

REFERENCE TITLE: tax exemption; veterans; military pensions.

State of Arizona
House of Representatives
Fifty-first Legislature
Second Regular Session
2014

HB 2308

Introduced by
Representative Pierce J, Senator Bradley

AN ACT

AMENDING SECTION 43-1022, ARIZONA REVISED STATUTES; RELATING TO TAX EXEMPTION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 43-1022, Arizona Revised Statutes, is amended to
3 read:

4 43-1022. Subtractions from Arizona gross income

5 In computing Arizona adjusted gross income, the following amounts shall
6 be subtracted from Arizona gross income:

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

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

11 (a) The United States government service retirement and disability
12 fund, retired or retainer pay of the uniformed services of the United States,
13 the United States foreign service retirement and disability system and any
14 other retirement system or plan established by federal law.

15 (b) The Arizona state retirement system, the corrections officer
16 retirement plan, the public safety personnel retirement system, the elected
17 officials' retirement plan, an optional retirement program established by the
18 Arizona board of regents under section 15-1628, an optional retirement
19 program established by a community college district board under section
20 15-1451 or a retirement plan established for employees of a county, city or
21 town in this state.

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

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

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

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

40 7. The amount of any income tax refunds that were received from states
41 other than Arizona and that were included as income in computing federal
42 adjusted gross income.

- 1 8. Annuity income included in federal adjusted gross income pursuant
2 to section 72 of the internal revenue code if the first payment with respect
3 to such annuity was received before December 31, 1978.
- 4 9. The excess of a partner's share of income required to be included
5 under section 702(a)(8) of the internal revenue code over the income required
6 to be included under chapter 14, article 2 of this title.
- 7 10. The excess of a partner's share of partnership losses determined
8 pursuant to chapter 14, article 2 of this title over the losses allowable
9 under section 702(a)(8) of the internal revenue code.
- 10 11. The amount by which the adjusted basis of property described in
11 this paragraph and computed pursuant to this title and the income tax act of
12 1954, as amended, exceeds the adjusted basis of such property computed
13 pursuant to the internal revenue code. This paragraph shall apply to all
14 property that is held for the production of income and that is sold or
15 otherwise disposed of during the taxable year other than depreciable property
16 used in a trade or business.
- 17 12. The amount allowed by section 43-1024 for amortization, by a
18 qualified defense contractor certified by the Arizona commerce authority
19 under section 41-1508, of a capital investment for private commercial
20 activities.
- 21 13. The amount of gain included in federal adjusted gross income on the
22 sale or other disposition of a capital investment that a qualified defense
23 contractor has elected to amortize pursuant to section 43-1024.
- 24 14. The amount allowed by section 43-1025 for contributions during the
25 taxable year of agricultural crops to charitable organizations.
- 26 15. The portion of any wages or salaries paid or incurred by the
27 taxpayer for the taxable year that is equal to the amount of the federal work
28 opportunity credit, the empowerment zone employment credit, the credit for
29 employer paid social security taxes on employee cash tips and the Indian
30 employment credit that the taxpayer received under sections 45A, 45B, 51(a)
31 and 1396 of the internal revenue code.
- 32 16. The amount of prizes or winnings less than five thousand dollars in
33 a single taxable year from any of the state lotteries established and
34 operated pursuant to title 5, chapter 5.1, article 1, except that all such
35 winnings before March 22, 1983, including periodic distributions from such
36 winnings made after March 22, 1983, may be subtracted.
- 37 17. The amount of exploration expenses that is determined pursuant to
38 section 617 of the internal revenue code, that has been deferred in a taxable
39 year ending before January 1, 1990 and for which a subtraction has not
40 previously been made. The subtraction shall be made on a ratable basis as
41 the units of produced ores or minerals discovered or explored as a result of
42 this exploration are sold.
- 43 18. The amount included in federal adjusted gross income pursuant to
44 section 86 of the internal revenue code, relating to taxation of social
45 security and railroad retirement benefits.

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

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

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

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

19 (a) An eligible individual may subtract:

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

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

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

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

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

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

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

1 27. For property placed in service:

2 (a) In taxable years beginning before December 31, 2012, an amount
3 equal to the depreciation allowable pursuant to section 167(a) of the
4 internal revenue code for the taxable year computed as if the election
5 described in section 168(k)(2)(D)(iii) of the internal revenue code had been
6 made for each applicable class of property in the year the property was
7 placed in service.

8 (b) In taxable years beginning from and after December 31, 2012
9 through December 31, 2013, an amount determined in the year the asset was
10 placed in service based on the calculation in subdivision (a) of this
11 paragraph. In the first taxable year beginning from and after December 31,
12 2013, the taxpayer may elect to subtract the amount necessary to make the
13 depreciation claimed to date for the purposes of this title the same as it
14 would have been if subdivision (c) of this paragraph had applied for the
15 entire time the asset was in service. Subdivision (c) of this paragraph
16 applies for the remainder of the asset's life. If the taxpayer does not make
17 the election under this subdivision, subdivision (a) of this paragraph
18 applies for the remainder of the asset's life.

19 (c) In taxable years beginning from and after December 31, 2013, an
20 amount equal to the depreciation allowable pursuant to section 167(a) of the
21 internal revenue code for the taxable year as computed as if the additional
22 allowance for depreciation had been ten per cent of the amount allowed
23 pursuant to section 168(k) of the internal revenue code.

24 28. With respect to property that is sold or otherwise disposed of
25 during the taxable year by a taxpayer that complied with section 43-1021,
26 paragraph 25 with respect to that property, the amount of depreciation that
27 has been allowed pursuant to section 167(a) of the internal revenue code to
28 the extent that the amount has not already reduced Arizona taxable income in
29 the current or prior taxable years.

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

35 30. The amount contributed during the taxable year to college savings
36 plans established pursuant to section 529 of the internal revenue code to the
37 extent that the contributions were not deducted in computing federal adjusted
38 gross income. The amount subtracted shall not exceed:

39 (a) Two thousand dollars for a single individual or a head of
40 household.

41 (b) Four thousand dollars for a married couple filing a joint return.
42 In the case of a husband and wife who file separate returns, the subtraction
43 may be taken by either taxpayer or may be divided between them, but the total
44 subtractions allowed both husband and wife shall not exceed four thousand
45 dollars.

1 31. 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 32. 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 31.

13 33. 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 34. For taxable years beginning from and after December 31, 2013, the
24 amount of any net capital gain included in federal adjusted gross income for
25 the taxable year derived from investment in a qualified small business as
26 determined by the Arizona commerce authority pursuant to section 41-1518.

27 35. An amount of any net long-term capital gain included in federal
28 adjusted gross income for the taxable year that is derived from an investment
29 in an asset acquired after December 31, 2011, as follows:

30 (a) For taxable years beginning from and after December 31, 2012
31 through December 31, 2013, ten per cent of the net long-term capital gain
32 included in federal adjusted gross income.

33 (b) For taxable years beginning from and after December 31, 2013
34 through December 31, 2014, twenty per cent of the net long-term capital gain
35 included in federal adjusted gross income.

36 (c) For taxable years beginning from and after December 31, 2014,
37 twenty-five per cent of the net long-term capital gain included in federal
38 adjusted gross income.

39 For the purposes of this paragraph, a transferee that receives an asset by
40 gift or at the death of a transferor is considered to have acquired the asset
41 when the asset was acquired by the transferor. If the date an asset is
42 acquired cannot be verified, a subtraction under this paragraph is not
43 allowed.

1 36. If an individual is not claiming itemized deductions pursuant to
2 section 43-1042, the amount of premium costs for long-term care insurance, as
3 defined in section 20-1691.

4 37. With respect to a long-term health care savings account established
5 pursuant to section 43-1032, the amount deposited by the taxpayer in the
6 account during the taxable year to the extent that the taxpayer's
7 contributions are included in the taxpayer's federal adjusted gross income.

8 38. THE FULL AMOUNT RECEIVED AS RETIRED OR RETAINER PAY OF THE
9 UNIFORMED SERVICES OF THE UNITED STATES BY A TAXPAYER WHO IS AN HONORABLY
10 DISCHARGED VETERAN.