

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

# HOUSE BILL 2664

AN ACT

AMENDING SECTIONS 42-1104 AND 42-1123, ARIZONA REVISED STATUTES; AMENDING SECTION 42-2059, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 95, SECTION 1; AMENDING SECTION 42-2059, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 3; AMENDING SECTION 42-2075, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2004, CHAPTER 83, SECTION 2; AMENDING SECTION 42-2075, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 4; AMENDING SECTIONS 42-5069, 43-1011, 43-1021, 43-1022, 43-1029, 43-1121, 43-1122 AND 43-1127, ARIZONA REVISED STATUTES; RELATING TO INCOME TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-1104, Arizona Revised Statutes, is amended to  
3 read:

4 42-1104. Statutes of limitation; exceptions

5 A. For the taxes to which this article applies, every notice of every  
6 additional tax due shall be prepared on forms prescribed by the department  
7 and mailed within four years after the report or return is required to be  
8 filed or within four years after the report or return is filed, whichever  
9 period expires later.

10 B. NOTWITHSTANDING SUBSECTION A OF THIS SECTION, ANY NOTICE OF  
11 ADDITIONAL TAX DUE REGARDING INDIVIDUAL INCOME TAX ADJUSTMENTS FOR TAXABLE  
12 YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2013 THAT ARE NOT BASED ON  
13 FEDERAL INFORMATION MUST BE PREPARED ON FORMS PRESCRIBED BY THE DEPARTMENT  
14 AND MAILED WITHIN THREE YEARS AFTER THE REPORT OR RETURN IS REQUIRED TO BE  
15 FILED OR WITHIN THREE YEARS AFTER THE REPORT OR RETURN IS FILED, WHICHEVER  
16 PERIOD EXPIRES LATER. FOR THE PURPOSES OF THIS SUBSECTION, "BASED ON FEDERAL  
17 INFORMATION" MEANS THAT THE ADJUSTMENT IS NECESSARY BECAUSE THE INDIVIDUAL  
18 REPORTED DIFFERENT AMOUNTS ON THE INDIVIDUAL'S FEDERAL RETURN THAN WAS  
19 REPORTED ON THE INDIVIDUAL'S ARIZONA RETURN IN AREAS IN WHICH THE ARIZONA  
20 AMOUNT IS CONTINGENT ON FEDERAL LAW.

21 ~~B.~~ C. The following are exceptions to the general rules prescribed by  
22 this section, and a deficiency assessment may be issued in any of the  
23 following cases:

24 1. The department may assess the tax or begin a proceeding in court  
25 for the collection of the tax at any time:

26 (a) In the case of a false or fraudulent return with the intent to  
27 evade tax.

28 (b) In the case of failure to file a return.

29 2. If a taxpayer omits from gross income, gross receipts, gross  
30 proceeds of sales or Arizona adjusted gross income, as defined for purposes  
31 of chapter 5 of this title or title 43, an amount ~~which~~ THAT is properly  
32 includible and ~~which~~ THAT is in excess of twenty-five per cent of the amount  
33 of gross income stated in the return, the tax may be assessed at any time  
34 within six years after the return was filed.

35 3. If a taxpayer during a taxable year sells at a gain property used  
36 as the taxpayer's principal residence, the statutory period for the  
37 assessment of any deficiency attributable to any part of the gain does not  
38 expire before the expiration of four years from the date the taxpayer  
39 notifies the United States internal revenue service pursuant to the United  
40 States internal revenue code.

41 4. If a claim for credit or refund relates to an overpayment on  
42 account of the deductibility of a debt as one ~~which~~ THAT became worthless, a  
43 loss from worthlessness of a security, an erroneous inclusion of an amount  
44 attributable to the recovery of a bad debt, prior tax or delinquency amount  
45 due to an adjustment of a bad debt deduction or a loss deduction from

1 worthless of a security, the period of limitation is seven years from the  
2 date prescribed by law for filing the return for the year with respect to  
3 which the claim is made.

4 5. If a taxpayer fails to report a change or correction by the  
5 commissioner of internal revenue or other officer of the United States or  
6 other competent authority or fails to file an amended return as required by  
7 section 43-327, the department may assess any deficiency resulting from such  
8 adjustments within four years after the change, correction or amended return  
9 is reported to or filed with the United States internal revenue service  
10 regardless of any previous examinations by the department.

11 6. If a taxpayer is required to report a change or correction by the  
12 commissioner of internal revenue or other officer of the United States or  
13 other competent authority or to file an amended return as required by section  
14 43-327 and does report the change or files the return, any deficiency  
15 resulting from the adjustments may be assessed within six months from the  
16 date the notice of amended return is filed with the department by the  
17 taxpayer, or within the period provided in subsection A of this section or  
18 paragraph 1 or 2 of this subsection, whichever period expires last.

19 7. Except as provided in paragraph 8 of this subsection, if a taxpayer  
20 agrees with the United States commissioner of internal revenue for an  
21 extension or renewals of the period for proposing and assessing deficiencies  
22 in federal income taxes for any year, the period for mailing a notice of a  
23 proposed income tax deficiency is four years after the return was filed or  
24 six months after the date of the expiration of the agreed period for  
25 assessing deficiencies in the federal income tax, whichever period expires  
26 later.

27 8. If a taxpayer agrees with the United States commissioner of  
28 internal revenue for a limited extension or renewals of the period for  
29 proposing and assessing deficiencies in federal income taxes for any year,  
30 then, solely with respect to those items specifically enumerated in this  
31 agreement, the period for mailing a notice of a proposed income tax  
32 deficiency, or claiming a refund, is four years after the return was filed or  
33 six months after the date of the expiration of the agreed period for  
34 assessing deficiencies in the federal income tax, whichever period expires  
35 later.

36 9. If, before the expiration of the time prescribed for the mailing of  
37 a notice of a proposed deficiency assessment, the taxpayer consents in  
38 writing to an assessment after that time, the assessment may be made at any  
39 time before the expiration of the period agreed on. The period agreed on may  
40 be extended by subsequent written agreements made before the expiration of  
41 the period previously agreed on.

42 ~~C.~~ D. Notwithstanding subsection A of this section and subsection ~~B-~~  
43 C, paragraphs 1 and 2 of this section, a taxpayer who has a duty to collect  
44 use tax shall not be assessed tax pursuant to chapter 5, article 4 of this  
45 title for any retail sales to purchasers who were licensed pursuant to

1 section 42-5005 or registered pursuant to section 42-5154 and who filed use  
2 tax returns for the reporting period in which the sale was made, if the  
3 reporting period in which the sale was made is more than four years from the  
4 notice of proposed deficiency. If, before the expiration of this time  
5 limitation, the taxpayer consents in writing to an assessment after that time  
6 for the transactions, a subsequent assessment may include any transaction  
7 within the agreed extended period. The period agreed to may be extended by  
8 subsequent written agreements made before the expiration of the period  
9 previously agreed to.

10 Sec. 2. Section 42-1123, Arizona Revised Statutes, is amended to read:

11 42-1123. Interest

12 A. If it is provided by law that interest applies as determined  
13 pursuant to this section, the department shall apply interest, compounded  
14 annually, in the same manner and at the same times as prescribed by section  
15 6621 of the United States internal revenue code, except that the rate of  
16 interest for both overpayments and underpayments for all taxpayers is the  
17 federal short-term rate, determined pursuant to section 6621(b) of the  
18 internal revenue code, plus three percentage points.

19 B. On January 1 of each year the department shall add any interest  
20 outstanding as of that date to the principal amount of the tax. For purposes  
21 of this section the amount added to the principal is thereafter considered a  
22 part of the principal amount of the tax and accrues interest pursuant to this  
23 section.

24 C. If the tax, whether determined by the department or the taxpayer,  
25 or any portion of the tax is not paid on or before the date prescribed for  
26 its payment the department shall collect, as a part of the tax, interest on  
27 the unpaid amount at the rate determined pursuant to this section from the  
28 date prescribed for its payment until it is paid.

29 D. Interest on the amount assessed as a deficiency shall be assessed  
30 and paid at the same time as the deficiency at the rate determined pursuant  
31 to this section from the date prescribed for the payment of the tax to the  
32 date the deficiency is assessed. If any portion of the deficiency is paid  
33 before the date it is assessed, interest shall accrue on that portion only to  
34 the date paid.

35 E. If the time for filing a return is extended, the department shall  
36 collect, as part of such tax, interest on any unpaid balance at the rate  
37 determined pursuant to this section from the date on which the payment should  
38 have been made if no extension had been granted until the date the tax is  
39 paid.

40 F. Except in the case of a jeopardy assessment, collection of which  
41 has been stayed by the posting of a bond, if a deficiency or any interest is  
42 not paid in full within ten days from the date of notice and demand from the  
43 department, the department shall collect as a part of the tax interest on the  
44 unpaid tax or interest at the rate determined pursuant to this section from  
45 the date of the notice and demand until it is paid.

1 G. If an original return filed with the department shows that the  
2 taxpayer is entitled to a refund, interest is not allowed on the amount to be  
3 refunded if the refund is paid within sixty days of the last day for filing  
4 the return or sixty days from the filing of the return, whichever is later.  
5 If the department does not pay the amount of the refund due within sixty days  
6 after the date established in this subsection, the department shall pay the  
7 interest on the amount at the rate prescribed in this section from the  
8 sixty-first day to the issued date of the refund warrant. The department's  
9 annual budget shall separately state the amount necessary to satisfy the  
10 requirements of this subsection.

11 H. In the case of an amended return, claim for refund or refund  
12 determined through audit, interest shall be allowed and paid, with respect to  
13 any tax, from the date prescribed for the payment of that tax to the issue  
14 date of the refund warrant, but in the case of an original return of tax  
15 which is filed after the last date prescribed for filing the return and  
16 paying such tax, determined with regard to extensions, no interest may be  
17 allowed or paid for any day before the date on which the return is filed or  
18 the tax paid, whichever is later. A payment not made incident to a bona fide  
19 and orderly discharge of an actual liability or one reasonably assumed to be  
20 imposed by law is not an overpayment for the purposes of this subsection and  
21 interest is not payable on the payment.

22 I. If a credit or refund of any part of an overpayment would be barred  
23 under section 42-1106, subsection A, except for the provisions of section  
24 42-1104, subsection ~~B~~ C, paragraph 4, interest shall not be allowed or paid  
25 with respect to such part of the overpayment for any period beginning after  
26 the expiration of the period of limitation provided in section 42-1106,  
27 subsection A for filing a claim for credit or refund of such part of the  
28 overpayment and ending at the expiration of six months after the date on  
29 which the claim was filed or, if no claim was filed and the overpayment was  
30 found by the department, ending at the time the appeal was filed with the  
31 board.

32 J. In any judgment of any court rendered for any overpayment, interest  
33 shall be allowed at the rate determined pursuant to this section on the  
34 amount of the overpayment from the date of the payment or collection to the  
35 date of allowance of credit on account of such judgment or to a date  
36 determined by the department preceding the date of the refund warrant by not  
37 more than thirty days.

38 Sec. 3. Section 42-2059, Arizona Revised Statutes, as amended by Laws  
39 2005, chapter 95, section 1, is amended to read:

40 42-2059. No additional audits or proposed assessments;  
41 exceptions

42 A. When the department completes an audit or the findings of a managed  
43 audit are accepted by the director or approved on appeal and a deficiency has  
44 been completely determined under section 42-1108 or chapter 1, article 6 of  
45 this title, the taxpayer's liability for the particular tax for the period

1 subjected to the audit is fixed and determined, and no additional audit may  
2 be conducted except under the following circumstances:

3 1. If a taxpayer files a claim for refund under section 42-1251,  
4 subsection B or any other provision authorizing a claim for refund. Any  
5 departmental audit of the claim is limited to the issues presented on the  
6 claim for refund.

7 2. Changes or corrections required to be reported to the department by  
8 section 43-327. The department may audit any such reports or any periods for  
9 which a report was required notwithstanding this section and may determine a  
10 tax deficiency or a refund.

11 3. An audit of state transaction privilege or use tax does not  
12 preclude a subsequent audit for a city or town. An audit of transaction  
13 privilege or use tax for a city or town does not preclude a subsequent audit  
14 for this state.

15 4. If the taxpayer failed to disclose material information during the  
16 audit, or has falsified books or records or otherwise engaged in an action  
17 that prevented the department from conducting an accurate audit, the  
18 applicability of this subsection may be part of a subsequent protest and may  
19 be contested by the taxpayer pursuant to chapter 1, article 6 of this title.

20 5. If a managed audit is completed under the terms of a limited  
21 managed audit agreement, the department may audit the issues not covered by  
22 the limited managed audit agreement within the statute of limitations  
23 prescribed by section 42-1104.

24 6. FOR INDIVIDUAL INCOME TAX CHANGES OR CORRECTIONS BASED ON FEDERAL  
25 INFORMATION AS DEFINED IN SECTION 42-1104, SUBSECTION B, AN AUDIT MAY BE  
26 CONDUCTED AFTER AN ASSESSMENT HAS BEEN ISSUED WITHIN THE PERIOD SPECIFIED IN  
27 SECTION 42-1104, SUBSECTION B. THE DEPARTMENT'S AUDIT ADJUSTMENTS ARE  
28 LIMITED TO CHANGES BASED ON FEDERAL INFORMATION.

29 B. If the department issues a notice of proposed assessment of taxes  
30 imposed by chapter 5, article 1 or 4 of this title or title 43, chapter 10,  
31 the department may not increase the amount of the proposed assessment except  
32 in one or more of the following circumstances:

33 1. The taxpayer has made a material misrepresentation of facts.

34 2. The taxpayer has failed to disclose a material fact to the auditor.

35 3. The department has requested information and the taxpayer fails to  
36 provide that information to the department.

37 4. After issuing the notice of proposed assessment but before the  
38 assessment becomes final the tax court, court of appeals or supreme court  
39 issues a decision, the application of which causes the tax initially proposed  
40 to increase.

41 5. THE PROPOSED ASSESSMENT WAS FOR INDIVIDUAL INCOME TAX AND WAS  
42 ISSUED WITHIN THE PERIOD REQUIRED IN SECTION 42-1104, SUBSECTION B, AND THE  
43 CHANGES ARE BASED ON FEDERAL INFORMATION AS DEFINED IN SECTION 42-1104,  
44 SUBSECTION B.

1 C. Subsection B of this section does not apply to changes or  
2 corrections that are required to be reported to the department by section  
3 43-327.

4 Sec. 4. Section 42-2059, Arizona Revised Statutes, as amended by Laws  
5 2013, chapter 255, section 3, is amended to read:

6 42-2059. No additional audits or proposed assessments:  
7 exceptions

8 A. When the department completes an audit or the findings of a managed  
9 audit are accepted by the director or approved on appeal and a deficiency has  
10 been completely determined under section 42-1108 or chapter 1, article 6 of  
11 this title, the taxpayer's liability for the particular tax for the period  
12 subjected to the audit is fixed and determined, and no additional audit may  
13 be conducted except under the following circumstances:

14 1. If a taxpayer files a claim for refund under section 42-1251,  
15 subsection B or any other provision authorizing a claim for refund. Any  
16 departmental audit of the claim is limited to the issues presented on the  
17 claim for refund.

18 2. Changes or corrections required to be reported to the department by  
19 section 43-327. The department may audit any such reports or any periods for  
20 which a report was required notwithstanding this section and may determine a  
21 tax deficiency or a refund.

22 3. If the taxpayer failed to disclose material information during the  
23 audit, or has falsified books or records or otherwise engaged in an action  
24 that prevented the department from conducting an accurate audit, the  
25 applicability of this subsection may be part of a subsequent protest and may  
26 be contested by the taxpayer pursuant to chapter 1, article 6 of this title.

27 4. If a managed audit is completed under the terms of a limited  
28 managed audit agreement, the department may audit the issues not covered by  
29 the limited managed audit agreement within the statute of limitations  
30 prescribed by section 42-1104.

31 5. FOR INDIVIDUAL INCOME TAX CHANGES OR CORRECTIONS BASED ON FEDERAL  
32 INFORMATION AS DEFINED IN SECTION 42-1104, SUBSECTION B, AN AUDIT MAY BE  
33 CONDUCTED AFTER AN ASSESSMENT HAS BEEN ISSUED WITHIN THE PERIOD SPECIFIED IN  
34 SECTION 42-1104, SUBSECTION B. THE DEPARTMENT'S AUDIT ADJUSTMENTS ARE  
35 LIMITED TO CHANGES BASED ON FEDERAL INFORMATION.

36 B. If the department issues a notice of proposed assessment of taxes  
37 imposed by chapter 5, article 1 or 4 of this title or title 43, chapter 10,  
38 the department may not increase the amount of the proposed assessment except  
39 in one or more of the following circumstances:

40 1. The taxpayer has made a material misrepresentation of facts.

41 2. The taxpayer has failed to disclose a material fact to the auditor.

42 3. The department has requested information and the taxpayer fails to  
43 provide that information to the department.

44 4. After issuing the notice of proposed assessment but before the  
45 assessment becomes final the tax court, court of appeals or supreme court

1 issues a decision, the application of which causes the tax initially proposed  
2 to increase.

3 5. THE PROPOSED ASSESSMENT WAS FOR INDIVIDUAL INCOME TAX AND WAS  
4 ISSUED WITHIN THE PERIOD REQUIRED IN SECTION 42-1104, SUBSECTION B, AND THE  
5 CHANGES ARE BASED ON FEDERAL INFORMATION AS DEFINED IN SECTION 42-1104,  
6 SUBSECTION B.

7 C. Subsection B of this section does not apply to changes or  
8 corrections that are required to be reported to the department by section  
9 43-327.

10 Sec. 5. Section 42-2075, Arizona Revised Statutes, as amended by Laws  
11 2004, chapter 83, section 2, is amended to read:

12 42-2075. Audit duration; definition

13 A. An audit of a taxpayer's return or claim for refund shall not  
14 exceed two years from the date of initial audit contact to the issuance of a  
15 notice of proposed deficiency assessment or proposed overpayment, except:

16 1. An audit of a fraudulent tax return.

17 2. An audit delayed as the result of the taxpayer's bankruptcy  
18 proceeding.

19 3. An audit in which the department has issued a letter to the  
20 taxpayer or the taxpayer's representative citing the potential imposition of  
21 the penalty described in section 42-1125, subsection C for the taxpayer's  
22 failure or refusal to provide information pursuant to the department's  
23 written request.

24 4. An audit involving proceedings concerning the enforcement or  
25 validity of a subpoena or subpoena duces tecum issued pursuant to section  
26 42-1006, subsection C.

27 5. An audit involving a proceeding under section 42-2056.

28 6. An audit where a taxpayer has filed a petition pursuant to section  
29 43-1148, but only in relation to the effect of the petition request.

30 7. An audit in which the taxpayer provides a written request to extend  
31 the audit beyond the two-year period. A request for extension under this  
32 paragraph is not a substitute for a waiver of the statute of limitations  
33 pursuant to section 42-1104, subsection ~~B~~-C, paragraph 9. However, a waiver  
34 of the statute of limitations is considered to be a written request to extend  
35 the audit beyond the two-year period under this paragraph.

36 B. This section applies to audits conducted by the department and to  
37 joint audits conducted by the department and cities and towns pursuant to  
38 section 42-6005.

39 C. For the purposes of this section, "initial audit contact" means:

40 1. For a field audit, the date of the first meeting between the  
41 taxpayer or the taxpayer's representative and a member of the department's  
42 audit staff.

43 2. For a desk or office audit, the date of the first letter to the  
44 taxpayer regarding the audit.

1           Sec. 6. Section 42-2075, Arizona Revised Statutes, as amended by Laws  
2 2013, chapter 255, section 4, is amended to read:

3           42-2075. Audit duration; definition

4           A. An audit of a taxpayer's return or claim for refund shall not  
5 exceed two years from the date of initial audit contact to the issuance of a  
6 notice of proposed deficiency assessment or proposed overpayment, except:

7           1. An audit of a fraudulent tax return.

8           2. An audit delayed as the result of the taxpayer's bankruptcy  
9 proceeding.

10           3. An audit in which the department has issued a letter to the  
11 taxpayer or the taxpayer's representative citing the potential imposition of  
12 the penalty described in section 42-1125, subsection C for the taxpayer's  
13 failure or refusal to provide information pursuant to the department's  
14 written request.

15           4. An audit involving proceedings concerning the enforcement or  
16 validity of a subpoena or subpoena duces tecum issued pursuant to section  
17 42-1006, subsection C.

18           5. An audit involving a proceeding under section 42-2056.

19           6. An audit where a taxpayer has filed a petition pursuant to section  
20 43-1148, but only in relation to the effect of the petition request.

21           7. An audit in which the taxpayer provides a written request to extend  
22 the audit beyond the two-year period. A request for extension under this  
23 paragraph is not a substitute for a waiver of the statute of limitations  
24 pursuant to section 42-1104, subsection ~~B~~-C, paragraph 9. However, a waiver  
25 of the statute of limitations is considered to be a written request to extend  
26 the audit beyond the two-year period under this paragraph.

27           B. This section applies to audits conducted by the department and to  
28 audits conducted by the department and cities and towns pursuant to section  
29 42-6002.

30           C. For the purposes of this section, "initial audit contact" means:

31           1. For a field audit, the date of the first meeting between the  
32 taxpayer or the taxpayer's representative and a member of the department's  
33 audit staff.

34           2. For a desk or office audit, the date of the first letter to the  
35 taxpayer regarding the audit.

36           Sec. 7. Section 42-5069, Arizona Revised Statutes, is amended to read:

37           42-5069. Commercial lease classification; definitions

38           A. The commercial lease classification is comprised of the business of  
39 leasing for a consideration the use or occupancy of real property.

40           B. A person who, as a lessor, leases or rents for a consideration  
41 under one or more leases or rental agreements the use or occupancy of real  
42 property that is used by the lessee for commercial purposes is deemed to be  
43 engaged in business and subject to the tax imposed by article 1 of this  
44 chapter, but this subsection does not include leases or rentals of real  
45 property used for residential or agricultural purposes.

- 1 C. The commercial lease classification does not include:  
2 1. Any business activities that are classified under the transient  
3 lodging classification.  
4 2. Activities engaged in by the Arizona exposition and state fair  
5 board or county fair commissions in connection with events sponsored by those  
6 entities.  
7 3. Leasing real property to a lessee who subleases the property if the  
8 lessee is engaged in business classified under the commercial lease  
9 classification or the transient lodging classification.  
10 4. Leasing real property pursuant to a written lease agreement entered  
11 into before December 1, 1967. This exclusion does not apply to the  
12 businesses of hotels, guest houses, dude ranches and resorts, rooming houses,  
13 apartment houses, office buildings, automobile storage garages, parking lots  
14 or tourist camps, or to the extension or renewal of any such written lease  
15 agreement.  
16 5. Leasing real property between affiliated companies, businesses,  
17 persons or reciprocal insurers. For the purposes of this paragraph:  
18 (a) "Affiliated companies, businesses, persons or reciprocal insurers"  
19 means the lessor holds a controlling interest in the lessee, the lessee holds  
20 a controlling interest in the lessor, an affiliated entity holds a  
21 controlling interest in both the lessor and the lessee or an unrelated person  
22 holds a controlling interest in both the lessor and lessee.  
23 (b) "Controlling interest" means direct or indirect ownership of at  
24 least eighty per cent of the voting shares of a corporation or of the  
25 interests in a company, business or person other than a corporation.  
26 (c) "Reciprocal insurers" has the same meaning prescribed in section  
27 20-762.  
28 6. Leasing real property for boarding horses.  
29 7. Leasing or renting real property or the right to use real property  
30 at exhibition events in this state sponsored, operated or conducted by a  
31 nonprofit organization that is exempt from taxation under section 501(c)(3),  
32 501(c)(4) or 501(c)(6) of the internal revenue code if the organization is  
33 associated with major league baseball teams or a national touring  
34 professional golfing association and no part of the organization's net  
35 earnings inures to the benefit of any private shareholder or individual.  
36 8. Leasing or renting real property or the right to use real property  
37 for use as a rodeo featuring primarily farm and ranch animals in this state  
38 sponsored, operated or conducted by a nonprofit organization that is exempt  
39 from taxation under section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or  
40 501(c)(8) of the internal revenue code and no part of the organization's net  
41 earnings inures to the benefit of any private shareholder or individual.

1           9. Leasing or renting dwelling units, lodging facilities or trailer or  
2 mobile home spaces if the units, facilities or spaces are intended to serve  
3 as the principal or permanent place of residence for the lessee or renter or  
4 if the unit, facility or space is leased or rented to a single tenant thirty  
5 or more consecutive days.

6           10. Leasing or renting real property and improvements for use primarily  
7 for religious worship by a nonprofit organization that is exempt from  
8 taxation under section 501(c)(3) of the internal revenue code and no part of  
9 the organization's net earnings inures to the benefit of any private  
10 shareholder or individual.

11           11. Leasing or renting real property used for agricultural purposes  
12 under either of the following circumstances:

13           (a) The lease or rental is between family members, trusts, estates,  
14 corporations, partnerships, joint venturers or similar entities, or any  
15 combination thereof, if the individuals or at least eighty per cent of the  
16 beneficiaries, shareholders, partners or joint venturers share a family  
17 relationship as parents or ancestors of parents, children or descendants of  
18 children, siblings, cousins of the first degree, aunts, uncles, nieces or  
19 nephews of the first degree, spouses of any of the listed relatives and  
20 listed relatives by the half-blood or by adoption.

21           (b) The lessor leases or rents real property used for agricultural  
22 purposes under no more than three leases or rental agreements.

23           12. Leasing, renting or granting the right to use real property to  
24 vendors or exhibitors by a trade or industry association that is a qualifying  
25 organization pursuant to section 513(d)(3)(C) of the internal revenue code  
26 for a period not to exceed twenty-one days in connection with an event that  
27 meets all of the following conditions:

28           (a) The majority of such vending or exhibition activities relate to  
29 the nature of the trade or business sponsoring the event.

30           (b) The event is held in conjunction with a formal business meeting of  
31 the trade or industry association.

32           (c) The event is organized by the persons engaged in the particular  
33 trade or industry.

34           13. Leasing, renting or granting the right to use real property for a  
35 period not to exceed twenty-one days by a coliseum, civic center, civic  
36 plaza, convention center, auditorium or arena owned by this state or any of  
37 its political subdivisions.

38           14. Leasing or subleasing real property used by a nursing care  
39 institution as defined in section 36-401 that is licensed pursuant to title  
40 36, chapter 4.

41           15. Leasing or renting an eligible facility as defined in section  
42 28-7701.

43           16. Granting or providing rights to real property that constitute a  
44 profit à prendre for the severance of minerals, including all rights to use  
45 the surface or subsurface of the property as is necessary or convenient to

1 the right to sever the minerals. This paragraph does not exclude from the  
2 commercial lease classification leasehold rights to the real property that  
3 are granted in addition to and not included within the right of profit à  
4 prendre, but the tax base for the grant of such a leasehold right, if the  
5 gross income derived from the grant is not separately stated from the gross  
6 income derived from the grant of the profit à prendre, shall not exceed the  
7 fair market value of the leasehold rights computed after excluding the value  
8 of all rights under the profit à prendre. For the purposes of this  
9 paragraph, "profit à prendre" means a right to use the land of another to  
10 mine minerals, and carries with it the right of entry and the right to remove  
11 and take the minerals from the land and also includes the right to use the  
12 surface of the land as is necessary and convenient for exercise of the  
13 profit.

14 D. The tax base for the commercial lease classification is the gross  
15 proceeds of sales or gross income derived from the business, but  
16 reimbursements to the lessor for utility service shall be deducted from the  
17 tax base.

18 E. Notwithstanding section 42-1104, subsection ~~B~~ C, paragraph 1,  
19 subdivision (b) and paragraph 2, the failure to file tax returns for the  
20 commercial lease classification that report gross income derived from any  
21 agreement that constitutes, in whole or in part, a grant of a right of profit  
22 à prendre for the severance of minerals does not constitute an exception to  
23 the general rule for the statute of limitations.

24 F. For the purposes of this section:

25 1. "Leasing" includes renting.

26 2. "Real property" includes any improvements, rights or interest in  
27 such property.

28 Sec. 8. Section 43-1011, Arizona Revised Statutes, is amended to read:  
29 43-1011. Taxes and tax rates

30 A. There shall be levied, collected and paid for each taxable year  
31 upon the entire taxable income of every resident of this state and upon the  
32 entire taxable income of every nonresident which is derived from sources  
33 within this state taxes determined in the following manner:

34 1. For taxable years beginning from and after December 31, 1996  
35 through December 31, 1997:

36 (a) In the case of a single person or a married person filing  
37 separately:

38 If taxable income is: The tax is:

39 \$0 - \$10,000 2.90% of taxable income

40 \$10,001 - \$25,000 \$290, plus 3.30% of the excess over \$10,000

41 \$25,001 - \$50,000 \$785, plus 3.90% of the excess over \$25,000

42 \$50,001 - \$150,000 \$1,760, plus 4.80% of the excess over \$50,000

43 \$150,001 and over \$6,560, plus 5.17% of the excess over \$150,000

44 (b) In the case of a married couple filing a joint return or a single  
45 person who is a head of a household:

1           If taxable income is: The tax is:  
2           \$0 - \$20,000           2.90% of taxable income  
3           \$20,001 - \$50,000       \$580, plus 3.30% of the excess over \$20,000  
4           \$50,001 - \$100,000       \$1,570, plus 3.90% of the excess over \$50,000  
5           \$100,001 - \$300,000      \$3,520, plus 4.80% of the excess over \$100,000  
6           \$300,001 and over        \$13,120, plus 5.17% of the excess over \$300,000

7           2. For taxable years beginning from and after December 31, 1997  
8 through December 31, 1998:

9           (a) In the case of a single person or a married person filing  
10 separately:

11           If taxable income is: The tax is:  
12           \$0 - \$10,000           2.88% of taxable income  
13           \$10,001 - \$25,000       \$288, plus 3.24% of the excess over \$10,000  
14           \$25,001 - \$50,000        \$774, plus 3.82% of the excess over \$25,000  
15           \$50,001 - \$150,000      \$1,729, plus 4.74% of the excess over \$50,000  
16           \$150,001 and over         \$6,469, plus 5.10% of the excess over \$150,000

17           (b) In the case of a married couple filing a joint return or a single  
18 person who is a head of a household:

19           If taxable income is: The tax is:  
20           \$0 - \$20,000           2.88% of taxable income  
21           \$20,001 - \$50,000       \$576, plus 3.24% of the excess over \$20,000  
22           \$50,001 - \$100,000      \$1,548, plus 3.82% of the excess over \$50,000  
23           \$100,001 - \$300,000      \$3,458, plus 4.74% of the excess over \$100,000  
24           \$300,001 and over         \$12,938, plus 5.10% of the excess over \$300,000

25           3. For taxable years beginning from and after December 31, 1998  
26 through December 31, 2005:

27           (a) In the case of a single person or a married person filing  
28 separately:

29           If taxable income is: The tax is:  
30           \$0 - \$10,000           2.87% of taxable income  
31           \$10,001 - \$25,000        \$287, plus 3.20% of the excess over \$10,000  
32           \$25,001 - \$50,000        \$767, plus 3.74% of the excess over \$25,000  
33           \$50,001 - \$150,000      \$1,702, plus 4.72% of the excess over \$50,000  
34           \$150,001 and over         \$6,422, plus 5.04% of the excess over \$150,000

35           (b) In the case of a married couple filing a joint return or a single  
36 person who is a head of a household:

37           If taxable income is: The tax is:  
38           \$0 - \$20,000           2.87% of taxable income  
39           \$20,001 - \$50,000       \$574, plus 3.20% of the excess over \$20,000  
40           \$50,001 - \$100,000      \$1,534, plus 3.74% of the excess over \$50,000  
41           \$100,001 - \$300,000      \$3,404, plus 4.72% of the excess over \$100,000  
42           \$300,001 and over         \$12,844, plus 5.04% of the excess over \$300,000

43           4. For taxable years beginning from and after December 31, 2005  
44 through December 31, 2006:

1 (a) In the case of a single person or a married person filing  
2 separately:

3	<u>If taxable income is:</u>	<u>The tax is:</u>
4	\$0 - \$10,000	2.73% of taxable income
5	\$10,001 - \$25,000	\$273, plus 3.04% of the excess over \$10,000
6	\$25,001 - \$50,000	\$729, plus 3.55% of the excess over \$25,000
7	\$50,001 - \$150,000	\$1,617, plus 4.48% of the excess over \$50,000
8	\$150,001 and over	\$6,097, plus 4.79% of the excess over \$150,000

9 (b) In the case of a married couple filing a joint return or a single  
10 person who is a head of a household:

11	<u>If taxable income is:</u>	<u>The tax is:</u>
12	\$0 - \$20,000	2.73% of taxable income
13	\$20,001 - \$50,000	\$546, plus 3.04% of the excess over \$20,000
14	\$50,001 - \$100,000	\$1,458, plus 3.55% of the excess over \$50,000
15	\$100,001 - \$300,000	\$3,233, plus 4.48% of the excess over \$100,000
16	\$300,001 and over	\$12,193, plus 4.79% of the excess over \$300,000

17 5. For taxable years beginning from and after December 31, 2006:

18 (a) In the case of a single person or a married person filing  
19 separately:

20	<u>If taxable income is:</u>	<u>The tax is:</u>
21	\$0 - \$10,000	2.59% of taxable income
22	\$10,001 - \$25,000	\$259, plus 2.88% of the excess over \$10,000
23	\$25,001 - \$50,000	\$691, plus 3.36% of the excess over \$25,000
24	\$50,001 - \$150,000	\$1,531, plus 4.24% of the excess over \$50,000
25	\$150,001 and over	\$5,771, plus 4.54% of the excess over \$150,000

26 (b) In the case of a married couple filing a joint return or a single  
27 person who is a head of a household:

28	<u>If taxable income is:</u>	<u>The tax is:</u>
29	\$0 - \$20,000	2.59% of taxable income
30	\$20,001 - \$50,000	\$518, plus 2.88% of the excess over \$20,000
31	\$50,001 - \$100,000	\$1,382, plus 3.36% of the excess over \$50,000
32	\$100,001 - \$300,000	\$3,062, plus 4.24% of the excess over \$100,000
33	\$300,001 and over	\$11,542, plus 4.54% of the excess over \$300,000

34 B. FOR EACH TAXABLE YEAR BEGINNING FROM AND AFTER DECEMBER 31, 2013,  
35 THE DEPARTMENT SHALL ADJUST THE INCOME DOLLAR AMOUNTS FOR EACH RATE BRACKET  
36 PRESCRIBED BY SUBSECTION A, PARAGRAPH 5 OF THIS SECTION ACCORDING TO THE  
37 AVERAGE ANNUAL CHANGE IN THE METROPOLITAN PHOENIX CONSUMER PRICE INDEX  
38 PUBLISHED BY THE UNITED STATES BUREAU OF LABOR STATISTICS. THE REVISED  
39 DOLLAR AMOUNTS SHALL BE RAISED TO THE NEAREST WHOLE DOLLAR. THE INCOME  
40 DOLLAR AMOUNTS FOR EACH RATE BRACKET MAY NOT BE REVISED BELOW THE AMOUNTS  
41 PRESCRIBED IN THE NEXT PRECEDING TAXABLE YEAR.

42 Sec. 9. Section 43-1021, Arizona Revised Statutes, is amended to read:  
43 43-1021. Additions to Arizona gross income

44 In computing Arizona adjusted gross income, the following amounts shall  
45 be added to Arizona gross income:

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

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

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

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

20           ~~5.~~ 4. The excess of a partner's share of partnership taxable income  
21 required to be included under chapter 14, article 2 of this title over the  
22 income required to be reported under section 702(a)(8) of the internal  
23 revenue code.

24           ~~6.~~ 5. The excess of a partner's share of partnership losses  
25 determined pursuant to section 702(a)(8) of the internal revenue code over  
26 the losses allowable under chapter 14, article 2 of this title.

27           ~~7.~~ 6. The amount by which the adjusted basis of property described in  
28 this paragraph and computed pursuant to the internal revenue code exceeds the  
29 adjusted basis of such property computed pursuant to this title and the  
30 income tax act of 1954, as amended. This paragraph shall apply to all  
31 property that is held for the production of income and that is sold or  
32 otherwise disposed of during the taxable year, except depreciable property  
33 used in a trade or business.

34           ~~8.~~ 7. The amount of depreciation or amortization of costs of any  
35 capital investment that is deducted pursuant to section 167 or 179 of the  
36 internal revenue code by a qualified defense contractor with respect to which  
37 an election is made to amortize pursuant to section 43-1024.

38           ~~9.~~ 8. The amount of gain from the sale or other disposition of a  
39 capital investment that a qualified defense contractor has elected to  
40 amortize pursuant to section 43-1024.

41           ~~10.~~ 9. Amounts withdrawn from the Arizona state retirement system, the  
42 corrections officer retirement plan, the public safety personnel retirement  
43 system, the elected officials' retirement plan or a county or city retirement  
44 plan by an employee on termination of employment before retirement to the  
45 extent they were deducted in arriving at Arizona taxable income in any year.

- 1       ~~11.~~ 10. That portion of the net operating loss included in federal  
2 adjusted gross income that has already been taken as a net operating loss for  
3 Arizona purposes or that is separately taken as a subtraction under the  
4 special net operating loss transition rule.
- 5       ~~12.~~ 11. Any nonitemized amount deducted pursuant to section 170 of the  
6 internal revenue code representing contributions to an educational  
7 institution that denies admission, enrollment or board and room  
8 accommodations on the basis of race, color or ethnic background except those  
9 institutions primarily established for the education of American Indians.
- 10       ~~13.~~ 12. Amounts withdrawn from a medical savings account by the  
11 individual during the taxable year computed pursuant to section 220(f) of the  
12 internal revenue code and not included in federal adjusted gross income.
- 13       ~~14.~~ 13. Any amount of agricultural water conservation expenses that  
14 were deducted pursuant to the internal revenue code for which a credit is  
15 claimed under section 43-1084.
- 16       ~~15.~~ 14. The amount by which the depreciation or amortization computed  
17 under the internal revenue code with respect to property for which a credit  
18 was taken under section 43-1080 exceeds the amount of depreciation or  
19 amortization computed pursuant to the internal revenue code on the Arizona  
20 adjusted basis of the property.
- 21       ~~16.~~ 15. The amount by which the adjusted basis computed under the  
22 internal revenue code with respect to property for which a credit was claimed  
23 under section 43-1080 and that is sold or otherwise disposed of during the  
24 taxable year exceeds the adjusted basis of the property computed under  
25 section 43-1080.
- 26       ~~17.~~ 16. The amount by which the depreciation or amortization computed  
27 under the internal revenue code with respect to property for which a credit  
28 was taken under either section 43-1081 or 43-1081.01 exceeds the amount of  
29 depreciation or amortization computed pursuant to the internal revenue code  
30 on the Arizona adjusted basis of the property.
- 31       ~~18.~~ 17. The amount by which the adjusted basis computed under the  
32 internal revenue code with respect to property for which a credit was claimed  
33 under section 43-1074.02, 43-1081 or 43-1081.01 and that is sold or otherwise  
34 disposed of during the taxable year exceeds the adjusted basis of the  
35 property computed under section 43-1074.02, 43-1081 or 43-1081.01, as  
36 applicable.
- 37       ~~19.~~ 18. The deduction referred to in section 1341(a)(4) of the  
38 internal revenue code for restoration of a substantial amount held under a  
39 claim of right.
- 40       ~~20.~~ 19. The amount by which a net operating loss carryover or capital  
41 loss carryover allowable pursuant to section 1341(b)(5) of the internal  
42 revenue code exceeds the net operating loss carryover or capital loss  
43 carryover allowable pursuant to section 43-1029, subsection F.
- 44       ~~21.~~ 20. Any amount deducted pursuant to section 170 of the internal  
45 revenue code representing contributions to a school tuition organization or a

1 public school for which a credit is claimed under section 43-1089, 43-1089.01  
2 or 43-1089.03.

3 ~~22-~~ 21. Any amount deducted in computing Arizona gross income as  
4 expenses for installing solar stub outs or electric vehicle recharge outlets  
5 in this state with respect to which a credit is claimed pursuant to section  
6 43-1090.

7 ~~23-~~ 22. Any wage expenses deducted pursuant to the internal revenue  
8 code for which a credit is claimed under section 43-1087 and representing net  
9 increases in qualified employment positions for employment of temporary  
10 assistance for needy families recipients.

11 ~~24-~~ 23. Any amount deducted for conveying ownership or development  
12 rights of property to an agricultural preservation district under section  
13 48-5702 for which a credit is claimed under section 43-1081.02.

14 ~~25-~~ 24. The amount of any depreciation allowance allowed pursuant to  
15 section 167(a) of the internal revenue code to the extent not previously  
16 added.

17 ~~26-~~ 25. With respect to property for which an expense deduction was  
18 taken pursuant to section 179 of the internal revenue code in a taxable year  
19 beginning before January 1, 2013, the amount in excess of twenty-five  
20 thousand dollars.

21 ~~27-~~ 26. The amount by which the depreciation or amortization computed  
22 under the internal revenue code with respect to property for which a credit  
23 was taken under section 43-1090.01 exceeds the amount of depreciation or  
24 amortization computed pursuant to the internal revenue code on the Arizona  
25 adjusted basis of the property.

26 ~~28-~~ 27. The amount by which the adjusted basis computed under the  
27 internal revenue code with respect to property for which a credit was claimed  
28 under section 43-1090.01 and that is sold or otherwise disposed of during the  
29 taxable year exceeds the adjusted basis of the property computed under  
30 section 43-1090.01.

31 ~~29-~~ 28. The amount of a nonqualified withdrawal, as defined in section  
32 15-1871, from a college savings plan established pursuant to section 529 of  
33 the internal revenue code that is made to a distributee to the extent the  
34 amount is not included in computing federal adjusted gross income, except  
35 that the amount added under this paragraph shall not exceed the difference  
36 between the amount subtracted under section 43-1022 in prior taxable years  
37 and the amount added under this section in any prior taxable years.

38 ~~30-~~ 29. The amount of unemployment compensation that is excluded from  
39 federal adjusted gross income pursuant to section 85(c) of the internal  
40 revenue code as added by section 1007 of the American recovery and  
41 reinvestment act of 2009 (P.L. 111-5).

42 ~~31-~~ 30. The amount of discharge of indebtedness income that is  
43 deferred and excluded from the computation of federal adjusted gross income  
44 or federal taxable income in the current taxable year pursuant to section

1 108(i) of the internal revenue code as added by section 1231 of the American  
2 recovery and reinvestment act of 2009 (P.L. 111-5).

3 ~~32-~~ 31. The amount of any previously deferred original issue discount  
4 that was deducted in computing federal adjusted gross income or federal  
5 taxable income in the current year pursuant to section 108(i) of the internal  
6 revenue code as added by section 1231 of the American recovery and  
7 reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was  
8 previously subtracted from Arizona gross income pursuant to section 43-1022,  
9 paragraph ~~31~~ 29.

10 ~~33-~~ 32. For taxable years beginning from and after December 31, 2011  
11 through December 31, 2014, the amount of any deduction that is claimed in  
12 computing federal adjusted gross income for health insurance premiums or  
13 contributions to a health savings account for which a credit is claimed under  
14 section 43-1087.01 or 43-1185.

15 33. WITH RESPECT TO PROPERTY FOR WHICH AN ADJUSTMENT IS MADE UNDER  
16 SECTION 43-1022, PARAGRAPH 36, ONE-FIFTH OF THE DIFFERENCE BETWEEN THE AMOUNT  
17 OF THE ADJUSTMENT UNDER SECTION 43-1022, PARAGRAPH 36 AND THE AMOUNT OF  
18 DEPRECIATION OR AMORTIZATION COMPUTED UNDER THE INTERNAL REVENUE CODE FOR THE  
19 YEAR IN WHICH THE ADJUSTMENT IS MADE AND IN EACH OF THE FOLLOWING FOUR YEARS.

20 34. FOR PROPERTY FOR WHICH AN ADJUSTMENT WAS MADE UNDER SECTION  
21 43-1022, PARAGRAPH 36 AND THAT IS SOLD OR OTHERWISE DISPOSED OF DURING THE  
22 TAXABLE YEAR, THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE  
23 INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY EXCEEDS THE ADJUSTED BASIS OF  
24 THE PROPERTY COMPUTED UNDER THIS TITLE.

25 35. WITH RESPECT TO QUALIFIED PROPERTY FOR WHICH AN ADJUSTMENT IS MADE  
26 UNDER SECTION 43-1022, PARAGRAPH 37, ONE-FIFTH OF THE AMOUNT OF ADJUSTMENT  
27 FOR THE YEAR IN WHICH THE ADJUSTMENT IS MADE AND IN EACH OF THE FOLLOWING  
28 FOUR YEARS.

29 36. FOR PROPERTY FOR WHICH AN ADJUSTMENT WAS MADE UNDER SECTION  
30 43-1022, PARAGRAPH 37 AND THAT IS SOLD OR OTHERWISE DISPOSED OF DURING THE  
31 TAXABLE YEAR, THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE  
32 INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY EXCEEDS THE ADJUSTED BASIS OF  
33 THE PROPERTY COMPUTED UNDER THIS TITLE.

34 Sec. 10. Section 43-1022, Arizona Revised Statutes, is amended to  
35 read:

36 43-1022. Subtractions from Arizona gross income

37 In computing Arizona adjusted gross income, the following amounts shall  
38 be subtracted from Arizona gross income:

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

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

43 (a) The United States government service retirement and disability  
44 fund, retired or retainer pay of the uniformed services of the United States,

1 the United States foreign service retirement and disability system and any  
2 other retirement system or plan established by federal law.

3 (b) The Arizona state retirement system, the corrections officer  
4 retirement plan, the public safety personnel retirement system, the elected  
5 officials' retirement plan, an optional retirement program established by the  
6 Arizona board of regents under section 15-1628, an optional retirement  
7 program established by a community college district board under section  
8 15-1451 or a retirement plan established for employees of a county, city or  
9 town in this state.

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

13 ~~4. The amount of any distributions from an individual retirement~~  
14 ~~account as provided for in section 408 of the internal revenue code or from a~~  
15 ~~qualified retirement plan of a self-employed individual as provided for in~~  
16 ~~section 401 of the internal revenue code to the extent that total adjustments~~  
17 ~~made pursuant to this paragraph in all tax years do not exceed the total of~~  
18 ~~all contributions made by the taxpayer to such plans before December 31,~~  
19 ~~1975, which were included in computing Arizona taxable income.~~

20 ~~5.~~ 4. The amount of income on an installment receivable that is  
21 recognized pursuant to the internal revenue code and that has already been  
22 recognized on the death of the taxpayer for purposes of this title for tax  
23 years ending before January 1, 1990.

24 ~~6.~~ 5. Interest income received on obligations of the United States,  
25 less any interest on indebtedness, or other related expenses, and deducted in  
26 arriving at Arizona gross income, which were incurred or continued to  
27 purchase or carry such obligations.

28 ~~7.~~ 6. The amount of any income tax refunds that were received from  
29 states other than Arizona and that were included as income in computing  
30 federal adjusted gross income.

31 ~~8. Annuity income included in federal adjusted gross income pursuant~~  
32 ~~to section 72 of the internal revenue code if the first payment with respect~~  
33 ~~to such annuity was received before December 31, 1978.~~

34 ~~9.~~ 7. The excess of a partner's share of income required to be  
35 included under section 702(a)(8) of the internal revenue code over the income  
36 required to be included under chapter 14, article 2 of this title.

37 ~~10.~~ 8. The excess of a partner's share of partnership losses  
38 determined pursuant to chapter 14, article 2 of this title over the losses  
39 allowable under section 702(a)(8) of the internal revenue code.

40 ~~11.~~ 9. The amount by which the adjusted basis of property described in  
41 this paragraph and computed pursuant to this title and the income tax act of  
42 1954, as amended, exceeds the adjusted basis of such property computed  
43 pursuant to the internal revenue code. This paragraph shall apply to all  
44 property that is held for the production of income and that is sold or

1 otherwise disposed of during the taxable year other than depreciable property  
2 used in a trade or business.

3 ~~12.~~ 10. The amount allowed by section 43-1024 for amortization, by a  
4 qualified defense contractor certified by the Arizona commerce authority  
5 under section 41-1508, of a capital investment for private commercial  
6 activities.

7 ~~13.~~ 11. The amount of gain included in federal adjusted gross income  
8 on the sale or other disposition of a capital investment that a qualified  
9 defense contractor has elected to amortize pursuant to section 43-1024.

10 ~~14.~~ 12. The amount allowed by section 43-1025 for contributions during  
11 the taxable year of agricultural crops to charitable organizations.

12 ~~15.~~ 13. The portion of any wages or salaries paid or incurred by the  
13 taxpayer for the taxable year that is equal to the amount of the federal work  
14 opportunity credit, the empowerment zone employment credit, the credit for  
15 employer paid social security taxes on employee cash tips and the Indian  
16 employment credit that the taxpayer received under sections 45A, 45B, 51(a)  
17 and 1396 of the internal revenue code.

18 ~~16.~~ 14. The amount of prizes or winnings less than five thousand  
19 dollars in a single taxable year from any of the state lotteries established  
20 and operated pursuant to title 5, chapter 5.1, article 1, except that all  
21 such winnings before March 22, 1983, including periodic distributions from  
22 such winnings made after March 22, 1983, may be subtracted.

23 ~~17.~~ 15. The amount of exploration expenses that is determined pursuant  
24 to section 617 of the internal revenue code, that has been deferred in a  
25 taxable year ending before January 1, 1990 and for which a subtraction has  
26 not previously been made. The subtraction shall be made on a ratable basis  
27 as the units of produced ores or minerals discovered or explored as a result  
28 of this exploration are sold.

29 ~~18.~~ 16. The amount included in federal adjusted gross income pursuant  
30 to section 86 of the internal revenue code, relating to taxation of social  
31 security and railroad retirement benefits.

32 ~~19.~~ 17. To the extent not already excluded from Arizona gross income  
33 under the internal revenue code, compensation received for active service as  
34 a member of the reserves, the national guard or the armed forces of the  
35 United States, including compensation for service in a combat zone as  
36 determined under section 112 of the internal revenue code.

37 ~~20.~~ 18. The amount of unreimbursed medical and hospital costs,  
38 adoption counseling, legal and agency fees and other nonrecurring costs of  
39 adoption not to exceed three thousand dollars. In the case of a husband and  
40 wife who file separate returns, the subtraction may be taken by either  
41 taxpayer or may be divided between them, but the total subtractions allowed  
42 both husband and wife shall not exceed three thousand dollars. The  
43 subtraction under this paragraph may be taken for the costs that are  
44 described in this paragraph and that are incurred in prior years, but the

1 subtraction may be taken only in the year during which the final adoption  
2 order is granted.

3 ~~21-~~ 19. The amount authorized by section 43-1027 for the taxable year  
4 relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

5 ~~22-~~ 20. With respect to a medical savings account established pursuant  
6 to section 43-1028:

7 (a) An eligible individual may subtract:

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

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

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

19 ~~23-~~ 21. The amount by which a net operating loss carryover or capital  
20 loss carryover allowable pursuant to section 43-1029, subsection F exceeds  
21 the net operating loss carryover or capital loss carryover allowable pursuant  
22 to section 1341(b)(5) of the internal revenue code.

23 ~~24-~~ 22. Any amount of qualified educational expenses that is  
24 distributed from a qualified state tuition program determined pursuant to  
25 section 529 of the internal revenue code and that is included in income in  
26 computing federal adjusted gross income.

27 ~~25-~~ 23. Any item of income resulting from an installment sale that has  
28 been properly subjected to income tax in another state in a previous taxable  
29 year and that is included in Arizona gross income in the current taxable  
30 year.

31 ~~26-~~ 24. The amount authorized by section 43-1030 relating to holocaust  
32 survivors.

33 ~~27-~~ 25. For property placed in service:

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

40 (b) In taxable years beginning from and after December 31, 2012  
41 through December 31, 2013, an amount determined in the year the asset was  
42 placed in service based on the calculation in subdivision (a) of this  
43 paragraph. In the first taxable year beginning from and after December 31,  
44 2013 THROUGH DECEMBER 31, 2014, the taxpayer may elect to subtract the amount  
45 necessary to make the depreciation claimed to date for the purposes of this

1 title ~~the same as it would have been if subdivision (c) of this paragraph had~~  
2 ~~applied~~ AN AMOUNT EQUAL TO THE DEPRECIATION ALLOWABLE PURSUANT TO SECTION  
3 167(a) OF THE INTERNAL REVENUE CODE FOR THE TAXABLE YEAR AS COMPUTED AS IF  
4 THE ADDITIONAL ALLOWANCE FOR DEPRECIATION HAD BEEN TEN PER CENT OF THE AMOUNT  
5 ALLOWED PURSUANT TO SECTION 168(k) OF THE INTERNAL REVENUE CODE for the  
6 entire time the asset was in service. ~~Subdivision (c) of this paragraph~~ IF  
7 THE TAXPAYER MAKES THIS ELECTION, IT applies for the remainder of the asset's  
8 life. If the taxpayer does not make the election under this subdivision,  
9 subdivision (a) of this paragraph applies for the remainder of the asset's  
10 life.

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

16 ~~28.~~ 26. With respect to property that is sold or otherwise disposed of  
17 during the taxable year by a taxpayer that complied with section 43-1021,  
18 paragraph ~~25~~ 24 with respect to that property, the amount of depreciation  
19 that has been allowed pursuant to section 167(a) of the internal revenue code  
20 to the extent that the amount has not already reduced Arizona taxable income  
21 in the current or prior taxable years.

22 ~~29.~~ 27. With respect to property for which an adjustment was made  
23 under section 43-1021, paragraph ~~26~~ 25, an amount equal to one-fifth of the  
24 amount of the adjustment pursuant to section 43-1021, paragraph ~~26~~ 25 in the  
25 year in which the amount was adjusted under section 43-1021, paragraph ~~26~~ 25  
26 and in each of the following four years.

27 ~~30.~~ 28. The amount contributed during the taxable year to college  
28 savings plans established pursuant to section 529 of the internal revenue  
29 code to the extent that the contributions were not deducted in computing  
30 federal adjusted gross income. The amount subtracted shall not exceed:

31 (a) Two thousand dollars for a single individual or a head of  
32 household.

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

38 ~~31.~~ 29. The amount of any original issue discount that was deferred  
39 and not allowed to be deducted in computing federal adjusted gross income or  
40 federal taxable income in the current taxable year pursuant to section 108(i)  
41 of the internal revenue code as added by section 1231 of the American  
42 recovery and reinvestment act of 2009 (P.L. 111-5).

43 ~~32.~~ 30. The amount of previously deferred discharge of indebtedness  
44 income that is included in the computation of federal adjusted gross income  
45 or federal taxable income in the current taxable year pursuant to section

1 108(i) of the internal revenue code as added by section 1231 of the American  
2 recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the  
3 amount was previously added to Arizona gross income pursuant to section  
4 43-1021, paragraph ~~31~~ 30.

5 ~~33-~~ 31. The portion of the net operating loss carryforward that would  
6 have been allowed as a deduction in the current year pursuant to section 172  
7 of the internal revenue code if the election described in section  
8 172(b)(1)(H) of the internal revenue code had not been made in the year of  
9 the loss that exceeds the actual net operating loss carryforward that was  
10 deducted in arriving at federal adjusted gross income. This subtraction only  
11 applies to taxpayers who made an election under section 172(b)(1)(H) of the  
12 internal revenue code as amended by section 1211 of the American recovery and  
13 reinvestment act of 2009 (P.L. 111-5) or as amended by section 13 of the  
14 worker, homeownership, and business assistance act of 2009 (P.L. 111-92).

15 ~~34-~~ 32. For taxable years beginning from and after December 31, 2013,  
16 the amount of any net capital gain included in federal adjusted gross income  
17 for the taxable year derived from investment in a qualified small business as  
18 determined by the Arizona commerce authority pursuant to section 41-1518.

19 ~~35-~~ 33. An amount of any net long-term capital gain included in  
20 federal adjusted gross income for the taxable year that is derived from an  
21 investment in an asset acquired after December 31, 2011, as follows:

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

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

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

31 For the purposes of this paragraph, a transferee that receives an asset by  
32 gift or at the death of a transferor is considered to have acquired the asset  
33 when the asset was acquired by the transferor. If the date an asset is  
34 acquired cannot be verified, a subtraction under this paragraph is not  
35 allowed.

36 ~~36-~~ 34. If an individual is not claiming itemized deductions pursuant  
37 to section 43-1042, the amount of premium costs for long-term care insurance,  
38 as defined in section 20-1691.

39 ~~37-~~ 35. With respect to a long-term health care savings account  
40 established pursuant to section 43-1032, the amount deposited by the taxpayer  
41 in the account during the taxable year to the extent that the taxpayer's  
42 contributions are included in the taxpayer's federal adjusted gross income.

43 36. FOR PROPERTY PLACED IN SERVICE IN TAXABLE YEARS BEGINNING FROM AND  
44 AFTER DECEMBER 31, 2013, THE AMOUNT OF THE EXPENSE DEDUCTION THAT WOULD BE  
45 ALLOWED PURSUANT TO SECTION 179 OF THE INTERNAL REVENUE CODE IF THE MAXIMUM

1 DEDUCTION ALLOWED WERE FIVE HUNDRED THOUSAND DOLLARS AND THIS LIMITATION WERE  
2 REDUCED BY THE AMOUNT THAT THE COST OF SECTION 179 PROPERTY PLACED IN SERVICE  
3 IN THE TAXABLE YEAR EXCEEDS TWO MILLION DOLLARS.

4 37. FOR QUALIFIED PROPERTY THAT IS PLACED IN SERVICE IN TAXABLE YEARS  
5 BEGINNING FROM AND AFTER DECEMBER 31, 2013, AN ALLOWANCE EQUAL TO FIFTY PER  
6 CENT OF THE ADJUSTED BASIS OF THE QUALIFIED PROPERTY REMAINING AFTER THE  
7 ADJUSTMENT FOR THE ALLOWANCE UNDER PARAGRAPH 36 OF THIS SECTION AND  
8 ADJUSTMENTS FOR ANY OTHER DEPRECIATION ALLOWANCE UNDER THE INTERNAL REVENUE  
9 CODE OR THIS TITLE. FOR THE PURPOSES OF THIS SUBSECTION, "QUALIFIED  
10 PROPERTY" MEANS PROPERTY THAT IS NOT SUBJECT TO THE ALTERNATIVE DEPRECIATION  
11 SYSTEM UNDER SECTION 168(g) OF THE INTERNAL REVENUE CODE AND THAT MEETS THE  
12 FOLLOWING QUALIFICATIONS:

13 (a) THE PROPERTY IS ANY OF THE FOLLOWING:

14 (i) TANGIBLE PROPERTY DEPRECIATED UNDER THE MODIFIED ACCELERATED COST  
15 RECOVERY SYSTEM THAT HAS A RECOVERY PERIOD EQUAL TO OR LESS THAN TWENTY YEARS  
16 AND IS WITHIN THE SCOPE OF SECTION 168 OF THE INTERNAL REVENUE CODE.

17 (ii) COMPUTER SOFTWARE AS DEFINED IN SECTION 167(f)(1)(B) OF THE  
18 INTERNAL REVENUE CODE FOR WHICH A DEDUCTION IS ALLOWABLE UNDER SECTION 167(a)  
19 OF THE INTERNAL REVENUE CODE.

20 (iii) WATER UTILITY PROPERTY AS DEFINED IN SECTION 168 OF THE INTERNAL  
21 REVENUE CODE.

22 (iv) QUALIFIED LEASEHOLD PROPERTY AS DEFINED IN SECTION 168 OF THE  
23 INTERNAL REVENUE CODE.

24 (b) THE ORIGINAL USE OF THE PROPERTY COMMENCES WITH THE TAXPAYER AFTER  
25 DECEMBER 31, 2013.

26 (c) THE PROPERTY IS ACQUIRED BY THE TAXPAYER AFTER DECEMBER 31, 2013  
27 PURSUANT TO A WRITTEN BINDING CONTRACT ENTERED INTO AFTER DECEMBER 31, 2013.

28 (d) THE PROPERTY IS PLACED IN SERVICE FOR USE IN THE TAXPAYER'S TRADE  
29 OR BUSINESS OR FOR THE PRODUCTION OF INCOME AFTER DECEMBER 31, 2013.

30 (e) THE PROPERTY IS NOT EXCEPTED PROPERTY OR SUBJECT TO ANY SPECIAL  
31 RULES UNDER SECTION 168 OF THE INTERNAL REVENUE CODE.

32 Sec. 11. Section 43-1029, Arizona Revised Statutes, is amended to  
33 read:

34 43-1029. Restoration of a substantial amount held under claim  
35 of right; computation of tax

36 A. This section applies if:

37 1. An item of income was included in gross income for a prior taxable  
38 year or years because it appeared that the taxpayer had an unrestricted right  
39 to the item.

40 2. A deduction would be allowable under the internal revenue code or  
41 this title for the taxable year, without application of section 1341(b)(3) of  
42 the internal revenue code or section 43-1021, paragraph ~~19~~ 18, because after  
43 the close of the prior taxable year or years it was established that the  
44 taxpayer did not have an unrestricted right to all or part of the item.

45 3. The amount of the deduction exceeds three thousand dollars.

1           B. If all of the conditions in subsection A of this section apply, the  
2 tax imposed by this chapter for the taxable year is an amount equal to the  
3 tax for the taxable year computed without the deduction, minus the decrease  
4 in tax under this chapter for the prior taxable year or years that would  
5 result solely from excluding the item or portion of the item from gross  
6 income for the prior taxable year or years.

7           C. If the decrease in tax exceeds the tax imposed by this chapter for  
8 the taxable year, computed without the deduction, the excess is considered to  
9 be a payment of tax on the last day prescribed by law for the payment of tax  
10 for the taxable year and shall be refunded or credited in the same manner as  
11 if it were an overpayment for the taxable year.

12           D. Subsection B of this section does not apply to any deduction that  
13 is allowable with respect to an item that was included in gross income by  
14 reason of the sale or other disposition of stock in trade of the taxpayer, or  
15 other property of a kind that would properly have been included in the  
16 inventory of the taxpayer on hand at the close of the prior taxable year, or  
17 property that is held by the taxpayer primarily for sale to customers in the  
18 ordinary course of the taxpayer's trade or business. This subsection does  
19 not apply if the deduction arises out of refunds or repayments with respect  
20 to rates made by a regulated public utility that is listed in section  
21 7701(a)(33)(A) through (H) of the internal revenue code, if the refunds or  
22 repayments are:

23           1. Required to be made by the government, political subdivision,  
24 agency or instrumentality referred to in that section.

25           2. Required to be made by an order of a court.

26           3. Made in settlement of litigation or under threat or imminence of  
27 litigation.

28           E. If the exclusion under subsection B of this section results in:

29           1. A net operating loss for the prior taxable year or years for  
30 purposes of computing the decrease in tax for the prior year or years under  
31 subsection B of this section:

32           (a) The loss shall be:

33           (i) Carried over under this chapter to the same extent and in the same  
34 manner as was provided under prior law for taxable years beginning on or  
35 before December 31, 1989.

36           (ii) Carried back and carried over to the same extent and in the same  
37 manner as provided under section 172 of the internal revenue code for taxable  
38 years beginning from and after December 31, 1989.

39           (b) No carryover beyond the taxable year may be taken into account.

40           2. A capital loss for the prior taxable year or years, for purposes of  
41 computing the decrease in tax for the prior taxable year or years under  
42 subsection B of this section:

43           (a) The loss shall be carried back and carried over to the same extent  
44 and in the same manner as is provided under section 1212 of the internal  
45 revenue code.

1 (b) No carryover beyond the taxable year may be taken into account.  
2 F. In computing Arizona taxable income for taxable years subsequent to  
3 the current taxable year, the net operating loss or capital loss determined  
4 in subsection E of this section shall be taken into account to the same  
5 extent and in the same manner as a net operating loss or capital loss  
6 sustained for prior taxable years.

7 Sec. 12. Section 43-1121, Arizona Revised Statutes, is amended to  
8 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, 25, 26, 31, 32 and 33~~ 8, 11, 25 AND 30 THROUGH 36.

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. For the purposes of this paragraph, "control" means  
35 direct or indirect ownership or control of fifty per cent or more of the  
36 voting stock of the domestic international sales corporation by the payor  
37 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 loss of an insurance company that is exempt under section  
14 43-1201 to the extent that it is included in computing Arizona gross income  
15 on a consolidated return pursuant to section 43-947.

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

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

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

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

36 17. The deduction referred to in section 1341(a)(4) of the internal  
37 revenue code for restoration of a substantial amount held under a claim of  
38 right.

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

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

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

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

7           22. Any amount deducted for conveying ownership or development rights  
8 of property to an agricultural preservation district under section 48-5702  
9 for which a credit is claimed under section 43-1180.

10          23. The amount of any deduction that is claimed in computing Arizona  
11 gross income and that represents a donation of a school site for which a  
12 credit is claimed under section 43-1181.

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

16          25. Any amount deducted pursuant to section 170 of the internal revenue  
17 code representing contributions to a school tuition organization for which a  
18 credit is claimed under section 43-1183 or 43-1184.

19          Sec. 13. Section 43-1122, Arizona Revised Statutes, is amended to  
20 read:

21           43-1122. Subtractions from Arizona gross income; corporations

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

24           1. The amounts computed pursuant to section 43-1022, paragraphs  
25 ~~8 through 15, 27, 28, 30 and 31~~ 7 THROUGH 13, 25, 26, 27, 29, 30, 36 AND  
26 37. For the purposes of this paragraph, "federal adjusted gross income" as  
27 used in section 43-1022 means "federal taxable income".

28           2. The amount of Arizona capital loss carryover as defined in section  
29 43-1124 in an amount not to exceed one thousand dollars.

30           3. With respect to a financial institution as defined in section  
31 6-101, expenses and interest relating to tax-exempt income disallowed  
32 pursuant to section 265 of the internal revenue code.

33           4. Dividends received from another corporation owned or controlled  
34 directly or indirectly by a recipient corporation. For the purposes of this  
35 paragraph, "control" means direct or indirect ownership or control of fifty  
36 per cent or more of the voting stock of the payor corporation by the  
37 recipient corporation. Dividends shall have the meaning provided in section  
38 316 of the internal revenue code. This subtraction shall apply without  
39 regard to section 43-961, paragraph 2 and article 4 of this chapter. A  
40 corporation that has its commercial domicile, as defined in section 43-1131,  
41 in this state may subtract the full amount of the dividends. A corporation  
42 that does not have its commercial domicile in this state may subtract:

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

- 1 (b) For taxable years beginning in 1991 and thereafter, the full  
2 amount of the dividends.
- 3 5. Interest income received on obligations of the United States.  
4 6. The amount of dividend income from foreign corporations.  
5 7. The amount of net operating loss allowed by section 43-1123.  
6 8. The amount of any state income tax refunds received which were  
7 included as income in computing federal taxable income.  
8 9. The amount of expense recapture included in income pursuant to  
9 section 617 of the internal revenue code for mine exploration expenses.  
10 10. The amount of deferred exploration expenses allowed by section  
11 43-1127.  
12 11. The amount of exploration expenses related to the exploration of  
13 oil, gas or geothermal resources, computed in the same manner and on the same  
14 basis as a deduction for mine exploration pursuant to section 617 of the  
15 internal revenue code. This computation is subject to the adjustments  
16 contained in section 43-1121, paragraph 8 and paragraphs 9 and 10 of this  
17 section relating to exploration expenses.  
18 12. The amortization of pollution control devices allowed by section  
19 43-1129.  
20 13. The amount of amortization of the cost of child care facilities  
21 pursuant to section 43-1130.  
22 14. The amount of income from a domestic international sales  
23 corporation required to be included in the income of its shareholders  
24 pursuant to section 995 of the internal revenue code.  
25 15. The income of an insurance company that is exempt under section  
26 43-1201 to the extent that it is included in computing Arizona gross income  
27 on a consolidated return pursuant to section 43-947.  
28 16. The amount of contributions by the taxpayer during the taxable year  
29 to medical savings accounts established on behalf of the taxpayer's employees  
30 as provided by section 43-1028, to the extent that the contributions are not  
31 deductible under the internal revenue code.  
32 17. The amount by which a capital loss carryover allowable pursuant to  
33 section 43-1130.01, subsection F exceeds the capital loss carryover allowable  
34 pursuant to section 1341(b)(5) of the internal revenue code.  
35 18. **FOR PROPERTY PLACED IN SERVICE IN THE TAXABLE YEARS BEGINNING**  
36 **BEFORE JANUARY 1, 2014,** an amount equal to the depreciation allowable  
37 pursuant to section 167(a) of the internal revenue code for the taxable year  
38 computed as if the election described in section 168(k)(2)(D)(iii) of the  
39 internal revenue code had been made for each applicable class of property in  
40 the year the property was placed in service.  
41 Sec. 14. Section 43-1127, Arizona Revised Statutes, is amended to  
42 read:  
43 **43-1127. Deferred exploration expenses**  
44 A. The amount of exploration expenses added to Arizona gross income  
45 pursuant to section 43-1121, paragraph 8 may be subtracted on a ratable basis

1 as the units of produced ores or minerals discovered or explored by reason of  
2 such expenditures are sold. An election made for any taxable year shall be  
3 binding for such year.

4 B. If such property is sold, it shall be treated in the same manner  
5 and on the same basis as property held for the production of income pursuant  
6 to section 43-1021, paragraph ~~7~~ 6 or section 43-1022, paragraph ~~11~~ 9.

7 Sec. 15. Retroactivity

8 A. Section 42-1104, Arizona Revised Statutes, as amended by this act,  
9 applies retroactively to taxable years beginning from and after December 31,  
10 2013.

11 B. Section 42-2059, Arizona Revised Statutes, as amended by Laws 2005,  
12 chapter 95, section 1 and this act, applies retroactively to taxable years  
13 beginning from and after December 31, 2013.

14 Sec. 16. Effective date

15 Sections 42-2059 and 42-2075, Arizona Revised Statutes, as amended by  
16 Laws 2013, chapter 255, sections 3 and 4, respectively, and this act, are  
17 effective from and after December 31, 2014.