

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

HOUSE BILL 2664

AN ACT

AMENDING SECTIONS 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 43-1021, Arizona Revised Statutes, is amended to
3 read:

4 43-1021. Additions to Arizona gross income

5 In computing Arizona adjusted gross income, the following amounts shall
6 be added to Arizona gross income:

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

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

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

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

26 ~~5.~~ 4. The excess of a partner's share of partnership taxable income
27 required to be included under chapter 14, article 2 of this title over the
28 income required to be reported under section 702(a)(8) of the internal
29 revenue code.

30 ~~6.~~ 5. The excess of a partner's share of partnership losses
31 determined pursuant to section 702(a)(8) of the internal revenue code over
32 the losses allowable under chapter 14, article 2 of this title.

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

40 ~~8.~~ 7. The amount of depreciation or amortization of costs of any
41 capital investment that is deducted pursuant to section 167 or 179 of the
42 internal revenue code by a qualified defense contractor with respect to which
43 an election is made to amortize pursuant to section 43-1024.

1 ~~9.~~ 8. The amount of gain from the sale or other disposition of a
2 capital investment that a qualified defense contractor has elected to
3 amortize pursuant to section 43-1024.

4 ~~10.~~ 9. Amounts withdrawn from the Arizona state retirement system, the
5 corrections officer retirement plan, the public safety personnel retirement
6 system, the elected officials' retirement plan or a county or city retirement
7 plan by an employee on termination of employment before retirement to the
8 extent they were deducted in arriving at Arizona taxable income in any year.

9 ~~11.~~ 10. That portion of the net operating loss included in federal
10 adjusted gross income that has already been taken as a net operating loss for
11 Arizona purposes or that is separately taken as a subtraction under the
12 special net operating loss transition rule.

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

18 ~~13.~~ 12. Amounts withdrawn from a medical savings account by the
19 individual during the taxable year computed pursuant to section 220(f) of the
20 internal revenue code and not included in federal adjusted gross income.

21 ~~14.~~ 13. Any amount of agricultural water conservation expenses that
22 were deducted pursuant to the internal revenue code for which a credit is
23 claimed under section 43-1084.

24 ~~15.~~ 14. The amount by which the depreciation or amortization computed
25 under the internal revenue code with respect to property for which a credit
26 was taken under section 43-1080 exceeds the amount of depreciation or
27 amortization computed pursuant to the internal revenue code on the Arizona
28 adjusted basis of the property.

29 ~~16.~~ 15. The amount by which the adjusted basis computed under the
30 internal revenue code with respect to property for which a credit was claimed
31 under section 43-1080 and that is sold or otherwise disposed of during the
32 taxable year exceeds the adjusted basis of the property computed under
33 section 43-1080.

34 ~~17.~~ 16. The amount by which the depreciation or amortization computed
35 under the internal revenue code with respect to property for which a credit
36 was taken under either section 43-1081 or 43-1081.01 exceeds the amount of
37 depreciation or amortization computed pursuant to the internal revenue code
38 on the Arizona adjusted basis of the property.

39 ~~18.~~ 17. The amount by which the adjusted basis computed under the
40 internal revenue code with respect to property for which a credit was claimed
41 under section 43-1074.02, 43-1081 or 43-1081.01 and that is sold or otherwise
42 disposed of during the taxable year exceeds the adjusted basis of the
43 property computed under section 43-1074.02, 43-1081 or 43-1081.01, as
44 applicable.

1 ~~19.~~ 18. The deduction referred to in section 1341(a)(4) of the
2 internal revenue code for restoration of a substantial amount held under a
3 claim of right.

4 ~~20.~~ 19. The amount by which a net operating loss carryover or capital
5 loss carryover allowable pursuant to section 1341(b)(5) of the internal
6 revenue code exceeds the net operating loss carryover or capital loss
7 carryover allowable pursuant to section 43-1029, subsection F.

8 ~~21.~~ 20. Any amount deducted pursuant to section 170 of the internal
9 revenue code representing contributions to a school tuition organization or a
10 public school for which a credit is claimed under section 43-1089, 43-1089.01
11 or 43-1089.03.

12 ~~22.~~ 21. Any amount deducted in computing Arizona gross income as
13 expenses for installing solar stub outs or electric vehicle recharge outlets
14 in this state with respect to which a credit is claimed pursuant to section
15 43-1090.

16 ~~23.~~ 22. Any wage expenses deducted pursuant to the internal revenue
17 code for which a credit is claimed under section 43-1087 and representing net
18 increases in qualified employment positions for employment of temporary
19 assistance for needy families recipients.

20 ~~24.~~ 23. Any amount deducted for conveying ownership or development
21 rights of property to an agricultural preservation district under section
22 48-5702 for which a credit is claimed under section 43-1081.02.

23 ~~25.~~ 24. The amount of any depreciation allowance allowed pursuant to
24 section 167(a) of the internal revenue code to the extent not previously
25 added.

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

30 ~~27.~~ 26. The amount by which the depreciation or amortization computed
31 under the internal revenue code with respect to property for which a credit
32 was taken under section 43-1090.01 exceeds the amount of depreciation or
33 amortization computed pursuant to the internal revenue code on the Arizona
34 adjusted basis of the property.

35 ~~28.~~ 27. The amount by which the adjusted basis computed under the
36 internal revenue code with respect to property for which a credit was claimed
37 under section 43-1090.01 and that is sold or otherwise disposed of during the
38 taxable year exceeds the adjusted basis of the property computed under
39 section 43-1090.01.

40 ~~29.~~ 28. The amount of a nonqualified withdrawal, as defined in section
41 15-1871, from a college savings plan established pursuant to section 529 of
42 the internal revenue code that is made to a distributee to the extent the
43 amount is not included in computing federal adjusted gross income, except
44 that the amount added under this paragraph shall not exceed the difference

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

3 ~~30.~~ 29. The amount of unemployment compensation that is excluded from
4 federal adjusted gross income pursuant to section 85(c) of the internal
5 revenue code as added by section 1007 of the American recovery and
6 reinvestment act of 2009 (P.L. 111-5).

7 ~~31.~~ 30. The amount of discharge of indebtedness income that is
8 deferred and excluded from the computation of federal adjusted gross income
9 or federal taxable income in the current taxable year pursuant to section
10 108(i) of the internal revenue code as added by section 1231 of the American
11 recovery and reinvestment act of 2009 (P.L. 111-5).

12 ~~32.~~ 31. The amount of any previously deferred original issue discount
13 that was deducted in computing federal adjusted gross income or federal
14 taxable income in the current year pursuant to section 108(i) of the internal
15 revenue code as added by section 1231 of the American recovery and
16 reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was
17 previously subtracted from Arizona gross income pursuant to section 43-1022,
18 paragraph ~~31~~ 29.

19 ~~33.~~ 32. For taxable years beginning from and after December 31, 2011
20 through December 31, 2014, the amount of any deduction that is claimed in
21 computing federal adjusted gross income for health insurance premiums or
22 contributions to a health savings account for which a credit is claimed under
23 section 43-1087.01 or 43-1185.

24 33. WITH RESPECT TO PROPERTY FOR WHICH AN ADJUSTMENT IS MADE UNDER
25 SECTION 43-1022, PARAGRAPH 36, ONE-FIFTH OF THE AMOUNT OF THE ADJUSTMENT
26 UNDER SECTION 43-1022, PARAGRAPH 36 FOR THE YEAR IN WHICH THE ADJUSTMENT IS
27 MADE AND IN EACH OF THE FOLLOWING FOUR YEARS. IF THE PROPERTY IS SOLD OR
28 OTHERWISE DISPOSED OF DURING THE TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE
29 ADJUSTMENT REQUIRED UNDER PARAGRAPH 34 OF THIS SECTION IN LIEU OF THE
30 ADJUSTMENT UNDER THIS PARAGRAPH RELATED TO THE PROPERTY.

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

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

37 ~~43-1022.~~ Subtractions from Arizona gross income

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

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

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

44 (a) The United States government service retirement and disability
45 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 the taxpayer may elect to subtract the amount necessary to make the
45 depreciation claimed to date for the purposes of this title the same as it

1 would have been if subdivision (c) of this paragraph had applied for the
2 entire time the asset was in service. Subdivision (c) of this paragraph
3 applies for the remainder of the asset's life. If the taxpayer does not make
4 the election under this subdivision, subdivision (a) of this paragraph
5 applies for the remainder of the asset's life.

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

11 ~~28-~~ 26. With respect to property that is sold or otherwise disposed of
12 during the taxable year by a taxpayer that complied with section 43-1021,
13 paragraph ~~25~~ 24 with respect to that property, the amount of depreciation
14 that has been allowed pursuant to section 167(a) of the internal revenue code
15 to the extent that the amount has not already reduced Arizona taxable income
16 in the current or prior taxable years.

17 ~~29-~~ 27. With respect to property for which an adjustment was made
18 under section 43-1021, paragraph ~~26~~ 25, an amount equal to one-fifth of the
19 amount of the adjustment pursuant to section 43-1021, paragraph ~~26~~ 25 in the
20 year in which the amount was adjusted under section 43-1021, paragraph ~~26~~ 25
21 and in each of the following four years.

22 ~~30-~~ 28. The amount contributed during the taxable year to college
23 savings plans established pursuant to section 529 of the internal revenue
24 code to the extent that the contributions were not deducted in computing
25 federal adjusted gross income. The amount subtracted shall not exceed:

26 (a) Two thousand dollars for a single individual or a head of
27 household.

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

33 ~~31-~~ 29. The amount of any original issue discount that was deferred
34 and not allowed to be deducted in computing federal adjusted gross income or
35 federal taxable income in the current taxable year pursuant to section 108(i)
36 of the internal revenue code as added by section 1231 of the American
37 recovery and reinvestment act of 2009 (P.L. 111-5).

38 ~~32-~~ 30. The amount of previously deferred discharge of indebtedness
39 income that is included in the computation of federal adjusted gross income
40 or federal taxable income in the current taxable year pursuant to section
41 108(i) of the internal revenue code as added by section 1231 of the American
42 recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the
43 amount was previously added to Arizona gross income pursuant to section
44 43-1021, paragraph ~~31~~ 30.

1 ~~33-~~ 31. The portion of the net operating loss carryforward that would
2 have been allowed as a deduction in the current year pursuant to section 172
3 of the internal revenue code if the election described in section
4 172(b)(1)(H) of the internal revenue code had not been made in the year of
5 the loss that exceeds the actual net operating loss carryforward that was
6 deducted in arriving at federal adjusted gross income. This subtraction only
7 applies to taxpayers who made an election under section 172(b)(1)(H) of the
8 internal revenue code as amended by section 1211 of the American recovery and
9 reinvestment act of 2009 (P.L. 111-5) or as amended by section 13 of the
10 worker, homeownership, and business assistance act of 2009 (P.L. 111-92).

11 ~~34-~~ 32. For taxable years beginning from and after December 31, 2013,
12 the amount of any net capital gain included in federal adjusted gross income
13 for the taxable year derived from investment in a qualified small business as
14 determined by the Arizona commerce authority pursuant to section 41-1518.

15 ~~35-~~ 33. **AT THE TAXPAYER'S ELECTION** an amount of any net long-term
16 capital gain included in federal adjusted gross income for the taxable year
17 that is derived from an investment in an asset acquired after December 31,
18 2011, as follows:

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

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

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

28 For the purposes of this paragraph, a transferee that receives an asset by
29 gift or at the death of a transferor is considered to have acquired the asset
30 when the asset was acquired by the transferor. If the date an asset is
31 acquired cannot be verified, a subtraction under this paragraph is not
32 allowed. **AN ELECTION UNDER THIS PARAGRAPH MAY BE MADE BY CLAIMING THE**
33 **SUBTRACTION ON THE TAXPAYER'S RETURN.**

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

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

41 **36. FOR PROPERTY PLACED IN SERVICE IN TAXABLE YEARS BEGINNING FROM AND**
42 **AFTER DECEMBER 31, 2013, AT THE TAXPAYER'S ELECTION THE DIFFERENCE BETWEEN**
43 **THE EXPENSE AMOUNT ALLOWED PURSUANT TO SECTION 179 OF THE INTERNAL REVENUE**
44 **CODE IN DETERMINING THE TAXPAYER'S FEDERAL ADJUSTED GROSS INCOME AND AN**
45 **AMOUNT NOT TO EXCEED THE EXPENSE DEDUCTION THAT WOULD BE ALLOWED PURSUANT TO**

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

5 Sec. 3. Section 43-1029, Arizona Revised Statutes, is amended to read:
6 43-1029. Restoration of a substantial amount held under claim
7 of right; computation of tax

8 A. This section applies if:

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

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

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

18 B. If all of the conditions in subsection A of this section apply, the
19 tax imposed by this chapter for the taxable year is an amount equal to the
20 tax for the taxable year computed without the deduction, minus the decrease
21 in tax under this chapter for the prior taxable year or years that would
22 result solely from excluding the item or portion of the item from gross
23 income for the prior taxable year or years.

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

29 D. Subsection B of this section does not apply to any deduction that
30 is allowable with respect to an item that was included in gross income by
31 reason of the sale or other disposition of stock in trade of the taxpayer, or
32 other property of a kind that would properly have been included in the
33 inventory of the taxpayer on hand at the close of the prior taxable year, or
34 property that is held by the taxpayer primarily for sale to customers in the
35 ordinary course of the taxpayer's trade or business. This subsection does
36 not apply if the deduction arises out of refunds or repayments with respect
37 to rates made by a regulated public utility that is listed in section
38 7701(a)(33)(A) through (H) of the internal revenue code, if the refunds or
39 repayments are:

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

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

43 3. Made in settlement of litigation or under threat or imminence of
44 litigation.

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

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

4 (a) The loss shall be:

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

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

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

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

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

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

19 F. In computing Arizona taxable income for taxable years subsequent to
20 the current taxable year, the net operating loss or capital loss determined
21 in subsection E of this section shall be taken into account to the same
22 extent and in the same manner as a net operating loss or capital loss
23 sustained for prior taxable years.

24 Sec. 4. Section 43-1121, Arizona Revised Statutes, is amended to read:

25 43-1121. Additions to Arizona gross income: corporations

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

28 1. The amounts computed pursuant to section 43-1021, paragraphs 3
29 through ~~9, 12, 25, 26, 31, 32 and 33~~ 8, 11, 24, 25 AND 30 THROUGH 32.

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

33 3. Taxes which are based on income paid to states, local governments
34 or foreign governments and which were deducted in computing federal taxable
35 income.

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

41 5. Commissions, rentals and other amounts paid or accrued to a
42 domestic international sales corporation controlled by the payor corporation
43 if the domestic international sales corporation is not required to report its
44 taxable income to this state because its income is not derived from or
45 attributable to sources within this state. If the domestic international

1 sales corporation is subject to article 4 of this chapter, the department
2 shall prescribe by rule the method of determining the portion of the
3 commissions, rentals and other amounts which are paid or accrued to the
4 controlled domestic international sales corporation and which shall be
5 deducted by the payor. For the purposes of this paragraph, "control" means
6 direct or indirect ownership or control of fifty per cent or more of the
7 voting stock of the domestic international sales corporation by the payor
8 corporation.

9 6. Federal income tax refunds received during the taxable year to the
10 extent they were deducted in arriving at Arizona taxable income in a previous
11 year.

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

14 8. The amount of exploration expenses determined pursuant to section
15 617 of the internal revenue code to the extent that they exceed seventy-five
16 thousand dollars and to the extent that the election is made to defer those
17 expenses not in excess of seventy-five thousand dollars.

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

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

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

28 12. The loss of an insurance company that is exempt under section
29 43-1201 to the extent that it is included in computing Arizona gross income
30 on a consolidated return pursuant to section 43-947.

31 13. The amount by which the depreciation or amortization computed under
32 the internal revenue code with respect to property for which a credit was
33 taken under section 43-1169 exceeds the amount of depreciation or
34 amortization computed pursuant to the internal revenue code on the Arizona
35 adjusted basis of the property.

36 14. The amount by which the adjusted basis computed under the internal
37 revenue code with respect to property for which a credit was claimed under
38 section 43-1169 and which is sold or otherwise disposed of during the taxable
39 year exceeds the adjusted basis of the property computed under section
40 43-1169.

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

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

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

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

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

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

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

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

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

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

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

33 26. WITH RESPECT TO PROPERTY FOR WHICH AN ADJUSTMENT IS MADE UNDER
34 SECTION 43-1122, PARAGRAPH 19, ONE-FIFTH OF THE AMOUNT OF THE ADJUSTMENT
35 UNDER SECTION 43-1122, PARAGRAPH 19 FOR THE YEAR IN WHICH THE ADJUSTMENT IS
36 MADE AND IN EACH OF THE FOLLOWING FOUR YEARS. IF THE PROPERTY IS SOLD OR
37 OTHERWISE DISPOSED OF DURING THE TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE
38 ADJUSTMENT REQUIRED UNDER PARAGRAPH 27 OF THIS SECTION IN LIEU OF THE
39 ADJUSTMENT UNDER THIS PARAGRAPH RELATED TO THE PROPERTY.

40 27. FOR PROPERTY FOR WHICH AN ADJUSTMENT WAS MADE UNDER SECTION
41 43-1122, PARAGRAPH 19 AND THAT IS SOLD OR OTHERWISE DISPOSED OF DURING THE
42 TAXABLE YEAR, THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE
43 INTERNAL REVENUE CODE WITH RESPECT TO THE PROPERTY EXCEEDS THE ADJUSTED BASIS
44 OF THE PROPERTY COMPUTED UNDER THIS TITLE.

1 Sec. 5. Section 43-1122, Arizona Revised Statutes, is amended to read:
2 43-1122. Subtractions from Arizona gross income: corporations

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

5 1. The amounts computed pursuant to section 43-1022, paragraphs
6 ~~8 through 15, 27, 28, 30 and 31~~ 7 THROUGH 13, 26, 27, 29 AND 30. For the
7 purposes of this paragraph, "federal adjusted gross income" as used in
8 section 43-1022 means "federal taxable income".

9 2. The amount of Arizona capital loss carryover as defined in section
10 43-1124 in an amount not to exceed one thousand dollars.

11 3. With respect to a financial institution as defined in section
12 6-101, expenses and interest relating to tax-exempt income disallowed
13 pursuant to section 265 of the internal revenue code.

14 4. Dividends received from another corporation owned or controlled
15 directly or indirectly by a recipient corporation. For the purposes of this
16 paragraph, "control" means direct or indirect ownership or control of fifty
17 per cent or more of the voting stock of the payor corporation by the
18 recipient corporation. Dividends shall have the meaning provided in section
19 316 of the internal revenue code. This subtraction shall apply without
20 regard to section 43-961, paragraph 2 and article 4 of this chapter. A
21 corporation that has its commercial domicile, as defined in section 43-1131,
22 in this state may subtract the full amount of the dividends. A corporation
23 that does not have its commercial domicile in this state may subtract:

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

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

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

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

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

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

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

35 10. The amount of deferred exploration expenses allowed by section
36 43-1127.

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

43 12. The amortization of pollution control devices allowed by section
44 43-1129.

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

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

6 15. The income of an insurance company that is exempt under section
7 43-1201 to the extent that it is included in computing Arizona gross income
8 on a consolidated return pursuant to section 43-947.

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

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

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

21 19. FOR PROPERTY PLACED IN SERVICE IN TAXABLE YEARS BEGINNING FROM AND
22 AFTER DECEMBER 31, 2013, THE DIFFERENCE BETWEEN THE EXPENSE AMOUNT ALLOWED
23 PURSUANT TO SECTION 179 OF THE INTERNAL REVENUE CODE IN DETERMINING THE
24 TAXPAYER'S FEDERAL TAXABLE INCOME AND THE AMOUNT OF THE EXPENSE DEDUCTION
25 THAT WOULD BE ALLOWED PURSUANT TO SECTION 179 OF THE INTERNAL REVENUE CODE IF
26 THE MAXIMUM DEDUCTION ALLOWED WERE FIVE HUNDRED THOUSAND DOLLARS AND THIS
27 LIMITATION WERE REDUCED BY THE AMOUNT THAT THE COST OF SECTION 179 PROPERTY
28 PLACED IN SERVICE IN THE TAXABLE YEAR EXCEEDS TWO MILLION DOLLARS.

29 Sec. 6. Section 43-1127, Arizona Revised Statutes, is amended to read:
30 43-1127. Deferred exploration expenses

31 A. The amount of exploration expenses added to Arizona gross income
32 pursuant to section 43-1121, paragraph 8 may be subtracted on a ratable basis
33 as the units of produced ores or minerals discovered or explored by reason of
34 such expenditures are sold. An election made for any taxable year shall be
35 binding for such year.

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

39 Sec. 7. Retroactivity

40 Sections 43-1021, 43-1022, 43-1029, 43-1121, 43-1122 and 43-1127,
41 Arizona Revised Statutes, as amended by this act, apply retroactively to
42 taxable years beginning from and after December 31, 2013.