

State of Arizona
Senate
Fiftieth Legislature
Second Regular Session
2012

CHAPTER 143
SENATE BILL 1196

AN ACT

AMENDING SECTIONS 15-1879 AND 43-1022, ARIZONA REVISED STATUTES; RELATING TO COLLEGE SAVINGS PLANS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 15-1879, Arizona Revised Statutes, is amended to
3 read:

4 15-1879. Annual report

5 The commission shall submit an annual report to the speaker of the
6 house of representatives, the president of the senate and the governor by
7 ~~February~~ MARCH 1 that summarizes the commission's findings and
8 recommendations concerning the program established by this article.

9 Sec. 2. Section 43-1022, Arizona Revised Statutes, is amended to read:

10 43-1022. Subtractions from Arizona gross income

11 In computing Arizona adjusted gross income, the following amounts shall
12 be subtracted from Arizona gross income:

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

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

17 (a) The United States government service retirement and disability
18 fund, retired or retainer pay of the uniformed services of the United States,
19 the United States foreign service retirement and disability system and any
20 other retirement system or plan established by federal law.

21 (b) The Arizona state retirement system, the corrections officer
22 retirement plan, the public safety personnel retirement system, the elected
23 officials' retirement plan, an optional retirement program established by the
24 Arizona board of regents under section 15-1628, an optional retirement
25 program established by a community college district board under section
26 15-1451 or a retirement plan established for employees of a county, city or
27 town in this state.

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

31 4. The amount of any distributions from an individual retirement
32 account as provided for in section 408 of the internal revenue code or from a
33 qualified retirement plan of a self-employed individual as provided for in
34 section 401 of the internal revenue code to the extent that total adjustments
35 made pursuant to this paragraph in all tax years do not exceed the total of
36 all contributions made by the taxpayer to such plans prior to December 31,
37 1975, which were included in computing Arizona taxable income.

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

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

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

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

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

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

13 11. The amount by which the adjusted basis of property described in
14 this paragraph and computed pursuant to this title and the income tax act of
15 1954, as amended, exceeds the adjusted basis of such property computed
16 pursuant to the internal revenue code. This paragraph shall apply to all
17 property which is held for the production of income and which is sold or
18 otherwise disposed of during the taxable year other than depreciable property
19 used in a trade or business.

20 12. The amount allowed by section 43-1024 for amortization, by a
21 qualified defense contractor certified by the Arizona commerce authority
22 under section 41-1508, of a capital investment for private commercial
23 activities.

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

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

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

35 16. The amount of prizes or winnings less than five thousand dollars in
36 a single taxable year from any of the state lotteries established and
37 operated pursuant to title 5, chapter 5, article 1, except that all such
38 winnings before March 22, 1983, including periodic distributions from such
39 winnings made after March 22, 1983, may be subtracted.

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

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

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

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

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

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

22 (a) An eligible individual may subtract:

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

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

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

34 23. The amount by which a net operating loss carryover or capital loss
35 carryover allowable pursuant to section 43-1029, subsection F exceeds the net
36 operating loss carryover or capital loss carryover allowable pursuant to
37 section 1341(b)(5) of the internal revenue code.

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

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

45 26. The amount authorized by section 43-1030 relating to holocaust
46 survivors.

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

3 28. An amount equal to the depreciation allowable pursuant to section
4 167(a) of the internal revenue code for the taxable year computed as if the
5 election described in section 168(k)(2)(D)(iii) of the internal revenue code
6 had been made for each applicable class of property in the year the property
7 was placed in service.

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

14 30. With respect to property for which an adjustment was made under
15 section 43-1021, paragraph 27, an amount equal to one-fifth of the amount of
16 the adjustment pursuant to section 43-1021, paragraph 27 in the year in which
17 the amount was adjusted under section 43-1021, paragraph 27 and in each of
18 the following four years.

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

25 (a) Seven hundred fifty dollars for a single individual or a head of
26 household.

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

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

35 33. The amount of any original issue discount that was deferred and not
36 allowed to be deducted in computing federal adjusted gross income or federal
37 taxable income in the current taxable year pursuant to section 108(i) of the
38 internal revenue code as added by section 1231 of the American recovery and
39 reinvestment act of 2009 (P.L. 111-5).

40 34. The amount of previously deferred discharge of indebtedness income
41 that is included in the computation of federal adjusted gross income or
42 federal taxable income in the current taxable year pursuant to section 108(i)
43 of the internal revenue code as added by section 1231 of the American
44 recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the
45 amount was previously added to Arizona gross income pursuant to section
46 43-1021, paragraph 33.

1 35. The portion of the net operating loss carryforward that would have
2 been allowed as a deduction in the current year pursuant to section 172 of
3 the internal revenue code if the election described in section 172(b)(1)(H)
4 of the internal revenue code had not been made in the year of the loss that
5 exceeds the actual net operating loss carryforward that was deducted in
6 arriving at federal adjusted gross income. This subtraction only applies to
7 taxpayers who made an election under section 172(b)(1)(H) of the internal
8 revenue code as amended by section 1211 of the American recovery and
9 reinvestment act of 2009 (P.L. 111-5) or as amended by section 13 of the
10 worker, homeownership, and business assistance act of 2009 (P.L. 111-92).

11 36. For taxable years beginning from and after December 31, 2013, the
12 amount of any net capital gain included in federal adjusted gross income for
13 the taxable year derived from investment in a qualified small business as
14 determined by the Arizona commerce authority pursuant to section 41-1518.

APPROVED BY THE GOVERNOR MARCH 29, 2012.

FILED IN THE OFFICE OF THE SECRETARY OF STATE MARCH 29, 2012.