECTION 1211 AND THE WORKER, HOMEOWNERSHIP, AND BUSINESS**
6 **ASSISTANCE ACT OF 2009 (P.L. 111-92) EXCEPT SECTION 13** that are retroactively
7 effective during taxable years beginning from and after December 31, 2007
8 through December 31, 2008.

9 ~~D.~~ D. For purposes of computing income tax pursuant to this title,
10 for taxable years beginning from and after December 31, 2006 through December
11 31, 2007, "internal revenue code" means the United States internal revenue
12 code of 1986, as amended, in effect on January 1, 2007, including those
13 provisions that became effective during 2006 with the specific adoption of
14 all federal retroactive effective dates and including those provisions of the
15 small business and work opportunity tax act of 2007 (P.L. 110-28), the energy
16 independence and security act of 2007 (P.L. 110-140), Public Law 110-141, the
17 mortgage forgiveness debt relief act of 2007 (P.L. 110-142), the tax
18 technical corrections act of 2007 (P.L. 110-172), the economic stimulus act
19 of 2008 (P.L. 110-185), the heroes earnings assistance and relief tax act of
20 2008 (P.L. 110-245), the heartland, habitat, harvest and horticulture act of
21 2008 (P.L. 110-246), the housing assistance tax act of 2008 (P.L. 110-289),
22 the emergency economic stabilization act of 2008 (P.L. 110-343) and the
23 worker, retiree, and employer recovery act of 2008 (P.L. 110-458) that are
24 retroactively effective during taxable years beginning from and after
25 December 31, 2006 through December 31, 2007.

26 ~~E.~~ E. For purposes of computing income tax pursuant to this title,
27 for taxable years beginning from and after December 31, 2005 through December
28 31, 2006, "internal revenue code" means the United States internal revenue
29 code of 1986, as amended, in effect on January 1, 2006, including those
30 provisions that became effective during 2005 with the specific adoption of
31 all federal retroactive effective dates and including those provisions of the
32 tax increase prevention and reconciliation act of 2005 (P.L. 109-222), the
33 pension protection act of 2006 (P.L. 109-280), the tax relief and health care
34 act of 2006 (P.L. 109-432), the small business and work opportunity tax act
35 of 2007 (P.L. 110-28), the mortgage forgiveness debt relief act of 2007
36 (P.L. 110-142), the tax technical corrections act of 2007 (P.L. 110-172), the
37 heartland, habitat, harvest and horticulture act of 2008 (P.L. 110-246) and
38 the housing assistance tax act of 2008 (P.L. 110-289) that are retroactively
39 effective during taxable years beginning from and after December 31, 2005
40 through December 31, 2006.

41 ~~F.~~ F. For purposes of computing income tax pursuant to this title,
42 for taxable years beginning from and after December 31, 2004 through December
43 31, 2005, "internal revenue code" means the United States internal revenue
44 code of 1986, as amended, in effect on January 1, 2005, including those
45 provisions that became effective during 2004 with the specific adoption of

1 all federal retroactive effective dates and including those provisions of the
2 Katrina emergency tax relief act of 2005 (P.L. 109-73), the energy tax
3 incentives act of 2005 (title XIII of the energy policy act of 2005
4 (P.L. 109-58)), the gulf opportunity zone act of 2005 (P.L. 109-135), the tax
5 technical corrections act of 2007 (P.L. 110-172), the heartland, habitat,
6 harvest and horticulture act of 2008 (P.L. 110-246) and the housing
7 assistance tax act of 2008 (P.L. 110-289) that are retroactively effective
8 during taxable years beginning from and after December 31, 2004 through
9 December 31, 2005.

10 ~~F.~~ G. For purposes of computing income tax pursuant to this title,
11 for taxable years beginning from and after December 31, 2003 through December
12 31, 2004, "internal revenue code" means the United States internal revenue
13 code of 1986, as amended, in effect on January 1, 2004, including those
14 provisions that became effective during 2003 with the specific adoption of
15 all federal retroactive effective dates and including those provisions of the
16 working families tax relief act of 2004 (P.L. 108-311), the American jobs
17 creation act of 2004 (P.L. 108-357), the Katrina emergency tax relief act of
18 2005 (P.L. 109-73), the energy tax incentives act of 2005 (title XIII of the
19 energy policy act of 2005 (P.L. 109-58)), the gulf opportunity zone act of
20 2005 (P.L. 109-135), the tax technical corrections act of 2007 (P.L. 110-172)
21 and the heartland, habitat, harvest and horticulture act of 2008
22 (P.L. 110-246) that are retroactively effective during taxable years
23 beginning from and after December 31, 2003 through December 31, 2004.

24 ~~G.~~ H. For purposes of computing income tax pursuant to this title,
25 for taxable years beginning from and after December 31, 2002 through December
26 31, 2003, "internal revenue code" means the United States internal revenue
27 code of 1986, as amended, in effect on January 1, 2003, including those
28 provisions that became effective during 2002 with the specific adoption of
29 all federal retroactive effective dates and including those provisions of the
30 working families tax relief act of 2004 (P.L. 108-311), the American jobs
31 creation act of 2004 (P.L. 108-357), the jobs and growth tax relief
32 reconciliation act of 2003 (P.L. 108-27), the military family tax relief act
33 of 2003 (P.L. 108-121), the medicare prescription drug, improvement, and
34 modernization act of 2003 (P.L. 108-173), the tax technical corrections act
35 of 2007 (P.L. 110-172) and the heartland, habitat, harvest and horticulture
36 act of 2008 (P.L. 110-246) that are retroactively effective during taxable
37 years beginning from and after December 31, 2002 through December 31, 2003.

38 ~~H.~~ I. For purposes of computing income tax pursuant to this title,
39 for taxable years beginning from and after December 31, 2001 through December
40 31, 2002, "internal revenue code" means the United States internal revenue
41 code of 1986, as amended, in effect on March 9, 2002, including those
42 provisions that became effective during 2001 with the specific adoption of
43 all federal retroactive effective dates and including those provisions of the
44 working families tax relief act of 2004 (P.L. 108-311), the American jobs
45 creation act of 2004 (P.L. 108-357), the jobs and growth tax relief

1 reconciliation act of 2003 (P.L. 108-27), the military family tax relief act
2 of 2003 (P.L. 108-121), the tax technical corrections act of 2007
3 (P.L. 110-172) and the heartland, habitat, harvest and horticulture act of
4 2008 (P.L. 110-246) that are retroactively effective during taxable years
5 beginning from and after December 31, 2001 through December 31, 2002.

6 ~~I.~~ J. For purposes of computing income tax pursuant to this title,
7 for taxable years beginning from and after December 31, 2000 through December
8 31, 2001, "internal revenue code" means the United States internal revenue
9 code of 1986, as amended, in effect on January 1, 2001, including those
10 provisions that became effective during 2000 with the specific adoption of
11 all federal retroactive effective dates and including those provisions of the
12 working families tax relief act of 2004 (P.L. 108-311), the American jobs
13 creation act of 2004 (P.L. 108-357), the economic growth and tax relief
14 reconciliation act of 2001 (P.L. 107-16), the job creation and worker
15 assistance act of 2002 (P.L. 107-147), the military family tax relief act of
16 2003 (P.L. 108-121) and the tax technical corrections act of 2007
17 (P.L. 110-172) that are retroactively effective during taxable years
18 beginning from and after December 31, 2000 through December 31, 2001.

19 ~~J.~~ K. For purposes of computing income tax pursuant to this title,
20 for taxable years beginning from and after December 31, 1999 through December
21 31, 2000, "internal revenue code" means the United States internal revenue
22 code of 1986, as amended, in effect on January 1, 2000, including those
23 provisions that became effective during 1999 with the specific adoption of
24 all federal retroactive effective dates and including those provisions of the
25 community renewal tax relief act of 2000 (P.L. 106-554), the installment tax
26 correction act of 2000 (P.L. 106-573), FSC repeal and extraterritorial income
27 exclusion act of 2000 (P.L. 106-519), the trade and development act of 2000
28 (P.L. 106-200), the economic growth and tax relief reconciliation act of 2001
29 (P.L. 107-16), the job creation and worker assistance act of 2002
30 (P.L. 107-147) and the military family tax relief act of 2003 (P.L. 108-121)
31 that are retroactively effective during taxable years beginning from and
32 after December 31, 1999 through December 31, 2000.

33 ~~K. For purposes of computing income tax pursuant to this title, for~~
34 ~~taxable years beginning from and after December 31, 1998 through December 31,~~
35 ~~1999, "internal revenue code" means the United States internal revenue code~~
36 ~~of 1986, as amended, in effect on January 1, 1999, including those provisions~~
37 ~~that became effective during 1998 with the specific adoption of all federal~~
38 ~~retroactive effective dates and including those provisions of the~~
39 ~~miscellaneous trade and technical corrections act of 1999 (P.L. 106-36), the~~
40 ~~ticket to work and work incentives improvement act of 1999 (P.L. 106-170),~~
41 ~~the community renewal tax relief act of 2000 (P.L. 106-554), the installment~~
42 ~~tax correction act of 2000 (P.L. 106-573) and the military family tax relief~~
43 ~~act of 2003 (P.L. 108-121) that are retroactively effective during taxable~~
44 ~~years beginning from and after December 31, 1998 through December 31, 1999.~~

1 Sec. 3. Section 43-1021, Arizona Revised Statutes, is amended to read:
2 43-1021. Additions to Arizona gross income

3 In computing Arizona adjusted gross income, the following amounts shall
4 be added to Arizona gross income:

5 1. A beneficiary's share of the fiduciary adjustment to the extent
6 that the amount determined by section 43-1333 increases the beneficiary's
7 Arizona gross income.

8 2. An amount equal to the "ordinary income portion" of a lump sum
9 distribution that was excluded from federal adjusted gross income pursuant to
10 section 402(d) of the internal revenue code.

11 3. The amount of interest income received on obligations of any state,
12 territory or possession of the United States, or any political subdivision
13 thereof, located outside the state of Arizona, reduced, for tax years
14 beginning from and after December 31, 1996, by the amount of any interest on
15 indebtedness and other related expenses that were incurred or continued to
16 purchase or carry those obligations and that are not otherwise deducted or
17 subtracted in arriving at Arizona gross income.

18 4. Annuity income received during the taxable year to the extent that
19 the sum of the proceeds received from such annuity in all taxable years prior
20 to and including the current taxable year exceeds the total consideration and
21 premiums paid by the taxpayer. This paragraph applies only to those
22 annuities with respect to which the first payment was received prior to
23 December 31, 1978.

24 5. The excess of a partner's share of partnership taxable income
25 required to be included under chapter 14, article 2 of this title over the
26 income required to be reported under section 702(a)(8) of the internal
27 revenue code.

28 6. The excess of a partner's share of partnership losses determined
29 pursuant to section 702(a)(8) of the internal revenue code over the losses
30 allowable under chapter 14, article 2 of this title.

31 7. The amount by which the adjusted basis of property described in
32 this paragraph and computed pursuant to the internal revenue code exceeds the
33 adjusted basis of such property computed pursuant to this title and the
34 income tax act of 1954, as amended. This paragraph shall apply to all
35 property which is held for the production of income and which is sold or
36 otherwise disposed of during the taxable year, except depreciable property
37 used in a trade or business.

38 8. The amount of depreciation or amortization of costs of any capital
39 investment that is deducted pursuant to section 167 or 179 of the internal
40 revenue code by a qualified defense contractor with respect to which an
41 election is made to amortize pursuant to section 43-1024.

42 9. The amount of gain from the sale or other disposition of a capital
43 investment which a qualified defense contractor has elected to amortize
44 pursuant to section 43-1024.

1 10. Amounts withdrawn from the Arizona state retirement system, the
2 corrections officer retirement plan, the public safety personnel retirement
3 system, the elected officials' retirement plan or a county or city retirement
4 plan by an employee upon termination of employment before retirement to the
5 extent they were deducted in arriving at Arizona taxable income in any year.

6 11. That portion of the net operating loss included in federal adjusted
7 gross income which has already been taken as a net operating loss for Arizona
8 purposes or which is separately taken as a subtraction under the special net
9 operating loss transition rule.

10 12. Any nonitemized amount deducted pursuant to section 170 of the
11 internal revenue code representing contributions to an educational
12 institution which denies admission, enrollment or board and room
13 accommodations on the basis of race, color or ethnic background except those
14 institutions primarily established for the education of American Indians.

15 13. The amount paid as taxes on property in this state with respect to
16 which a credit is claimed under section 43-1078.

17 14. Amounts withdrawn from a medical savings account by the individual
18 during the taxable year computed pursuant to section 220(f) of the internal
19 revenue code and not included in federal adjusted gross income.

20 15. Any amount of agricultural water conservation expenses that were
21 deducted pursuant to the internal revenue code for which a credit is claimed
22 under section 43-1084.

23 16. The amount by which the depreciation or amortization computed under
24 the internal revenue code with respect to property for which a credit was
25 taken under section 43-1080 exceeds the amount of depreciation or
26 amortization computed pursuant to the internal revenue code on the Arizona
27 adjusted basis of the property.

28 17. The amount by which the adjusted basis computed under the internal
29 revenue code with respect to property for which a credit was claimed under
30 section 43-1080 and which is sold or otherwise disposed of during the taxable
31 year exceeds the adjusted basis of the property computed under section
32 43-1080.

33 18. The amount by which the depreciation or amortization computed under
34 the internal revenue code with respect to property for which a credit was
35 taken under either section 43-1081 or 43-1081.01 exceeds the amount of
36 depreciation or amortization computed pursuant to the internal revenue code
37 on the Arizona adjusted basis of the property.

38 19. The amount by which the adjusted basis computed under the internal
39 revenue code with respect to property for which a credit was claimed under
40 section 43-1074.02, 43-1081 or 43-1081.01 and which is sold or otherwise
41 disposed of during the taxable year exceeds the adjusted basis of the
42 property computed under section 43-1074.02, 43-1081 or 43-1081.01, as
43 applicable.

1 20. The deduction referred to in section 1341(a)(4) of the internal
2 revenue code for restoration of a substantial amount held under a claim of
3 right.

4 21. The amount by which a net operating loss carryover or capital loss
5 carryover allowable pursuant to section 1341(b)(5) of the internal revenue
6 code exceeds the net operating loss carryover or capital loss carryover
7 allowable pursuant to section 43-1029, subsection F.

8 22. Any amount deducted pursuant to section 170 of the internal revenue
9 code representing contributions to a school tuition organization or a public
10 school for which a credit is claimed under section 43-1089 or 43-1089.01.

11 23. Any amount deducted in computing Arizona gross income as expenses
12 for installing solar stub outs or electric vehicle recharge outlets in this
13 state with respect to which a credit is claimed pursuant to section 43-1090.

14 24. Any wage expenses deducted pursuant to the internal revenue code
15 for which a credit is claimed under section 43-1087 and representing net
16 increases in qualified employment positions for employment of temporary
17 assistance for needy families recipients.

18 25. Any amount deducted for conveying ownership or development rights
19 of property to an agricultural preservation district under section 48-5702
20 for which a credit is claimed under section 43-1081.02.

21 26. The amount of any depreciation allowance allowed pursuant to
22 section 167(a) of the internal revenue code to the extent not previously
23 added.

24 27. With respect to property for which an expense deduction was taken
25 pursuant to section 179 of the internal revenue code, the amount in excess of
26 twenty-five thousand dollars.

27 28. The amount of any deductions that are claimed in computing federal
28 adjusted gross income representing expenses for which a credit is claimed
29 under either section 43-1075 or 43-1075.01 or both.

30 29. The amount by which the depreciation or amortization computed under
31 the internal revenue code with respect to property for which a credit was
32 taken under section 43-1090.01 exceeds the amount of depreciation or
33 amortization computed pursuant to the internal revenue code on the Arizona
34 adjusted basis of the property.

35 30. The amount by which the adjusted basis computed under the internal
36 revenue code with respect to property for which a credit was claimed under
37 section 43-1090.01 and which is sold or otherwise disposed of during the
38 taxable year exceeds the adjusted basis of the property computed under
39 section 43-1090.01.

40 31. The amount of a nonqualified withdrawal, as defined in section
41 15-1871, from a college savings plan established pursuant to section 529 of
42 the internal revenue code that is made to a distributee to the extent the
43 amount is not included in computing federal adjusted gross income, except
44 that the amount added under this paragraph shall not exceed the difference

1 between the amount subtracted under section 43-1022 in prior taxable years
2 and the amount added under THIS section ~~43-1021~~ in any prior taxable years.

3 32. THE AMOUNT OF UNEMPLOYMENT COMPENSATION THAT IS EXCLUDED FROM
4 FEDERAL ADJUSTED GROSS INCOME PURSUANT TO SECTION 85(c) OF THE INTERNAL
5 REVENUE CODE AS ADDED BY SECTION 1007 OF THE AMERICAN RECOVERY AND
6 REINVESTMENT ACT OF 2009 (P.L. 111-5).

7 33. THE AMOUNT OF DISCHARGE OF INDEBTEDNESS INCOME THAT IS DEFERRED AND
8 EXCLUDED FROM THE COMPUTATION OF FEDERAL ADJUSTED GROSS INCOME OR FEDERAL
9 TAXABLE INCOME IN THE CURRENT TAXABLE YEAR PURSUANT TO SECTION 108(i) OF THE
10 INTERNAL REVENUE CODE AS ADDED BY SECTION 1231 OF THE AMERICAN RECOVERY AND
11 REINVESTMENT ACT OF 2009 (P.L. 111-5).

12 34. THE AMOUNT OF ANY PREVIOUSLY DEFERRED ORIGINAL ISSUE DISCOUNT THAT
13 WAS DEDUCTED IN COMPUTING FEDERAL ADJUSTED GROSS INCOME OR FEDERAL TAXABLE
14 INCOME IN THE CURRENT YEAR PURSUANT TO SECTION 108(i) OF THE INTERNAL REVENUE
15 CODE AS ADDED BY SECTION 1231 OF THE AMERICAN RECOVERY AND REINVESTMENT ACT
16 OF 2009 (P.L. 111-5), TO THE EXTENT THAT THE AMOUNT WAS PREVIOUSLY SUBTRACTED
17 FROM ARIZONA GROSS INCOME PURSUANT TO SECTION 43-1022, PARAGRAPH 33.

18 Sec. 4. Section 43-1022, Arizona Revised Statutes, is amended to read:
19 43-1022. Subtractions from Arizona gross income

20 In computing Arizona adjusted gross income, the following amounts shall
21 be subtracted from Arizona gross income:

22 1. The amount of exemptions allowed by section 43-1023.

23 2. Benefits, annuities and pensions in an amount totaling not more
24 than two thousand five hundred dollars received from one or more of the
25 following:

26 (a) The United States government service retirement and disability
27 fund, retired or retainer pay of the uniformed services of the United States,
28 the United States foreign service retirement and disability system and any
29 other retirement system or plan established by federal law.

30 (b) The Arizona state retirement system, the corrections officer
31 retirement plan, the public safety personnel retirement system, the elected
32 officials' retirement plan, an optional retirement program established by the
33 Arizona board of regents under section 15-1628, an optional retirement
34 program established by a community college district board under section
35 15-1451 or a retirement plan established for employees of a county, city or
36 town in this state.

37 3. A beneficiary's share of the fiduciary adjustment to the extent
38 that the amount determined by section 43-1333 decreases the beneficiary's
39 Arizona gross income.

40 4. The amount of any distributions from an individual retirement
41 account as provided for in section 408 of the internal revenue code or from a
42 qualified retirement plan of a self-employed individual as provided for in
43 section 401 of the internal revenue code to the extent that total adjustments
44 made pursuant to this paragraph in all tax years do not exceed the total of

1 all contributions made by the taxpayer to such plans prior to December 31,
2 1975, which were included in computing Arizona taxable income.

3 5. The amount of income on an installment receivable which is
4 recognized pursuant to the internal revenue code and which has already been
5 recognized on the death of the taxpayer for purposes of this title for tax
6 years ending before January 1, 1990.

7 6. Interest income received on obligations of the United States, less
8 any interest on indebtedness, or other related expenses, and deducted in
9 arriving at Arizona gross income, which were incurred or continued to
10 purchase or carry such obligations.

11 7. The amount of any income tax refunds which were received from
12 states other than Arizona and which were included as income in computing
13 federal adjusted gross income.

14 8. Annuity income included in federal adjusted gross income pursuant
15 to section 72 of the internal revenue code if the first payment with respect
16 to such annuity was received prior to December 31, 1978.

17 9. The excess of a partner's share of income required to be included
18 under section 702(a)(8) of the internal revenue code over the income required
19 to be included under chapter 14, article 2 of this title.

20 10. The excess of a partner's share of partnership losses determined
21 pursuant to chapter 14, article 2 of this title over the losses allowable
22 under section 702(a)(8) of the internal revenue code.

23 11. The amount by which the adjusted basis of property described in
24 this paragraph and computed pursuant to this title and the income tax act of
25 1954, as amended, exceeds the adjusted basis of such property computed
26 pursuant to the internal revenue code. This paragraph shall apply to all
27 property which is held for the production of income and which is sold or
28 otherwise disposed of during the taxable year other than depreciable property
29 used in a trade or business.

30 12. The amount allowed by section 43-1024 for amortization, by a
31 qualified defense contractor certified by the department of commerce under
32 section 41-1508, of a capital investment for private commercial activities.

33 13. The amount of gain included in federal adjusted gross income on the
34 sale or other disposition of a capital investment that a qualified defense
35 contractor has elected to amortize pursuant to section 43-1024.

36 14. The amount allowed by section 43-1025 for contributions during the
37 taxable year of agricultural crops to charitable organizations.

38 15. The portion of any wages or salaries paid or incurred by the
39 taxpayer for the taxable year that is equal to the amount of the federal work
40 opportunity credit, the empowerment zone employment credit, the credit for
41 employer paid social security taxes on employee cash tips and the Indian
42 employment credit that the taxpayer received under sections 45A, 45B, 51(a)
43 and 1396 of the internal revenue code.

44 16. The amount of prizes or winnings less than five thousand dollars in
45 a single taxable year from any of the state lotteries established and

1 operated pursuant to title 5, chapter 5, article 1, except that all such
2 winnings before March 22, 1983, including periodic distributions from such
3 winnings made after March 22, 1983, may be subtracted.

4 17. The amount of exploration expenses that is determined pursuant to
5 section 617 of the internal revenue code, that has been deferred in a taxable
6 year ending before January 1, 1990 and for which a subtraction has not
7 previously been made. The subtraction shall be made on a ratable basis as
8 the units of produced ores or minerals discovered or explored as a result of
9 this exploration are sold.

10 18. The amount included in federal adjusted gross income pursuant to
11 section 86 of the internal revenue code, relating to taxation of social
12 security and railroad retirement benefits.

13 19. To the extent not already excluded from Arizona gross income under
14 the internal revenue code, compensation received for active service as a
15 member of the reserves, the national guard or the armed forces of the United
16 States, including compensation for service in a combat zone as determined
17 under section 112 of the internal revenue code.

18 20. The amount of unreimbursed medical and hospital costs, adoption
19 counseling, legal and agency fees and other nonrecurring costs of adoption
20 not to exceed three thousand dollars. In the case of a husband and wife who
21 file separate returns, the subtraction may be taken by either taxpayer or may
22 be divided between them, but the total subtractions allowed both husband and
23 wife shall not exceed three thousand dollars. The subtraction under this
24 paragraph may be taken for the costs that are described in this paragraph and
25 that are incurred in prior years, but the subtraction may be taken only in
26 the year during which the final adoption order is granted.

27 21. The amount authorized by section 43-1027 for the taxable year
28 relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

29 22. With respect to a medical savings account established pursuant to
30 section 43-1028:

31 (a) An eligible individual may subtract:

32 (i) The amount of contributions made by the individual's employer
33 during the taxable year to the individual's medical savings account pursuant
34 to section 43-1028 to the extent that the employer contributions are included
35 in the individual's federal adjusted gross income.

36 (ii) The amount deposited by the individual in the account during the
37 taxable year to the extent that the individual's contributions are included
38 in the individual's federal adjusted gross income.

39 (b) The individual's employer may subtract the amount of contributions
40 made by the employer to a medical savings account established on the
41 individual's behalf to the extent that the contributions are not deductible
42 under the internal revenue code.

43 23. The amount by which a net operating loss carryover or capital loss
44 carryover allowable pursuant to section 43-1029, subsection F exceeds the net

1 operating loss carryover or capital loss carryover allowable pursuant to
2 section 1341(b)(5) of the internal revenue code.

3 24. Any amount of qualified educational expenses that is distributed
4 from a qualified state tuition program determined pursuant to section 529 of
5 the internal revenue code and that is included in income in computing federal
6 adjusted gross income.

7 25. Any item of income resulting from an installment sale that has been
8 properly subjected to income tax in another state in a previous taxable year
9 and that is included in Arizona gross income in the current taxable year.

10 26. The amount authorized by section 43-1030 relating to holocaust
11 survivors.

12 27. The amount authorized by section 43-1031 for constructing an energy
13 efficient residence.

14 28. An amount equal to the depreciation allowable pursuant to section
15 167(a) of the internal revenue code for the taxable year computed as if the
16 election described in section 168(k)(2)(D)(iii) of the internal revenue code
17 had been made for each applicable class of property in the year the property
18 was placed in service.

19 29. With respect to property that is sold or otherwise disposed of
20 during the taxable year by a taxpayer that complied with section 43-1021,
21 paragraph 26 with respect to that property, the amount of depreciation that
22 has been allowed pursuant to section 167(a) of the internal revenue code to
23 the extent that the amount has not already reduced Arizona taxable income in
24 the current or prior taxable years.

25 30. With respect to property for which an adjustment was made under
26 section 43-1021, paragraph 27, an amount equal to one-fifth of the amount of
27 the adjustment pursuant to section 43-1021, paragraph 27 in the year in which
28 the amount was adjusted under section 43-1021, paragraph 27 and in each of
29 the following four years.

30 31. For taxable years beginning from and after December 31, 2007
31 through December 31, 2012, the amount contributed during the taxable year to
32 college savings plans established pursuant to section 529 of the internal
33 revenue code to the extent that the contributions were not deducted in
34 computing federal adjusted gross income. The amount subtracted shall not
35 exceed:

36 (a) Seven hundred fifty dollars for a single individual or a head of
37 household.

38 (b) One thousand five hundred dollars for a married couple filing a
39 joint return. In the case of a husband and wife who file separate returns,
40 the subtraction may be taken by either taxpayer or may be divided between
41 them, but the total subtractions allowed both husband and wife shall not
42 exceed one thousand five hundred dollars.

43 32. To the extent not already excluded from Arizona gross income under
44 the internal revenue code, the amount authorized by section 43-1032 for
45 displaced pupils choice grants.

1 33. THE AMOUNT OF ANY ORIGINAL ISSUE DISCOUNT THAT WAS DEFERRED AND NOT
2 ALLOWED TO BE DEDUCTED IN COMPUTING FEDERAL ADJUSTED GROSS INCOME OR FEDERAL
3 TAXABLE INCOME IN THE CURRENT TAXABLE YEAR PURSUANT TO SECTION 108(i) OF THE
4 INTERNAL REVENUE CODE AS ADDED BY SECTION 1231 OF THE AMERICAN RECOVERY AND
5 REINVESTMENT ACT OF 2009 (P.L. 111-5).

6 34. THE AMOUNT OF PREVIOUSLY DEFERRED DISCHARGE OF INDEBTEDNESS INCOME
7 THAT IS INCLUDED IN THE COMPUTATION OF FEDERAL ADJUSTED GROSS INCOME OR
8 FEDERAL TAXABLE INCOME IN THE CURRENT TAXABLE YEAR PURSUANT TO SECTION 108(i)
9 OF THE INTERNAL REVENUE CODE AS ADDED BY SECTION 1231 OF THE AMERICAN
10 RECOVERY AND REINVESTMENT ACT OF 2009 (P.L. 111-5), TO THE EXTENT THAT THE
11 AMOUNT WAS PREVIOUSLY ADDED TO ARIZONA GROSS INCOME PURSUANT TO SECTION
12 43-1021, PARAGRAPH 33.

13 35. THE PORTION OF THE NET OPERATING LOSS CARRYFORWARD THAT WOULD HAVE
14 BEEN ALLOWED AS A DEDUCTION IN THE CURRENT YEAR PURSUANT TO SECTION 172 OF
15 THE INTERNAL REVENUE CODE IF THE ELECTION DESCRIBED IN SECTION 172(b)(1)(h)
16 OF THE INTERNAL REVENUE CODE HAD NOT BEEN MADE IN THE YEAR OF THE LOSS THAT
17 EXCEEDS THE ACTUAL NET OPERATING LOSS CARRYFORWARD THAT WAS DEDUCTED IN
18 ARRIVING AT FEDERAL ADJUSTED GROSS INCOME. THIS SUBTRACTION ONLY APPLIES TO
19 TAXPAYERS WHO MADE AN ELECTION UNDER SECTION 172(b)(1)(h) OF THE INTERNAL
20 REVENUE CODE AS AMENDED BY SECTION 1211 OF THE AMERICAN RECOVERY AND
21 REINVESTMENT ACT OF 2009 (P.L. 111-5) OR AS AMENDED BY SECTION 13 OF THE
22 WORKER, HOMEOWNERSHIP, AND BUSINESS ASSISTANCE ACT OF 2009 (P.L. 111-92).

23 Sec. 5. Section 43-1042, Arizona Revised Statutes, is amended to read:
24 43-1042. Itemized deductions

25 A. Except as provided by subsections B, D, ~~and~~ E AND G of this
26 section, at the election of the taxpayer, and in lieu of the standard
27 deduction allowed by section 43-1041, in computing taxable income the
28 taxpayer may take the amount of itemized deductions allowable for the taxable
29 year pursuant to subtitle A, chapter 1, subchapter B, parts VI and VII, but
30 subject to the limitations prescribed by sections 67, 68 and 274, of the
31 internal revenue code.

32 B. In lieu of the amount of the federal itemized deduction for
33 expenses paid for medical care allowed under section 213 of the internal
34 revenue code, the taxpayer may deduct the full amount of such expenses.

35 C. Notwithstanding subsection B of this section, expenses for medical
36 care that are paid or reimbursed from the taxpayer's medical savings account
37 pursuant to section 43-1028 shall not be deducted pursuant to this section.

38 D. A qualified defense contractor that is identified and certified by
39 the department of commerce pursuant to section 41-1508 shall not claim both a
40 deduction as provided by this section and a credit under section 43-1078 with
41 respect to the same property taxes paid.

42 E. A taxpayer shall not claim both a deduction provided by this
43 section and a credit allowed by this title with respect to the same
44 charitable contributions.

1 F. The taxpayer may add any interest expense paid by the taxpayer for
2 the taxable year that is equal to the amount of federal credit for interest
3 on certain home mortgages allowed by section 25 of the internal revenue code.

4 G. A TAXPAYER SHALL NOT CLAIM ANY AMOUNT THAT WAS DEDUCTED PURSUANT TO
5 SECTION 164(b)(6) OF THE INTERNAL REVENUE CODE, AS ADDED BY SECTION 1008 OF
6 THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (P.L. 111-5), FOR
7 QUALIFIED MOTOR VEHICLE TAXES.

8 Sec. 6. Section 43-1121, Arizona Revised Statutes, is amended to read:
9 43-1121. Additions to Arizona gross income; corporations

10 In computing Arizona taxable income for a corporation, the following
11 amounts shall be added to Arizona gross income:

12 1. The amounts computed pursuant to section 43-1021, paragraphs 3
13 through 9, 12, 26, ~~and~~ 27, 33 AND 34.

14 2. The amount of dividend income received from corporations and
15 allowed as a deduction pursuant to sections 243, 244 and 245 of the internal
16 revenue code.

17 3. Taxes which are based on income paid to states, local governments
18 or foreign governments and which were deducted in computing federal taxable
19 income.

20 4. Expenses and interest relating to tax-exempt income on indebtedness
21 incurred or continued to purchase or carry obligations the interest on which
22 is wholly exempt from the tax imposed by this title. Financial institutions,
23 as defined in section 6-101, shall be governed by section 43-961,
24 paragraph 2.

25 5. Commissions, rentals and other amounts paid or accrued to a
26 domestic international sales corporation controlled by the payor corporation
27 if the domestic international sales corporation is not required to report its
28 taxable income to this state because its income is not derived from or
29 attributable to sources within this state. If the domestic international
30 sales corporation is subject to article 4 of this chapter, the department
31 shall prescribe by rule the method of determining the portion of the
32 commissions, rentals and other amounts which are paid or accrued to the
33 controlled domestic international sales corporation and which shall be
34 deducted by the payor. ~~"Control"~~ For THE purposes of this paragraph,
35 "CONTROL" means direct or indirect ownership or control of fifty per cent or
36 more of the voting stock of the domestic international sales corporation by
37 the payor corporation.

38 6. Federal income tax refunds received during the taxable year to the
39 extent they were deducted in arriving at Arizona taxable income in a previous
40 year.

41 7. The amount of net operating loss taken pursuant to section 172 of
42 the internal revenue code.

43 8. The amount of exploration expenses determined pursuant to section
44 617 of the internal revenue code to the extent that they exceed seventy-five

1 thousand dollars and to the extent that the election is made to defer those
2 expenses not in excess of seventy-five thousand dollars.

3 9. Amortization of costs incurred to install pollution control devices
4 and deducted pursuant to the internal revenue code or the amount of deduction
5 for depreciation taken pursuant to the internal revenue code on pollution
6 control devices for which an election is made pursuant to section 43-1129.

7 10. The amount of depreciation or amortization of costs of child care
8 facilities deducted pursuant to section 167 or 188 of the internal revenue
9 code for which an election is made to amortize pursuant to section 43-1130.

10 11. Arizona state income tax refunds received, to the extent the amount
11 of the refunds is not already included in Arizona gross income, if a tax
12 benefit was derived by deduction of this amount in a prior year.

13 12. The amount paid as taxes on property in this state by a qualified
14 defense contractor with respect to which a credit is claimed under section
15 43-1166.

16 13. The loss of an insurance company that is exempt under section
17 43-1201 to the extent that it is included in computing Arizona gross income
18 on a consolidated return pursuant to section 43-947.

19 14. The amount by which the depreciation or amortization computed under
20 the internal revenue code with respect to property for which a credit was
21 taken under section 43-1169 exceeds the amount of depreciation or
22 amortization computed pursuant to the internal revenue code on the Arizona
23 adjusted basis of the property.

24 15. The amount by which the adjusted basis computed under the internal
25 revenue code with respect to property for which a credit was claimed under
26 section 43-1169 and which is sold or otherwise disposed of during the taxable
27 year exceeds the adjusted basis of the property computed under section
28 43-1169.

29 16. The amount by which the depreciation or amortization computed under
30 the internal revenue code with respect to property for which a credit was
31 taken under either section 43-1170 or 43-1170.01 exceeds the amount of
32 depreciation or amortization computed pursuant to the internal revenue code
33 on the Arizona adjusted basis of the property.

34 17. The amount by which the adjusted basis computed under the internal
35 revenue code with respect to property for which a credit was claimed under
36 either section 43-1170 or 43-1170.01 and which is sold or otherwise disposed
37 of during the taxable year exceeds the adjusted basis of the property
38 computed under section 43-1170 or 43-1170.01, as applicable.

39 18. The deduction referred to in section 1341(a)(4) of the internal
40 revenue code for restoration of a substantial amount held under a claim of
41 right.

42 19. The amount by which a capital loss carryover allowable pursuant to
43 section 1341(b)(5) of the internal revenue code exceeds the capital loss
44 carryover allowable pursuant to section 43-1130.01, subsection F.

1 20. Any amount deducted in computing Arizona taxable income as expenses
2 for installing solar stub outs or electric vehicle recharge outlets in this
3 state with respect to which a credit is claimed pursuant to section 43-1176.

4 21. Any wage expenses deducted pursuant to the internal revenue code
5 for which a credit is claimed under section 43-1175 and representing net
6 increases in qualified employment positions for employment of temporary
7 assistance for needy families recipients.

8 22. Any amount of expenses that were deducted pursuant to the internal
9 revenue code and for which a credit is claimed under section 43-1178.

10 23. Any amount deducted for conveying ownership or development rights
11 of property to an agricultural preservation district under section 48-5702
12 for which a credit is claimed under section 43-1180.

13 24. The amount of any deduction that is claimed in computing Arizona
14 gross income and that represents a donation of a school site for which a
15 credit is claimed under section 43-1181.

16 25. The amount of any deductions that are claimed in computing federal
17 taxable income representing expenses for which a credit is claimed under
18 either section 43-1163 or 43-1163.01 or both.

19 26. Any amount deducted in computing Arizona taxable income as expenses
20 for installing water conservation system plumbing stub outs in this state
21 with respect to which a credit is claimed pursuant to section 43-1182.

22 27. Any amount deducted pursuant to section 170 of the internal revenue
23 code representing contributions to a school tuition organization for which a
24 credit is claimed under section 43-1183 or 43-1184.

25 Sec. 7. Section 43-1122, Arizona Revised Statutes, is amended to read:

26 43-1122. Subtractions from Arizona gross income: corporations

27 In computing Arizona taxable income for a corporation, the following
28 amounts shall be subtracted from Arizona gross income:

29 1. The amounts computed pursuant to section 43-1022, paragraphs 8
30 through 15, 28, 29, ~~and~~ 30, 33 AND 34. For THE purposes of this paragraph,
31 "federal adjusted gross income" as used in section 43-1022 means "federal
32 taxable income".

33 2. The amount of Arizona capital loss carryover as defined in section
34 43-1124 in an amount not to exceed one thousand dollars.

35 3. With respect to a financial institution as defined in section
36 6-101, expenses and interest relating to tax-exempt income disallowed
37 pursuant to section 265 of the internal revenue code.

38 4. Dividends received from another corporation owned or controlled
39 directly or indirectly by a recipient corporation. ~~"Control"~~ For THE
40 purposes of this paragraph, "CONTROL" means direct or indirect ownership or
41 control of fifty per cent or more of the voting stock of the payor
42 corporation by the recipient corporation. Dividends shall have the meaning
43 provided in section 316 of the internal revenue code. This subtraction shall
44 apply without regard to the provisions of section 43-961, paragraph 2 and
45 article 4 of this chapter. A corporation that has its commercial domicile,

1 as defined in section 43-1131, in this state may subtract the full amount of
2 the dividends. A corporation that does not have its commercial domicile in
3 this state may subtract:

4 (a) For its taxable year beginning in 1990, an amount equal to
5 one-half of the dividends.

6 (b) For taxable years beginning in 1991 and thereafter, the full
7 amount of the dividends.

8 5. Interest income received on obligations of the United States.

9 6. The amount of dividend income from foreign corporations.

10 7. The amount of net operating loss allowed by section 43-1123.

11 8. The amount of any state income tax refunds received which were
12 included as income in computing federal taxable income.

13 9. The amount of expense recapture included in income pursuant to
14 section 617 of the internal revenue code for mine exploration expenses.

15 10. The amount of deferred exploration expenses allowed by section
16 43-1127.

17 11. The amount of exploration expenses related to the exploration of
18 oil, gas or geothermal resources, computed in the same manner and on the same
19 basis as a deduction for mine exploration pursuant to section 617 of the
20 internal revenue code. This computation is subject to the adjustments
21 contained in section 43-1121, paragraph 8 and paragraphs 9 and 10 of this
22 section relating to exploration expenses.

23 12. The amortization of pollution control devices allowed by section
24 43-1129.

25 13. The amount of amortization of the cost of child care facilities
26 pursuant to section 43-1130.

27 14. The amount of income from a domestic international sales
28 corporation required to be included in the income of its shareholders
29 pursuant to section 995 of the internal revenue code.

30 15. The income of an insurance company that is exempt under section
31 43-1201 to the extent that it is included in computing Arizona gross income
32 on a consolidated return pursuant to section 43-947.

33 16. The amount of contributions by the taxpayer during the taxable year
34 to medical savings accounts established on behalf of the taxpayer's employees
35 as provided by section 43-1028, to the extent that the contributions are not
36 deductible under the internal revenue code.

37 17. The amount by which a capital loss carryover allowable pursuant to
38 section 43-1130.01, subsection F exceeds the capital loss carryover allowable
39 pursuant to section 1341(b)(5) of the internal revenue code.

40 Sec. 8. Intent

41 A. Pursuant to section 1531(d) of the American recovery and
42 reinvestment act of 2009 (P.L. 111-5), this state is providing that the
43 interest on any build America bond and the amount of the federal credit with
44 respect to any build America bond that are treated as federally taxable
45 interest income for federal income tax purposes shall be treated the same for

1 the purposes of computing the federal taxable income or the federal adjusted
2 gross income that is used in computing Arizona taxable income.

3 B. It is the intent of the legislature that by not adopting the
4 extended net operating loss carryback provisions of section 1211 of the
5 American recovery and reinvestment act of 2009 (P.L. 111-5) and section 13 of
6 the worker, homeownership, and business assistance act of 2009 (P.L. 111-92),
7 taxpayers in this state may still carry back net operating losses to the
8 extent the losses would have been carried back if the elections under section
9 1211 of the American recovery and reinvestment act of 2009 (P.L. 111-5) and
10 section 13 of the worker, homeownership, and business assistance act of 2009
11 (P.L. 111-92) had not been made when computing federal adjusted gross income.

12 C. Arizona does not conform to the provisions of the acceleration of
13 income tax benefits for Haiti relief act (P.L. 111-126) which allows
14 taxpayers who make cash contributions for relief of victims of the earthquake
15 in Haiti on January 12, 2010 for which a charitable contribution deduction is
16 allowed under section 170 of the internal revenue code of 1986 to treat the
17 contributions made after January 11, 2010 and before March 1, 2010, as if the
18 contributions were made on December 31, 2009 and not in 2010. By not
19 conforming to that act it is the intent of the legislature that any 2010
20 contributions deducted on a taxpayer's 2009 federal income tax return
21 pursuant to that act is not allowed on the 2009 Arizona state income tax
22 return and will instead be treated as contributions made in 2010.

23 Sec. 9. Retroactivity

24 A. Sections 43-1021, 43-1022, 43-1121 and 43-1122, Arizona Revised
25 Statutes, as amended by this act, apply retroactively to taxable years ending
26 from and after December 31, 2008.

27 B. Section 43-1042, Arizona Revised Statutes, as amended by this act,
28 applies retroactively to taxable years beginning from and after December 31,
29 2008.