

REFERENCE TITLE: tax credit; public school projects

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

## **HB 2672**

Introduced by  
Representative Carter

### AN ACT

AMENDING TITLE 15, CHAPTER 10, ARIZONA REVISED STATUTES, BY ADDING ARTICLE 13; AMENDING TITLE 20, CHAPTER 2, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 20-224.08; AMENDING SECTIONS 43-222 AND 43-1021, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1077; AMENDING SECTION 43-1121, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 11, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1177; PROVIDING FOR THE DELAYED REPEAL OF SECTIONS 20-244.08, 43-1077 AND 43-1177, ARIZONA REVISED STATUTES; RELATING TO TAX CREDITS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Title 15, chapter 10, Arizona Revised Statutes, is amended  
3 by adding article 13, to read:

4 ARTICLE 13. PUBLIC SCHOOL INNOVATION PROJECT PROGRAM

5 15-1271. Public school innovation project program; selection  
6 committee; grants; annual report

7 A. THE PUBLIC SCHOOL INNOVATION PROJECT PROGRAM IS ESTABLISHED FOR THE  
8 PURPOSE OF FUNDING INNOVATIVE EDUCATION PROJECTS IN PUBLIC SCHOOLS.

9 B. THE STATE BOARD OF EDUCATION SHALL ESTABLISH AN INNOVATION PROJECT  
10 SELECTION COMMITTEE THAT AWARDS PROJECT FUNDING ON A COMPETITIVE GRANT BASIS.  
11 GRANTS MAY BE AWARDED TO SCHOOL DISTRICTS OR CHARTER SCHOOLS FOR INNOVATIVE  
12 EDUCATION PROJECTS THAT HAVE A PROVEN TRACK RECORD OF SUCCESS AS PRESCRIBED  
13 BY THE INNOVATION PROJECT SELECTION COMMITTEE, AS FOLLOWS:

14 1. IMPROVING STUDENT ACHIEVEMENT.

15 2. RELATING TECHNOLOGY, INSTRUCTIONAL DELIVERY AND MATERIAL.

16 C. THE INNOVATION PROJECT SELECTION COMMITTEE, WITH THE APPROVAL OF  
17 THE STATE BOARD OF EDUCATION, SHALL PRESCRIBE THE INNOVATION PROJECT  
18 EVALUATION CRITERIA, THE FORM OF THE INNOVATION PROJECT APPLICATION AND THE  
19 APPLICATION PROCEDURES.

20 D. FOR EACH GRANT AWARDED BY THE INNOVATION PROJECT SELECTION  
21 COMMITTEE, THE SELECTION COMMITTEE SHALL PROVIDE NOTICE TO THE STATE BOARD OF  
22 EDUCATION OF THE RECIPIENT OF THE GRANT, THE AMOUNT AWARDED AND ANY OTHER  
23 INFORMATION REQUESTED BY THE STATE BOARD OF EDUCATION TO ENABLE THE BOARD TO  
24 MAKE PAYMENT OF THE GRANT TO THE GRANTEE.

25 E. EACH GRANTEE MUST SUBMIT A REPORT, FOR FIVE YEARS AFTER RECEIVING A  
26 PROJECT GRANT AND LONGER IF REQUESTED BY THE STATE BOARD OF EDUCATION, TO THE  
27 SELECTION COMMITTEE AND THE STATE BOARD OF EDUCATION ON ITS USE OF THE GRANT  
28 MONIES AND PROJECT STATUS AND RESULTS ON OR BEFORE JUNE 30 OF EACH YEAR  
29 FOLLOWING RECEIPT OF THE PROJECT GRANT.

30 F. THE INNOVATION PROJECT SELECTION COMMITTEE CONSISTS OF SEVEN  
31 MEMBERS WHO ARE CHOSEN BY THE STATE BOARD OF EDUCATION.

32 15-1272. Public school innovation project fund; exemption;  
33 grants

34 A. THE PUBLIC SCHOOL INNOVATION PROJECT FUND IS ESTABLISHED CONSISTING  
35 OF MONIES RECEIVED BY THE STATE BOARD OF EDUCATION PURSUANT TO SECTIONS  
36 20-224.08, 43-1077 AND 43-1177. THE STATE BOARD OF EDUCATION SHALL  
37 ADMINISTER THE FUND AND SHALL USE MONIES IN THE FUND TO PROVIDE GRANTS FOR  
38 PUBLIC SCHOOL INNOVATION PROJECTS SELECTED BY THE INNOVATION PROJECT  
39 SELECTION COMMITTEE.

40 B. THE STATE BOARD OF EDUCATION MAY NOT USE MORE THAN TEN PER CENT OF  
41 THE MONIES IN THE FUND FOR ADMINISTRATIVE PURPOSES.

42 C. NOTWITHSTANDING ANY OTHER LAW, THE MONIES IN THE FUND MUST BE  
43 RECEIVED BY THE STATE BOARD OF EDUCATION AND BE DEPOSITED, PURSUANT TO  
44 SECTIONS 35-146 AND 35-147, IN THE PUBLIC SCHOOL INNOVATION PROJECT FUND. ON  
45 NOTICE FROM THE STATE BOARD OF EDUCATION, THE STATE TREASURER SHALL INVEST

1 AND DIVEST MONIES IN THE FUND AS PROVIDED BY SECTION 35-313, AND MONIES  
2 EARNED FROM INVESTMENT SHALL BE CREDITED TO THE FUND. THE MONIES IN THE FUND  
3 ARE EXEMPT FROM SECTION 35-190 RELATING TO THE LAPSING OF APPROPRIATIONS.

4 D. THE STATE BOARD OF EDUCATION SHALL PAY TO THE GRANTEE A PROJECT  
5 GRANT FROM THE FUND WITHIN THIRTY DAYS AFTER RECEIVING THE NOTICE FROM THE  
6 SELECTION COMMITTEE UNDER SECTION 15-1271, SUBSECTION D.

7 15-1273. Public school innovation projects; reports

8 A. THE STATE BOARD OF EDUCATION SHALL PROVIDE THE SELECTION COMMITTEE  
9 WITH A QUARTERLY REPORT OF THE FUND, INCLUDING THE TOTAL AMOUNT OF GRANT  
10 MONIES AWARDED AND THE FUND BALANCE.

11 B. THE STATE BOARD OF EDUCATION SHALL PROVIDE AN ANNUAL REPORT ON OR  
12 BEFORE SEPTEMBER 30 TO THE DEPARTMENT OF REVENUE, IN A FORM PRESCRIBED BY THE  
13 DEPARTMENT, SEPARATELY COMPILED AND IDENTIFIED FOR THE PURPOSES OF SECTIONS  
14 20-224.08, 43-1077 AND 43-1177, WITH THE FOLLOWING INFORMATION FOR THE  
15 PREVIOUS FISCAL YEAR:

- 16 1. THE TOTAL DOLLAR AMOUNT OF CONTRIBUTIONS RECEIVED.
- 17 2. THE TOTAL NUMBER OF CONTRIBUTIONS RECEIVED.
- 18 3. THE NAME OF EACH TAXPAYER AND THE AMOUNT OF THE TAXPAYER'S  
19 CONTRIBUTION.
- 20 4. THE TOTAL NUMBER OF GRANTS AWARDED.
- 21 5. THE TOTAL DOLLAR AMOUNT OF ADMINISTRATIVE EXPENSES.

22 C. THE STATE BOARD OF EDUCATION SHALL PROVIDE AN ANNUAL REPORT ON OR  
23 BEFORE OCTOBER 31 TO THE PRESIDENT OF THE SENATE AND THE SPEAKER OF THE HOUSE  
24 OF REPRESENTATIVES THAT INCLUDES ALL OF THE INFORMATION REQUIRED UNDER  
25 SUBSECTION B OF THIS SECTION AND A DESCRIPTION OF EACH PROJECT THAT APPLIED  
26 FOR A GRANT, THE REASONS THE PROJECT WAS AWARDED OR REJECTED FOR A GRANT AND  
27 THE PROJECTS AWARDED A GRANT DURING THE PREVIOUS CALENDAR YEAR. THE BOARD  
28 MUST INCLUDE IN ITS REPORT THE PROJECT STATUS AND THE PROJECT RESULTS FOR  
29 EACH GRANTEE PROJECT FOR A PERIOD OF FIVE YEARS AFTER THE GRANT WAS AWARDED  
30 AND EVERY TWO YEARS THEREAFTER.

31 15-1274. Program termination

32 THE PROGRAM ESTABLISHED BY THIS ARTICLE ENDS ON JULY 1, 2019 PURSUANT  
33 TO SECTION 41-3102.

34 Sec. 2. Title 20, chapter 2, article 1, Arizona Revised Statutes, is  
35 amended by adding section 20-224.08, to read:

36 20-224.08. Premium tax credit for public school innovation  
37 project

38 A. A CREDIT IS ALLOWED AGAINST THE PREMIUM TAX LIABILITY INCURRED BY  
39 AN INSURER PURSUANT TO SECTION 20-224, 20-837, 20-1010, 20-1060 OR 20-1097.07  
40 FOR THE AMOUNT OF VOLUNTARY CASH CONTRIBUTIONS MADE BY THE INSURER DURING THE  
41 TAX YEAR TO THE PUBLIC SCHOOL INNOVATION PROJECT FUND ESTABLISHED BY SECTION  
42 15-1272.

43 B. THE AMOUNT OF THE CREDIT IS THE TOTAL AMOUNT OF THE INSURER'S  
44 CONTRIBUTIONS FOR THE TAX YEAR UNDER SUBSECTION A OF THIS SECTION THAT IS

1 PREAPPROVED BY THE DEPARTMENT OF REVENUE PURSUANT TO SECTION 43-1177,  
2 SUBSECTION D.

3 C. IF THE ALLOWABLE AMOUNT OF A CREDIT UNDER THIS SECTION EXCEEDS THE  
4 INSURER'S STATE PREMIUM TAX LIABILITY, THE AMOUNT OF THE CLAIM NOT USED TO  
5 OFFSET THE PREMIUM TAX LIABILITY MAY BE CARRIED FORWARD AS A CREDIT AGAINST  
6 THE INSURER'S SUBSEQUENT YEARS' PREMIUM TAX LIABILITY FOR A PERIOD NOT TO  
7 EXCEED FIVE TAXABLE YEARS.

8 D. AN INSURER THAT CLAIMS A TAX CREDIT AGAINST STATE PREMIUM TAX  
9 LIABILITY IS NOT REQUIRED TO PAY ANY ADDITIONAL RETALIATORY TAX IMPOSED  
10 PURSUANT TO SECTION 20-230 AS A RESULT OF CLAIMING THAT TAX CREDIT.

11 E. THE DEPARTMENT OF INSURANCE, WITH THE COOPERATION OF THE DEPARTMENT  
12 OF REVENUE, SHALL ADOPT RULES NECESSARY FOR THE ADMINISTRATION OF THIS  
13 SECTION.

14 Sec. 3. Section 43-222, Arizona Revised Statutes, is amended to read:  
15 43-222. Income tax credit review schedule

16 The joint legislative income tax credit review committee shall review  
17 the following income tax credits:

18 1. For years ending in 0 and 5, sections 43-1079.01, 43-1087, 43-1088,  
19 43-1090.01, 43-1167.01, 43-1175 and 43-1182.

20 2. For years ending in 1 and 6, sections 43-1074.02, 43-1083,  
21 43-1083.02, 43-1085.01, 43-1164.02, 43-1164.03 and 43-1183.

22 3. For years ending in 2 and 7, sections 43-1073, 43-1079, 43-1080,  
23 43-1085, 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1090,  
24 43-1164, 43-1167, 43-1169, 43-1176 and 43-1181.

25 4. For years ending in 3 and 8, sections 43-1074.01, 43-1081, 43-1168,  
26 43-1170 and 43-1178.

27 5. For years ending in 4 and 9, sections 43-1076, 43-1076.01, 43-1077,  
28 43-1081.01, 43-1083.01, 43-1084, 43-1162, 43-1162.01, 43-1164.01, 43-1170.01,  
29 43-1177 and 43-1184 and, beginning in 2019, sections 43-1083.03 and  
30 43-1164.04.

31 Sec. 4. Section 43-1021, Arizona Revised Statutes, is amended to read:  
32 43-1021. Additions to Arizona gross income

33 In computing Arizona adjusted gross income, the following amounts shall  
34 be added to Arizona gross income:

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

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

41 3. The amount of interest income received on obligations of any state,  
42 territory or possession of the United States, or any political subdivision  
43 thereof, located outside the state of Arizona, reduced, for tax years  
44 beginning from and after December 31, 1996, by the amount of any interest on  
45 indebtedness and other related expenses that were incurred or continued to

1 purchase or carry those obligations and that are not otherwise deducted or  
2 subtracted in arriving at Arizona gross income.

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

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

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

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

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

27 9. The amount of gain from the sale or other disposition of a capital  
28 investment that a qualified defense contractor has elected to amortize  
29 pursuant to section 43-1024.

30 10. Amounts withdrawn from the Arizona state retirement system, the  
31 corrections officer retirement plan, the public safety personnel retirement  
32 system, the elected officials' retirement plan or a county or city retirement  
33 plan by an employee on termination of employment before retirement to the  
34 extent they were deducted in arriving at Arizona taxable income in any year.

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

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

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

4           14. Any amount of agricultural water conservation expenses that were  
5 deducted pursuant to the internal revenue code for which a credit is claimed  
6 under section 43-1084.

7           15. The amount by which the depreciation or amortization computed under  
8 the internal revenue code with respect to property for which a credit was  
9 taken under section 43-1080 exceeds the amount of depreciation or  
10 amortization computed pursuant to the internal revenue code on the Arizona  
11 adjusted basis of the property.

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

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

22           18. The amount by which the adjusted basis computed under the internal  
23 revenue code with respect to property for which a credit was claimed under  
24 section 43-1074.02, 43-1081 or 43-1081.01 and that is sold or otherwise  
25 disposed of during the taxable year exceeds the adjusted basis of the  
26 property computed under section 43-1074.02, 43-1081 or 43-1081.01, as  
27 applicable.

28           19. The deduction referred to in section 1341(a)(4) of the internal  
29 revenue code for restoration of a substantial amount held under a claim of  
30 right.

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

35           21. Any amount deducted pursuant to section 170 of the internal revenue  
36 code representing contributions to a school tuition organization or a public  
37 school for which a credit is claimed under section 43-1077, 43-1089,  
38 43-1089.01 or 43-1089.03.

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

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

1           24. Any amount deducted for conveying ownership or development rights  
2 of property to an agricultural preservation district under section 48-5702  
3 for which a credit is claimed under section 43-1081.02.

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

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

11           27. The amount by which the depreciation or amortization computed under  
12 the internal revenue code with respect to property for which a credit was  
13 taken under section 43-1090.01 exceeds the amount of depreciation or  
14 amortization computed pursuant to the internal revenue code on the Arizona  
15 adjusted basis of the property.

16           28. The amount by which the adjusted basis computed under the internal  
17 revenue code with respect to property for which a credit was claimed under  
18 section 43-1090.01 and that is sold or otherwise disposed of during the  
19 taxable year exceeds the adjusted basis of the property computed under  
20 section 43-1090.01.

21           29. The amount of a nonqualified withdrawal, as defined in section  
22 15-1871, from a college savings plan established pursuant to section 529 of  
23 the internal revenue code that is made to a distributee to the extent the  
24 amount is not included in computing federal adjusted gross income, except  
25 that the amount added under this paragraph shall not exceed the difference  
26 between the amount subtracted under section 43-1022 in prior taxable years  
27 and the amount added under this section in any prior taxable years.

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

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

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

43           33. For taxable years beginning from and after December 31, 2011  
44 through December 31, 2014, the amount of any deduction that is claimed in  
45 computing federal adjusted gross income for health insurance premiums or

1 contributions to a health savings account for which a credit is claimed under  
2 section 43-1087.01 or 43-1185.

3 Sec. 5. Title 43, chapter 10, article 5, Arizona Revised Statutes, is  
4 amended by adding section 43-1077, to read:

5 43-1077. Credit for public school innovation project

6 A. A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR THE  
7 AMOUNT OF VOLUNTARY CASH CONTRIBUTIONS BY THE TAXPAYER OR ON THE TAXPAYER'S  
8 BEHALF DURING THE TAXABLE YEAR TO THE PUBLIC SCHOOL INNOVATION PROJECT FUND  
9 ESTABLISHED BY SECTION 15-1272. EXCEPT AS PROVIDED BY SUBSECTION C OF THIS  
10 SECTION, THE AMOUNT OF THE CREDIT MAY NOT EXCEED:

11 1. FIVE HUNDRED DOLLARS IN ANY TAXABLE YEAR FOR A SINGLE INDIVIDUAL OR  
12 A HEAD OF HOUSEHOLD.

13 2. ONE THOUSAND DOLLARS IN ANY TAXABLE YEAR FOR A MARRIED COUPLE  
14 FILING A JOINT RETURN.

15 B. A HUSBAND AND WIFE WHO FILE SEPARATE RETURNS FOR A TAXABLE YEAR IN  
16 WHICH THEY COULD HAVE FILED A JOINT RETURN MAY EACH CLAIM ONLY ONE-HALF OF  
17 THE TAX CREDIT THAT WOULD HAVE BEEN ALLOWED FOR A JOINT RETURN.

18 C. FOR EACH TAXABLE YEAR BEGINNING ON OR AFTER JANUARY 1, THE  
19 DEPARTMENT SHALL ADJUST THE DOLLAR AMOUNTS PRESCRIBED BY SUBSECTION A,  
20 PARAGRAPHS 1 AND 2 OF THIS SECTION ACCORDING TO THE AVERAGE ANNUAL CHANGE IN  
21 THE METROPOLITAN PHOENIX CONSUMER PRICE INDEX PUBLISHED BY THE UNITED STATES  
22 BUREAU OF LABOR STATISTICS, EXCEPT THAT THE DOLLAR AMOUNTS MAY NOT BE REVISED  
23 DOWNWARD BELOW THE AMOUNTS ALLOWED IN THE PRIOR TAXABLE YEAR. THE REVISED  
24 DOLLAR AMOUNTS SHALL BE RAISED TO THE NEAREST WHOLE DOLLAR.

25 D. IF THE ALLOWABLE TAX CREDIT EXCEEDS THE TAXES OTHERWISE DUE UNDER  
26 THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS  
27 TITLE, THE TAXPAYER MAY CARRY THE AMOUNT OF THE CLAIM NOT USED TO OFFSET THE  
28 TAXES UNDER THIS TITLE FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE  
29 YEARS' INCOME TAX LIABILITY.

30 E. THE CREDIT ALLOWED BY THIS SECTION IS IN LIEU OF ANY DEDUCTION  
31 PURSUANT TO SECTION 170 OF THE INTERNAL REVENUE CODE AND TAKEN FOR STATE TAX  
32 PURPOSES.

33 Sec. 6. Section 43-1121, Arizona Revised Statutes, is amended to read:

34 43-1121. Additions to Arizona gross income: corporations

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

37 1. The amounts computed pursuant to section 43-1021, paragraphs 3  
38 through 9, 12, 25, 26, 31, 32 and 33.

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

42 3. Taxes which are based on income paid to states, local governments  
43 or foreign governments and which were deducted in computing federal taxable  
44 income.

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

6           5. Commissions, rentals and other amounts paid or accrued to a  
7 domestic international sales corporation controlled by the payor corporation  
8 if the domestic international sales corporation is not required to report its  
9 taxable income to this state because its income is not derived from or  
10 attributable to sources within this state. If the domestic international  
11 sales corporation is subject to article 4 of this chapter, the department  
12 shall prescribe by rule the method of determining the portion of the  
13 commissions, rentals and other amounts which are paid or accrued to the  
14 controlled domestic international sales corporation and which shall be  
15 deducted by the payor. For the purposes of this paragraph, "control" means  
16 direct or indirect ownership or control of fifty per cent or more of the  
17 voting stock of the domestic international sales corporation by the payor  
18 corporation.

19           6. Federal income tax refunds received during the taxable year to the  
20 extent they were deducted in arriving at Arizona taxable income in a previous  
21 year.

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

24           8. The amount of exploration expenses determined pursuant to section  
25 617 of the internal revenue code to the extent that they exceed seventy-five  
26 thousand dollars and to the extent that the election is made to defer those  
27 expenses not in excess of seventy-five thousand dollars.

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

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

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

38           12. The loss of an insurance company that is exempt under section  
39 43-1201 to the extent that it is included in computing Arizona gross income  
40 on a consolidated return pursuant to section 43-947.

41           13. 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 section 43-1169 exceeds the amount of depreciation or  
44 amortization computed pursuant to the internal revenue code on the Arizona  
45 adjusted basis of the property.

1           14. 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 section 43-1169 and which is sold or otherwise disposed of during the taxable  
4 year exceeds the adjusted basis of the property computed under section  
5 43-1169.

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

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

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

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

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

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

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

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

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

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

40           25. Any amount deducted pursuant to section 170 of the internal revenue  
41 code representing contributions to a school tuition organization **OR A PUBLIC**  
42 **SCHOOL** for which a credit is claimed under section **43-1177**, 43-1183 or  
43 43-1184.

1           Sec. 7. Title 43, chapter 11, article 6, Arizona Revised Statutes, is  
2 amended by adding section 43-1177, to read:

3           43-1177. Credit for public school innovation project

4           A. A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR THE  
5 AMOUNT OF VOLUNTARY CASH CONTRIBUTIONS MADE BY THE TAXPAYER DURING THE  
6 TAXABLE YEAR TO THE PUBLIC SCHOOL INNOVATION PROJECT FUND ESTABLISHED BY  
7 SECTION 15-1272.

8           B. THE AMOUNT OF THE CREDIT IS THE TOTAL AMOUNT OF THE TAXPAYER'S  
9 CONTRIBUTIONS FOR THE TAXABLE YEAR UNDER SUBSECTION A OF THIS SECTION AND IS  
10 PREAPPROVED BY THE DEPARTMENT OF REVENUE PURSUANT TO SUBSECTION D OF THIS  
11 SECTION.

12           C. THE DEPARTMENT OF REVENUE:

13           1. MAY NOT ALLOW TAX CREDITS UNDER THIS SECTION AND SECTION 20-224.08  
14 THAT EXCEED IN THE AGGREGATE A COMBINED TOTAL OF FIVE MILLION DOLLARS IN ANY  
15 FISCAL YEAR.

16           2. SHALL PREAPPROVE TAX CREDITS UNDER THIS SECTION AND SECTION  
17 20-224.08 SUBJECT TO SUBSECTION D OF THIS SECTION.

18           3. SHALL ALLOW THE TAX CREDITS UNDER THIS SECTION AND SECTION  
19 20-224.08 ON A FIRST COME, FIRST SERVED BASIS.

20           D. FOR THE PURPOSES OF SUBSECTION C, PARAGRAPH 2 OF THIS SECTION,  
21 BEFORE MAKING A CONTRIBUTION TO THE PUBLIC SCHOOL INNOVATION PROJECT FUND,  
22 THE TAXPAYER UNDER THIS TITLE OR TITLE 20 MUST NOTIFY THE STATE BOARD OF  
23 EDUCATION OF THE TOTAL AMOUNT OF THE CONTRIBUTION THAT THE TAXPAYER INTENDS  
24 TO MAKE TO THE FUND. BEFORE ACCEPTING THE CONTRIBUTION, THE STATE BOARD OF  
25 EDUCATION SHALL REQUEST PREAPPROVAL FROM THE DEPARTMENT OF REVENUE FOR THE  
26 TAXPAYER'S INTENDED CONTRIBUTION AMOUNT. THE DEPARTMENT OF REVENUE SHALL  
27 PREAPPROVE OR DENY THE REQUESTED AMOUNT WITHIN TWENTY DAYS AFTER RECEIVING  
28 THE REQUEST FROM THE STATE BOARD OF EDUCATION. IF THE DEPARTMENT OF REVENUE  
29 PREAPPROVES THE REQUEST, THE STATE BOARD OF EDUCATION SHALL IMMEDIATELY  
30 NOTIFY THE TAXPAYER THAT THE REQUESTED AMOUNT WAS PREAPPROVED BY THE  
31 DEPARTMENT OF REVENUE. IN ORDER TO RECEIVE A TAX CREDIT UNDER THIS  
32 SUBSECTION, THE TAXPAYER SHALL MAKE THE CONTRIBUTION TO THE PUBLIC SCHOOL  
33 INNOVATION PROJECT FUND WITHIN TWENTY DAYS AFTER RECEIVING NOTICE FROM THE  
34 STATE BOARD OF EDUCATION THAT THE REQUESTED AMOUNT WAS PREAPPROVED. IF THE  
35 STATE BOARD OF EDUCATION DOES NOT RECEIVE THE PREAPPROVED CONTRIBUTION FROM  
36 THE TAXPAYER WITHIN THE REQUIRED TWENTY DAYS, THE STATE BOARD SHALL  
37 IMMEDIATELY NOTIFY THE DEPARTMENT OF REVENUE AND THE DEPARTMENT SHALL NO  
38 LONGER INCLUDE THIS PREAPPROVED CONTRIBUTION AMOUNT WHEN CALCULATING THE  
39 LIMIT PRESCRIBED IN SUBSECTION C, PARAGRAPH 1 OF THIS SECTION.

40           E. IF THE ALLOWABLE TAX CREDIT EXCEEDS THE TAXES OTHERWISE DUE UNDER  
41 THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS  
42 TITLE, THE TAXPAYER MAY CARRY THE AMOUNT OF THE CLAIM NOT USED TO OFFSET THE  
43 TAXES UNDER THIS TITLE FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE  
44 YEARS' INCOME TAX LIABILITY.

1 F. CO-OWNERS OF A BUSINESS, INCLUDING CORPORATE PARTNERS IN A  
2 PARTNERSHIP, MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE CREDIT ALLOWED  
3 UNDER THIS SECTION BASED ON THE OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS  
4 ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD HAVE BEEN  
5 ALLOWED A SOLE OWNER.

6 G. THE CREDIT ALLOWED BY THIS SECTION IS IN LIEU OF ANY DEDUCTION  
7 PURSUANT TO SECTION 170 OF THE INTERNAL REVENUE CODE AND TAKEN FOR STATE TAX  
8 PURPOSES.

9 H. THE DEPARTMENT OF REVENUE SHALL ADOPT RULES NECESSARY FOR THE  
10 ADMINISTRATION OF THIS SECTION.

11 Sec. 8. Delayed repeal

12 Sections 20-224.08, 43-1077 and 43-1177, Arizona Revised Statutes, as  
13 added by this act, are repealed from and after June 30, 2019.

14 Sec. 9. Purpose

15 Pursuant to section 43-223, Arizona Revised Statutes, the purpose of  
16 sections 43-1077 and 43-1177, Arizona Revised Statutes, as added by this act,  
17 is to encourage the implementation of innovative education projects in the  
18 public schools in this state.