

State of Arizona
House of Representatives
Fifty-second Legislature
First Regular Session
2015

HOUSE BILL 2083

AN ACT

AMENDING SECTIONS 42-1104, 42-1123, 42-2059, 42-2075, 42-5069, 43-1011, 43-1021, 43-1022, 43-1121, 43-1122, 43-1127 AND 43-1130.01, 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, 2014 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 DETERMINED TO BE NECESSARY BASED ON
18 INFORMATION PROVIDED BY THE UNITED STATES INTERNAL REVENUE SERVICE IN AREAS
19 IN WHICH THE ARIZONA AMOUNT IS CONTINGENT ON FEDERAL LAW.

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

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

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

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

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

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

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

1 date prescribed by law for filing the return for the year with respect to
2 which the claim is made.

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

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

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

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

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

41 ~~E~~. D. Notwithstanding subsection A of this section and subsection ~~B~~-
42 C, paragraphs 1 and 2 of this section, a taxpayer who has a duty to collect
43 use tax shall not be assessed tax pursuant to chapter 5, article 4 of this
44 title for any retail sales to purchasers who were licensed pursuant to
45 section 42-5005 or registered pursuant to section 42-5154 and who filed use

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

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

10 42-1123. Interest

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

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

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

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

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

39 F. Except in the case of a jeopardy assessment, collection of which
40 has been stayed by the posting of a bond, if a deficiency or any interest is
41 not paid in full within ten days from the date of notice and demand from the
42 department, the department shall collect as a part of the tax interest on the
43 unpaid tax or interest at the rate determined pursuant to this section from
44 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~~ THAT 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, is amended to read:
39 42-2059. No additional audits or proposed assessments;
40 exceptions

41 A. When the department completes an audit or the findings of a managed
42 audit are accepted by the director or approved on appeal and a deficiency has
43 been completely determined under section 42-1108 or chapter 1, article 6 of
44 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. If the taxpayer failed to disclose material information during the
12 audit, or has falsified books or records or otherwise engaged in an action
13 that prevented the department from conducting an accurate audit, the
14 applicability of this subsection may be part of a subsequent protest and may
15 be contested by the taxpayer pursuant to chapter 1, article 6 of this title.

16 4. If a managed audit is completed under the terms of a limited
17 managed audit agreement, the department may audit the issues not covered by
18 the limited managed audit agreement within the statute of limitations
19 prescribed by section 42-1104.

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

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

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

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

31 3. The department has requested information and the taxpayer fails to
32 provide that information to the department.

33 4. After issuing the notice of proposed assessment but before the
34 assessment becomes final the tax court, court of appeals or supreme court
35 issues a decision, the application of which causes the tax initially proposed
36 to increase.

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

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

1 Sec. 4. Section 42-2075, Arizona Revised Statutes, is amended to read:
2 42-2075. Audit duration; definition

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

6 1. An audit of a fraudulent tax return.

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

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

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

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

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

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

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

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

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

33 2. For a desk or office audit or a review conducted pursuant to
34 section 42-1109, the date of the first letter to the taxpayer regarding the
35 audit or review.

36 Sec. 5. 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, affiliated persons hold a controlling
21 interest in both the lessor and the lessee, or an unrelated person holds a
22 controlling interest in both the lessor and lessee.
23 (b) "Affiliated persons" means members of an individual's family or
24 persons who have ownership or control of a business entity.
25 (c) "Controlling interest" means direct or indirect ownership of at
26 least eighty ~~per-cent~~ PERCENT of the voting shares of a corporation or of the
27 interests in a company, business or person other than a corporation.
28 (d) "Members of an individual's family" means the individual's spouse
29 and brothers and sisters, whether by whole or half blood, including adopted
30 persons, ancestors and lineal descendants.
31 (e) "Reciprocal insurers" has the same meaning prescribed in section
32 20-762.
33 6. Leasing real property for boarding horses.
34 7. Leasing or renting real property or the right to use real property
35 at exhibition events in this state sponsored, operated or conducted by a
36 nonprofit organization that is exempt from taxation under section 501(c)(3),
37 501(c)(4) or 501(c)(6) of the internal revenue code if the organization is
38 associated with major league baseball teams or a national touring
39 professional golfing association and no part of the organization's net
40 earnings inures to the benefit of any private shareholder or individual.
41 8. Leasing or renting real property or the right to use real property
42 for use as a rodeo featuring primarily farm and ranch animals in this state
43 sponsored, operated or conducted by a nonprofit organization that is exempt
44 from taxation under section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or

1 501(c)(8) of the internal revenue code and no part of the organization's net
2 earnings inures to the benefit of any private shareholder or individual.

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

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

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

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

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

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

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

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

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

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

40 14. Leasing or subleasing real property used by a nursing care
41 institution as defined in section 36-401 that is licensed pursuant to title
42 36, chapter 4.

43 15. Leasing or renting an eligible facility as defined in section
44 28-7701.

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

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

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

27 F. For the purposes of this section:

28 1. "Leasing" includes renting.

29 2. "Real property" includes any improvements, rights or interest in
30 such property.

31 Sec. 6. Section 43-1011, Arizona Revised Statutes, is amended to read:

32 43-1011. Taxes and tax rates

33 A. There shall be levied, collected and paid for each taxable year on
34 the entire taxable income of every resident of this state and on the entire
35 taxable income of every nonresident that is derived from sources within this
36 state taxes determined in the following manner:

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

39 (a) In the case of a single person or a married person filing
40 separately:

41 <u>If taxable income is:</u>	<u>The tax is:</u>
42 \$0 - \$10,000	2.90% of taxable income
43 \$10,001 - \$25,000	\$290, plus 3.30% of the excess over \$10,000
44 \$25,001 - \$50,000	\$785, plus 3.90% of the excess over \$25,000

1 \$50,001 - \$150,000 \$1,760, plus 4.80% of the excess over \$50,000
2 \$150,001 and over \$6,560, plus 5.17% of the excess over \$150,000

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

5 If taxable income is: The tax is:

6 \$0 - \$20,000 2.90% of taxable income
7 \$20,001 - \$50,000 \$580, plus 3.30% of the excess over \$20,000
8 \$50,001 - \$100,000 \$1,570, plus 3.90% of the excess over \$50,000
9 \$100,001 - \$300,000 \$3,520, plus 4.80% of the excess over \$100,000
10 \$300,001 and over \$13,120, plus 5.17% of the excess over \$300,000

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

13 (a) In the case of a single person or a married person filing
14 separately:

15 If taxable income is: The tax is:

16 \$0 - \$10,000 2.88% of taxable income
17 \$10,001 - \$25,000 \$288, plus 3.24% of the excess over \$10,000
18 \$25,001 - \$50,000 \$774, plus 3.82% of the excess over \$25,000
19 \$50,001 - \$150,000 \$1,729, plus 4.74% of the excess over \$50,000
20 \$150,001 and over \$6,469, plus 5.10% of the excess over \$150,000

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

23 If taxable income is: The tax is:

24 \$0 - \$20,000 2.88% of taxable income
25 \$20,001 - \$50,000 \$576, plus 3.24% of the excess over \$20,000
26 \$50,001 - \$100,000 \$1,548, plus 3.82% of the excess over \$50,000
27 \$100,001 - \$300,000 \$3,458, plus 4.74% of the excess over \$100,000
28 \$300,001 and over \$12,938, plus 5.10% of the excess over \$300,000

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

31 (a) In the case of a single person or a married person filing
32 separately:

33 If taxable income is: The tax is:

34 \$0 - \$10,000 2.87% of taxable income
35 \$10,001 - \$25,000 \$287, plus 3.20% of the excess over \$10,000
36 \$25,001 - \$50,000 \$767, plus 3.74% of the excess over \$25,000
37 \$50,001 - \$150,000 \$1,702, plus 4.72% of the excess over \$50,000
38 \$150,001 and over \$6,422, plus 5.04% of the excess over \$150,000

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

41 If taxable income is: The tax is:

42 \$0 - \$20,000 2.87% of taxable income
43 \$20,001 - \$50,000 \$574, plus 3.20% of the excess over \$20,000
44 \$50,001 - \$100,000 \$1,534, plus 3.74% of the excess over \$50,000

1 \$100,001 - \$300,000 \$3,404, plus 4.72% of the excess over \$100,000
2 \$300,001 and over \$12,844, plus 5.04% of the excess over \$300,000

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

5 (a) In the case of a single person or a married person filing
6 separately:

7 If taxable income is: The tax is:
8 \$0 - \$10,000 2.73% of taxable income
9 \$10,001 - \$25,000 \$273, plus 3.04% of the excess over \$10,000
10 \$25,001 - \$50,000 \$729, plus 3.55% of the excess over \$25,000
11 \$50,001 - \$150,000 \$1,617, plus 4.48% of the excess over \$50,000
12 \$150,001 and over \$6,097, plus 4.79% of the excess over \$150,000

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

15 If taxable income is: The tax is:
16 \$0 - \$20,000 2.73% of taxable income
17 \$20,001 - \$50,000 \$546, plus 3.04% of the excess over \$20,000
18 \$50,001 - \$100,000 \$1,458, plus 3.55% of the excess over \$50,000
19 \$100,001 - \$300,000 \$3,233, plus 4.48% of the excess over \$100,000
20 \$300,001 and over \$12,193, plus 4.79% of the excess over \$300,000

21 5. Subject to subsection B AND C of this section, for taxable years
22 beginning from and after December 31, 2006:

23 (a) In the case of a single person or a married person filing
24 separately:

25 If taxable income is: The tax is:
26 \$0 - \$10,000 2.59% of taxable income
27 \$10,001 - \$25,000 \$259, plus 2.88% of the excess over \$10,000
28 \$25,001 - \$50,000 \$691, plus 3.36% of the excess over \$25,000
29 \$50,001 - \$150,000 \$1,531, plus 4.24% of the excess over \$50,000
30 \$150,001 and over \$5,771, plus 4.54% of the excess over \$150,000

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

33 If taxable income is: The tax is:
34 \$0 - \$20,000 2.59% of taxable income
35 \$20,001 - \$50,000 \$518, plus 2.88% of the excess over \$20,000
36 \$50,001 - \$100,000 \$1,382, plus 3.36% of the excess over \$50,000
37 \$100,001 - \$300,000 \$3,062, plus 4.24% of the excess over \$100,000
38 \$300,001 and over \$11,542, plus 4.54% of the excess over \$300,000

39 B. For the taxable year beginning from and after December 31, 2014
40 through December 31, 2015, the department shall adjust the income dollar
41 amounts for each rate bracket prescribed by subsection A, paragraph 5 of this
42 section according to the average annual change in the metropolitan Phoenix
43 consumer price index published by the United States bureau of labor
44 statistics. The revised dollar amounts shall be raised to the nearest whole

1 dollar. The income dollar amounts for each rate bracket ~~shall~~ MAY not be revised below the amounts prescribed in the prior taxable year.

3 C. FOR EACH TAXABLE YEAR BEGINNING FROM AND AFTER DECEMBER 31, 2015,
4 THE DEPARTMENT SHALL ADJUST THE INCOME DOLLAR AMOUNTS FOR EACH RATE BRACKET
5 PRESCRIBED BY SUBSECTION A, PARAGRAPH 5 OF THIS SECTION ACCORDING TO THE
6 AVERAGE ANNUAL CHANGE IN THE METROPOLITAN PHOENIX CONSUMER PRICE INDEX
7 PUBLISHED BY THE UNITED STATES BUREAU OF LABOR STATISTICS. THE REVISED
8 DOLLAR AMOUNTS SHALL BE RAISED TO THE NEAREST WHOLE DOLLAR. THE INCOME
9 DOLLAR AMOUNTS FOR EACH RATE BRACKET MAY NOT BE REVISED BELOW THE AMOUNTS
10 PRESCRIBED IN THE PRIOR TAXABLE YEAR.

11 Sec. 7. Section 43-1021, Arizona Revised Statutes, is amended to read:
12 43-1021. Additions to Arizona gross income

13 In computing Arizona adjusted gross income, the following amounts shall
14 be added to Arizona gross income:

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

18 2. An amount equal to the ordinary income portion of a lump sum
19 distribution that was excluded from federal adjusted gross income pursuant to
20 the special rule for individuals who attained fifty years of age before
21 January 1, 1986 under Public Law 99-514, section 1122(h)(3).

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

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

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

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

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

1 8. The amount by which the depreciation or amortization computed under
2 the internal revenue code with respect to property for which a credit was
3 taken under section 43-1080 exceeds the amount of depreciation or
4 amortization computed pursuant to the internal revenue code on the Arizona
5 adjusted basis of the property.

6 9. The amount by which the adjusted basis computed under the internal
7 revenue code with respect to property for which a credit was claimed under
8 section 43-1080 and that is sold or otherwise disposed of during the taxable
9 year exceeds the adjusted basis of the property computed under section
10 43-1080.

11 10. 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 either section 43-1081 or 43-1081.01 exceeds the amount of
14 depreciation or amortization computed pursuant to the internal revenue code
15 on the Arizona adjusted basis of the property.

16 11. 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 43-1074.02, 43-1081 or 43-1081.01 and that is sold or otherwise
19 disposed of during the taxable year exceeds the adjusted basis of the
20 property computed under section 43-1074.02, 43-1081 or 43-1081.01, as
21 applicable.

22 12. The deduction referred to in section 1341(a)(4) of the internal
23 revenue code for restoration of a substantial amount held under a claim of
24 right.

25 13. The amount by which a net operating loss carryover or capital loss
26 carryover allowable pursuant to section 1341(b)(5) of the internal revenue
27 code exceeds the net operating loss carryover or capital loss carryover
28 allowable pursuant to section 43-1029, subsection F.

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

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

36 16. **FOR PROPERTY PLACED IN SERVICE IN A TAXABLE YEAR BEGINNING BEFORE**
37 **JANUARY 1, 2015**, the amount of any depreciation allowance allowed pursuant to
38 section 167(a) of the internal revenue code to the extent not previously
39 added.

40 17. With respect to property for which an expense deduction was taken
41 pursuant to section 179 of the internal revenue code in a taxable year
42 beginning before January 1, 2013, the amount in excess of twenty-five
43 thousand dollars.

44 18. The amount of a nonqualified withdrawal, as defined in section
45 15-1871, from a college savings plan established pursuant to section 529 of

1 the internal revenue code that is made to a distributee to the extent the
2 amount is not included in computing federal adjusted gross income, except
3 that the amount added under this paragraph shall not exceed the difference
4 between the amount subtracted under section 43-1022 in prior taxable years
5 and the amount added under this section in any prior taxable years.

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

11 20. The amount of any previously deferred original issue discount that
12 was deducted in computing federal adjusted gross income in the current year
13 pursuant to section 108(i) of the internal revenue code as added by section
14 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5), to
15 the extent that the amount was previously subtracted from Arizona gross
16 income pursuant to section 43-1022, paragraph 24.

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

22 ~~22.~~ 21. Amounts that are considered to be income under section
23 43-1032, subsection D because the amount is withdrawn from a long-term health
24 care savings account and not used to pay the taxpayer's long-term health care
25 expenses.

26 22. WITH RESPECT TO PROPERTY FOR WHICH AN ADJUSTMENT IS MADE UNDER
27 SECTION 43-1022, PARAGRAPH 31, ONE-FIFTH OF THE AMOUNT OF THE ADJUSTMENT
28 UNDER SECTION 43-1022, PARAGRAPH 31 FOR THE YEAR IN WHICH THE ADJUSTMENT IS
29 MADE AND IN EACH OF THE FOLLOWING FOUR YEARS. IF THE PROPERTY IS SOLD OR
30 OTHERWISE DISPOSED OF DURING THE TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE
31 ADJUSTMENT REQUIRED UNDER PARAGRAPH 23 OF THIS SECTION IN LIEU OF THE
32 ADJUSTMENT UNDER THIS PARAGRAPH RELATED TO THE PROPERTY.

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

38 24. WITH RESPECT TO QUALIFIED PROPERTY FOR WHICH AN ADJUSTMENT IS MADE
39 UNDER SECTION 43-1022, PARAGRAPH 32, ONE-FIFTH OF THE AMOUNT OF ADJUSTMENT
40 FOR THE YEAR IN WHICH THE ADJUSTMENT IS MADE AND IN EACH OF THE FOLLOWING
41 FOUR YEARS. IF THE PROPERTY IS SOLD OR OTHERWISE DISPOSED OF DURING THE
42 TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE ADJUSTMENT REQUIRED UNDER PARAGRAPH
43 25 OF THIS SECTION IN LIEU OF THE ADJUSTMENT UNDER THIS PARAGRAPH RELATED TO
44 THE PROPERTY.

1 25. FOR PROPERTY FOR WHICH AN ADJUSTMENT WAS MADE UNDER SECTION
2 43-1022, PARAGRAPH 32 AND THAT IS SOLD OR OTHERWISE DISPOSED OF DURING THE
3 TAXABLE YEAR, THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE
4 INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY EXCEEDS THE ADJUSTED BASIS OF
5 THE PROPERTY COMPUTED UNDER THIS TITLE.

6 Sec. 8. Section 43-1022, Arizona Revised Statutes, is amended to read:
7 43-1022. Subtractions from Arizona gross income

8 In computing Arizona adjusted gross income, the following amounts shall
9 be subtracted from Arizona gross income:

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

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

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

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

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

28 4. Interest income received on obligations of the United States, less
29 any interest on indebtedness, or other related expenses, and deducted in
30 arriving at Arizona gross income, which were incurred or continued to
31 purchase or carry such obligations.

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

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

38 7. The amount by which the adjusted basis of property described in
39 this paragraph and computed pursuant to this title and the income tax act of
40 1954, as amended, exceeds the adjusted basis of such property computed
41 pursuant to the internal revenue code. This paragraph shall apply to all
42 property that is held for the production of income and that is sold or
43 otherwise disposed of during the taxable year other than depreciable property
44 used in a trade or business.

1 8. The amount allowed by section 43-1025 for contributions during the
2 taxable year of agricultural crops to charitable organizations.

3 9. The portion of any wages or salaries paid or incurred by the
4 taxpayer for the taxable year that is equal to the amount of the federal work
5 opportunity credit, the empowerment zone employment credit, the credit for
6 employer paid social security taxes on employee cash tips and the Indian
7 employment credit that the taxpayer received under sections 45A, 45B, 51(a)
8 and 1396 of the internal revenue code.

9 10. The amount of prizes or winnings less than five thousand dollars in
10 a single taxable year from any of the state lotteries established and
11 operated pursuant to title 5, chapter 5.1, article 1.

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

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

21 13. To the extent not already excluded from Arizona gross income under
22 the internal revenue code, compensation received for active service as a
23 member of the reserves, the national guard or the armed forces of the United
24 States, including compensation for service in a combat zone as determined
25 under section 112 of the internal revenue code.

26 14. The amount of unreimbursed medical and hospital costs, adoption
27 counseling, legal and agency fees and other nonrecurring costs of adoption
28 not to exceed three thousand dollars. In the case of a husband and wife who
29 file separate returns, the subtraction may be taken by either taxpayer or may
30 be divided between them, but the total subtractions allowed both husband and
31 wife shall not exceed three thousand dollars. The subtraction under this
32 paragraph may be taken for the costs that are described in this paragraph and
33 that are incurred in prior years, but the subtraction may be taken only in
34 the year during which the final adoption order is granted.

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

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

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

1 18. Any item of income resulting from an installment sale that has been
2 properly subjected to income tax in another state in a previous taxable year
3 and that is included in Arizona gross income in the current taxable year.

4 19. The amount authorized by section 43-1030 relating to holocaust
5 survivors.

6 20. For property placed in service:

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

13 (b) In taxable years beginning from and after December 31, 2012
14 through December 31, 2013, an amount determined in the year the asset was
15 placed in service based on the calculation in subdivision (a) of this
16 paragraph. In the first taxable year beginning from and after December 31,
17 2013 THROUGH DECEMBER 31, 2015, the taxpayer may elect to subtract the amount
18 necessary to make the depreciation claimed to date for the purposes of this
19 title ~~the same as it would have been if subdivision (c) of this paragraph had~~
20 ~~applied~~ AN AMOUNT EQUAL TO THE DEPRECIATION ALLOWABLE PURSUANT TO SECTION
21 167(a) OF THE INTERNAL REVENUE CODE FOR THE TAXABLE YEAR AS COMPUTED AS IF
22 THE ADDITIONAL ALLOWANCE FOR DEPRECIATION HAD BEEN TEN PERCENT OF THE AMOUNT
23 ALLOWED PURSUANT TO SECTION 168(k) OF THE INTERNAL REVENUE CODE for the
24 entire time the asset was in service. ~~Subdivision (c) of this paragraph~~ IF
25 THE TAXPAYER MAKES THIS ELECTION, IT applies for the remainder of the asset's
26 life. If the taxpayer does not make the election under this subdivision,
27 subdivision (a) of this paragraph applies for the remainder of the asset's
28 life.

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

34 21. With respect to property that is sold or otherwise disposed of
35 during the taxable year by a taxpayer that complied with section 43-1021,
36 paragraph 16 with respect to that property, the amount of depreciation that
37 has been allowed pursuant to section 167(a) of the internal revenue code to
38 the extent that the amount has not already reduced Arizona taxable income in
39 the current or prior taxable years.

40 22. With respect to property for which an adjustment was made under
41 section 43-1021, paragraph 17, an amount equal to one-fifth of the amount of
42 the adjustment pursuant to section 43-1021, paragraph 17 in the year in which
43 the amount was adjusted under section 43-1021, paragraph 17 and in each of
44 the following four years.

1 23. The amount contributed during the taxable year to college savings
2 plans established pursuant to section 529 of the internal revenue code to the
3 extent that the contributions were not deducted in computing federal adjusted
4 gross income. The amount subtracted shall not exceed:

5 (a) Two thousand dollars for a single individual or a head of
6 household.

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

12 24. The amount of any original issue discount that was deferred and not
13 allowed to be deducted in computing federal adjusted gross income in the
14 current taxable year pursuant to section 108(i) of the internal revenue code
15 as added by section 1231 of the American recovery and reinvestment act of
16 2009 (P.L. 111-5).

17 25. The amount of previously deferred discharge of indebtedness income
18 that is included in the computation of federal adjusted gross income in the
19 current taxable year pursuant to section 108(i) of the internal revenue code
20 as added by section 1231 of the American recovery and reinvestment act of
21 2009 (P.L. 111-5), to the extent that the amount was previously added to
22 Arizona gross income pursuant to section 43-1021, paragraph 19.

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

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

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

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

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

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

4 For the purposes of this paragraph, a transferee that receives an asset by
5 gift or at the death of a transferor is considered to have acquired the asset
6 when the asset was acquired by the transferor. If the date an asset is
7 acquired cannot be verified, a subtraction under this paragraph is not
8 allowed.

9 29. If an individual is not claiming itemized deductions pursuant to
10 section 43-1042, the amount of premium costs for long-term care insurance, as
11 defined in section 20-1691.

12 30. With respect to a long-term health care savings account established
13 pursuant to section 43-1032, the amount deposited by the taxpayer in the
14 account during the taxable year to the extent that the taxpayer's
15 contributions are included in the taxpayer's federal adjusted gross income.

16 31. FOR PROPERTY PLACED IN SERVICE IN TAXABLE YEARS BEGINNING FROM AND
17 AFTER DECEMBER 31, 2014, AT THE TAXPAYER'S ELECTION, AN AMOUNT THAT WOULD BE
18 ALLOWABLE PURSUANT TO SECTION 179 OF THE INTERNAL REVENUE CODE AS IT EXISTED
19 ON DECEMBER 31, 2014 MINUS ANY AMOUNTS ACTUALLY ALLOWED UNDER SECTION 179 OF
20 THE INTERNAL REVENUE CODE IN DETERMINING FEDERAL TAXABLE INCOME.

21 32. FOR QUALIFIED PROPERTY THAT IS PLACED IN SERVICE IN TAXABLE YEARS
22 BEGINNING FROM AND AFTER DECEMBER 31, 2014, AT THE TAXPAYER'S ELECTION, THE
23 AMOUNT ALLOWED UNDER SECTION 168(k) OF THE INTERNAL REVENUE CODE AS IT
24 EXISTED ON DECEMBER 31, 2014 MINUS ANY AMOUNTS ACTUALLY ALLOWED UNDER SECTION
25 168(k) OF THE INTERNAL REVENUE CODE IN DETERMINING FEDERAL TAXABLE INCOME.
26 FOR THE PURPOSES OF THIS PARAGRAPH, "QUALIFIED PROPERTY" MEANS PROPERTY THAT
27 IS NOT SUBJECT TO THE ALTERNATIVE DEPRECIATION SYSTEM UNDER SECTION 168(g) OF
28 THE INTERNAL REVENUE CODE AND THAT MEETS THE FOLLOWING QUALIFICATIONS:

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

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

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

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

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

40 (b) THE ORIGINAL USE OF THE PROPERTY COMMENCES WITH THE TAXPAYER AFTER
41 DECEMBER 31, 2014.

42 (c) THE PROPERTY IS ACQUIRED BY THE TAXPAYER AFTER DECEMBER 31, 2014
43 PURSUANT TO A WRITTEN BINDING CONTRACT ENTERED INTO AFTER DECEMBER 31, 2014.

44 (d) THE PROPERTY IS PLACED IN SERVICE FOR USE IN THE TAXPAYER'S TRADE
45 OR BUSINESS OR FOR THE PRODUCTION OF INCOME AFTER DECEMBER 31, 2014.

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

3 Sec. 9. Section 43-1121, Arizona Revised Statutes, is amended to read:
4 43-1121. Additions to Arizona gross income; corporations

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

7 1. 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 this state, reduced, for tax years beginning from
10 and after December 31, 1996, by the amount of any interest on indebtedness
11 and other related expenses that were incurred or continued to purchase or
12 carry those obligations and that are not otherwise deducted or subtracted in
13 arriving at Arizona gross income.

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

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

21 4. The amount by which the adjusted basis of property described in
22 this paragraph and computed pursuant to the internal revenue code exceeds the
23 adjusted basis of such property computed pursuant to this title and the
24 income tax act of 1954, as amended. This paragraph applies to all property
25 that is held for the production of income and that is sold or otherwise
26 disposed of during the taxable year, except depreciable property used in a
27 trade or business.

28 5. FOR PROPERTY PLACED IN SERVICE IN A TAXABLE YEAR BEGINNING BEFORE
29 JANUARY 1, 2015, the amount of any depreciation allowance allowed pursuant to
30 section 167(a) of the internal revenue code to the extent not previously
31 added.

32 6. With respect to property for which an expense deduction was taken
33 pursuant to section 179 of the internal revenue code in a taxable year
34 beginning before January 1, 2013, the amount in excess of twenty-five
35 thousand dollars.

36 7. The amount of discharge of indebtedness income that is deferred and
37 excluded from the computation of federal taxable income in the current
38 taxable year pursuant to section 108(i) of the internal revenue code as added
39 by section 1231 of the American recovery and reinvestment act of 2009
40 (P.L. 111-5).

41 8. The amount of any previously deferred original issue discount that
42 was deducted in computing federal taxable income in the current year pursuant
43 to section 108(i) of the internal revenue code as added by section 1231 of
44 the American recovery and reinvestment act of 2009 (P.L. 111-5), to the

1 extent that the amount was previously subtracted from Arizona gross income
2 pursuant to section 43-1122, paragraph 8.

3 ~~9. For taxable years beginning from and after December 31, 2011~~
4 ~~through December 31, 2014, the amount of any deduction that is claimed in~~
5 ~~computing federal taxable income for health insurance premiums or~~
6 ~~contributions to a health savings account for which a credit is claimed under~~
7 ~~section 43-1185.~~

8 ~~10.~~ 9. The amount of dividend income received from corporations and
9 allowed as a deduction pursuant to sections 243, 244 and 245 of the internal
10 revenue code.

11 ~~11.~~ 10. Taxes which are based on income paid to states, local
12 governments or foreign governments and which were deducted in computing
13 federal taxable income.

14 ~~12.~~ 11. Expenses and interest relating to tax-exempt income on
15 indebtedness incurred or continued to purchase or carry obligations the
16 interest on which is wholly exempt from the tax imposed by this title.
17 Financial institutions, as defined in section 6-101, shall be governed by
18 section 43-961, paragraph 2.

19 ~~13.~~ 12. Commissions, rentals and other amounts paid or accrued to a
20 domestic international sales corporation controlled by the payor corporation
21 if the domestic international sales corporation is not required to report its
22 taxable income to this state because its income is not derived from or
23 attributable to sources within this state. If the domestic international
24 sales corporation is subject to article 4 of this chapter, the department
25 shall prescribe by rule the method of determining the portion of the
26 commissions, rentals and other amounts which are paid or accrued to the
27 controlled domestic international sales corporation and which shall be
28 deducted by the payor. For the purposes of this paragraph, "control" means
29 direct or indirect ownership or control of fifty ~~per cent~~ PERCENT or more of
30 the voting stock of the domestic international sales corporation by the payor
31 corporation.

32 ~~14.~~ 13. The amount of net operating loss taken pursuant to section 172
33 of the internal revenue code.

34 ~~15.~~ 14. The amount of exploration expenses determined pursuant to
35 section 617 of the internal revenue code to the extent that they exceed
36 seventy-five thousand dollars and to the extent that the election is made to
37 defer those expenses not in excess of seventy-five thousand dollars.

38 ~~16.~~ 15. Amortization of costs incurred to install pollution control
39 devices and deducted pursuant to the internal revenue code or the amount of
40 deduction for depreciation taken pursuant to the internal revenue code on
41 pollution control devices for which an election is made pursuant to section
42 43-1129.

43 ~~17.~~ 16. The amount of depreciation or amortization of costs of child
44 care facilities deducted pursuant to section 167 or 188 of the internal

1 revenue code for which an election is made to amortize pursuant to section
2 43-1130.

3 ~~18.~~ 17. The loss of an insurance company that is exempt under section
4 43-1201 to the extent that it is included in computing Arizona gross income
5 on a consolidated return pursuant to section 43-947.

6 ~~19.~~ 18. The amount by which the depreciation or amortization computed
7 under the internal revenue code with respect to property for which a credit
8 was taken under section 43-1169 exceeds the amount of depreciation or
9 amortization computed pursuant to the internal revenue code on the Arizona
10 adjusted basis of the property.

11 ~~20.~~ 19. The amount by which the adjusted basis computed under the
12 internal revenue code with respect to property for which a credit was claimed
13 under section 43-1169 and which is sold or otherwise disposed of during the
14 taxable year exceeds the adjusted basis of the property computed under
15 section 43-1169.

16 ~~21.~~ 20. 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 either section 43-1170 or 43-1170.01 exceeds the amount of
19 depreciation or amortization computed pursuant to the internal revenue code
20 on the Arizona adjusted basis of the property.

21 ~~22.~~ 21. 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 either section 43-1170 or 43-1170.01 and which is sold or otherwise
24 disposed of during the taxable year exceeds the adjusted basis of the
25 property computed under section 43-1170 or 43-1170.01, as applicable.

26 ~~23.~~ 22. The deduction referred to in section 1341(a)(4) of the
27 internal revenue code for restoration of a substantial amount held under a
28 claim of right.

29 ~~24.~~ 23. The amount by which a capital loss carryover allowable
30 pursuant to section 1341(b)(5) of the internal revenue code exceeds the
31 capital loss carryover allowable pursuant to section 43-1130.01,
32 subsection F.

33 ~~25.~~ 24. Any amount deducted in computing Arizona taxable income as
34 expenses for installing solar stub outs or electric vehicle recharge outlets
35 in this state with respect to which a credit is claimed pursuant to section
36 43-1176.

37 ~~26.~~ 25. Any wage expenses deducted pursuant to the internal revenue
38 code for which a credit is claimed under section 43-1175 and representing net
39 increases in qualified employment positions for employment of temporary
40 assistance for needy families recipients.

41 ~~27.~~ 26. Any amount of expenses that were deducted pursuant to the
42 internal revenue code and for which a credit is claimed under section
43 43-1178.

1 ~~28.~~ 27. The amount of any deduction that is claimed in computing
2 Arizona gross income and that represents a donation of a school site for
3 which a credit is claimed under section 43-1181.

4 ~~29.~~ 28. Any amount deducted pursuant to section 170 of the internal
5 revenue code representing contributions to a school tuition organization for
6 which a credit is claimed under section 43-1183 or 43-1184.

7 29. WITH RESPECT TO PROPERTY FOR WHICH AN ADJUSTMENT IS MADE UNDER
8 SECTION 43-1122, PARAGRAPH 25, ONE-FIFTH OF THE AMOUNT OF THE ADJUSTMENT
9 UNDER SECTION 43-1122, PARAGRAPH 25 FOR THE YEAR IN WHICH THE ADJUSTMENT IS
10 MADE AND IN EACH OF THE FOLLOWING FOUR YEARS. IF THE PROPERTY IS SOLD OR
11 OTHERWISE DISPOSED OF DURING THE TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE
12 ADJUSTMENT REQUIRED UNDER PARAGRAPH 30 OF THIS SECTION IN LIEU OF THE
13 ADJUSTMENT UNDER THIS PARAGRAPH RELATED TO THE PROPERTY.

14 30. FOR PROPERTY FOR WHICH AN ADJUSTMENT WAS MADE UNDER SECTION
15 43-1122, PARAGRAPH 25 AND THAT IS SOLD OR OTHERWISE DISPOSED OF DURING THE
16 TAXABLE YEAR, THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE
17 INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY EXCEEDS THE ADJUSTED BASIS OF
18 THE PROPERTY COMPUTED UNDER THIS TITLE.

19 31. WITH RESPECT TO QUALIFIED PROPERTY FOR WHICH AN ADJUSTMENT IS MADE
20 UNDER SECTION 43-1122, PARAGRAPH 26, ONE-FIFTH OF THE AMOUNT OF ADJUSTMENT
21 FOR THE YEAR IN WHICH THE ADJUSTMENT IS MADE AND IN EACH OF THE FOLLOWING
22 FOUR YEARS. IF THE PROPERTY IS SOLD OR OTHERWISE DISPOSED OF DURING THE
23 TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE ADJUSTMENT REQUIRED UNDER PARAGRAPH
24 32 OF THIS SECTION IN LIEU OF THE ADJUSTMENT UNDER THIS PARAGRAPH RELATED TO
25 THE PROPERTY.

26 32. FOR PROPERTY FOR WHICH AN ADJUSTMENT WAS MADE UNDER SECTION
27 43-1122, PARAGRAPH 26 AND THAT IS SOLD OR OTHERWISE DISPOSED OF DURING THE
28 TAXABLE YEAR, THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE
29 INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY EXCEEDS THE ADJUSTED BASIS OF
30 THE PROPERTY COMPUTED UNDER THIS TITLE.

31 Sec. 10. Section 43-1122, Arizona Revised Statutes, is amended to
32 read:

33 ~~43-1122.~~ Subtractions from Arizona gross income: corporations

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

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

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

42 3. The amount by which the adjusted basis of property described in
43 this paragraph and computed pursuant to this title and the income tax act of
44 1954, as amended, exceeds the adjusted basis of such property computed
45 pursuant to the internal revenue code. This paragraph applies to all

1 property that is held for the production of income and that is sold or
2 otherwise disposed of during the taxable year other than depreciable property
3 used in a trade or business.

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

6 5. The portion of any wages or salaries paid or incurred by the
7 taxpayer for the taxable year that is equal to the amount of the federal work
8 opportunity credit, the empowerment zone employment credit, the credit for
9 employer paid social security taxes on employee cash tips and the Indian
10 employment credit that the taxpayer received under sections 45A, 45B, 51(a)
11 and 1396 of the internal revenue code.

12 6. With respect to property that is sold or otherwise disposed of
13 during the taxable year by a taxpayer that complied with section 43-1121,
14 paragraph 5 with respect to that property, the amount of depreciation that
15 has been allowed pursuant to section 167(a) of the internal revenue code to
16 the extent that the amount has not already reduced Arizona taxable income in
17 the current or prior taxable years.

18 7. With respect to property for which an adjustment was made under
19 section 43-1121, paragraph 6, an amount equal to one-fifth of the amount of
20 the adjustment pursuant to section 43-1121, paragraph 6 in the year in which
21 the amount was adjusted under section 43-1121, paragraph 6 and in each of the
22 following four years.

23 8. The amount of any original issue discount that was deferred and not
24 allowed to be deducted in computing federal taxable income in the current
25 taxable year pursuant to section 108(i) of the internal revenue code as added
26 by section 1231 of the American recovery and reinvestment act of 2009
27 (P.L. 111-5).

28 9. The amount of previously deferred discharge of indebtedness income
29 that is included in the computation of federal taxable income in the current
30 taxable year pursuant to section 108(i) of the internal revenue code as added
31 by section 1231 of the American recovery and reinvestment act of 2009
32 (P.L. 111-5), to the extent that the amount was previously added to Arizona
33 gross income pursuant to section 43-1121, paragraph 7.

34 10. With respect to a financial institution as defined in section
35 6-101, expenses and interest relating to tax-exempt income disallowed
36 pursuant to section 265 of the internal revenue code.

37 11. Dividends received from another corporation owned or controlled
38 directly or indirectly by a recipient corporation. For the purposes of this
39 paragraph, "control" means direct or indirect ownership or control of fifty
40 ~~per cent~~ PERCENT or more of the voting stock of the payor corporation by the
41 recipient corporation. Dividends shall have the meaning provided in section
42 316 of the internal revenue code. This subtraction shall apply without
43 regard to section 43-961, paragraph 2 and article 4 of this chapter.

44 12. Interest income received on obligations of the United States.

45 13. The amount of dividend income from foreign corporations.

1 14. The amount of net operating loss allowed by section 43-1123.

2 15. The amount of any state income tax refunds received which were
3 included as income in computing federal taxable income.

4 16. The amount of expense recapture included in income pursuant to
5 section 617 of the internal revenue code for mine exploration expenses.

6 17. The amount of deferred exploration expenses allowed by section
7 43-1127.

8 18. The amount of exploration expenses related to the exploration of
9 oil, gas or geothermal resources, computed in the same manner and on the same
10 basis as a deduction for mine exploration pursuant to section 617 of the
11 internal revenue code. This computation is subject to the adjustments
12 contained in section 43-1121, paragraph ~~15~~ 14 and paragraphs 16 and 17 of
13 this section relating to exploration expenses.

14 19. The amortization of pollution control devices allowed by section
15 43-1129.

16 20. The amount of amortization of the cost of child care facilities
17 pursuant to section 43-1130.

18 21. The amount of income from a domestic international sales
19 corporation required to be included in the income of its shareholders
20 pursuant to section 995 of the internal revenue code.

21 22. The income of an insurance company that is exempt under section
22 43-1201 to the extent that it is included in computing Arizona gross income
23 on a consolidated return pursuant to section 43-947.

24 23. The amount by which a capital loss carryover allowable pursuant to
25 section 43-1130.01, subsection F exceeds the capital loss carryover allowable
26 pursuant to section 1341(b)(5) of the internal revenue code.

27 24. FOR PROPERTY PLACED IN SERVICE IN THE TAXABLE YEARS BEGINNING
28 BEFORE JANUARY 1, 2015, an amount equal to the depreciation allowable
29 pursuant to section 167(a) of the internal revenue code for the taxable year
30 computed as if the election described in section 168(k)(2)(D)(iii) of the
31 internal revenue code had been made for each applicable class of property in
32 the year the property was placed in service.

33 25. FOR PROPERTY PLACED IN SERVICE IN TAXABLE YEARS BEGINNING FROM AND
34 AFTER DECEMBER 31, 2014, AT THE TAXPAYER'S ELECTION, AN AMOUNT THAT WOULD BE
35 ALLOWABLE PURSUANT TO SECTION 179 OF THE INTERNAL REVENUE CODE AS IT EXISTED
36 ON DECEMBER 31, 2014 MINUS ANY AMOUNTS ACTUALLY ALLOWED UNDER SECTION 179 OF
37 THE INTERNAL REVENUE CODE IN DETERMINING FEDERAL TAXABLE INCOME.

38 26. FOR QUALIFIED PROPERTY THAT IS PLACED IN SERVICE IN TAXABLE YEARS
39 BEGINNING FROM AND AFTER DECEMBER 31, 2014, AT THE TAXPAYER'S ELECTION, THE
40 AMOUNT ALLOWED UNDER SECTION 168(k) OF THE INTERNAL REVENUE CODE AS IT
41 EXISTED ON DECEMBER 31, 2014 MINUS ANY AMOUNTS ACTUALLY ALLOWED UNDER SECTION
42 168(k) OF THE INTERNAL REVENUE CODE IN DETERMINING FEDERAL TAXABLE INCOME.
43 FOR THE PURPOSES OF THIS PARAGRAPH, "QUALIFIED PROPERTY" MEANS PROPERTY THAT
44 IS NOT SUBJECT TO THE ALTERNATIVE DEPRECIATION SYSTEM UNDER SECTION 168(g) OF
45 THE INTERNAL REVENUE CODE AND THAT MEETS THE FOLLOWING QUALIFICATIONS:

- 1 (a) THE PROPERTY IS ANY OF THE FOLLOWING:
2 (i) TANGIBLE PROPERTY DEPRECIATED UNDER THE MODIFIED ACCELERATED COST
3 RECOVERY SYSTEM THAT HAS A RECOVERY PERIOD EQUAL TO OR LESS THAN TWENTY YEARS
4 AND IS WITHIN THE SCOPE OF SECTION 168 OF THE INTERNAL REVENUE CODE.
5 (ii) COMPUTER SOFTWARE AS DEFINED IN SECTION 167(f)(1)(B) OF THE
6 INTERNAL REVENUE CODE FOR WHICH A DEDUCTION IS ALLOWABLE UNDER SECTION 167(a)
7 OF THE INTERNAL REVENUE CODE.
8 (iii) WATER UTILITY PROPERTY AS DEFINED IN SECTION 168 OF THE INTERNAL
9 REVENUE CODE.
10 (iv) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY AS DEFINED IN SECTION
11 168 OF THE INTERNAL REVENUE CODE.
12 (b) THE ORIGINAL USE OF THE PROPERTY COMMENCES WITH THE TAXPAYER AFTER
13 DECEMBER 31, 2014.
14 (c) THE PROPERTY IS ACQUIRED BY THE TAXPAYER AFTER DECEMBER 31, 2014
15 PURSUANT TO A WRITTEN BINDING CONTRACT ENTERED INTO AFTER DECEMBER 31, 2014.
16 (d) THE PROPERTY IS PLACED IN SERVICE FOR USE IN THE TAXPAYER'S TRADE
17 OR BUSINESS OR FOR THE PRODUCTION OF INCOME AFTER DECEMBER 31, 2014.
18 (e) THE PROPERTY IS NOT EXCEPTED PROPERTY OR SUBJECT TO ANY SPECIAL
19 RULES UNDER SECTION 168 OF THE INTERNAL REVENUE CODE.

20 Sec. 11. Section 43-1127, Arizona Revised Statutes, is amended to
21 read:

22 43-1127. Deferred exploration expenses

23 A. The amount of exploration expenses added to Arizona gross income
24 pursuant to section 43-1121, paragraph ~~15~~ 14 may be subtracted on a ratable
25 basis as the units of produced ores or minerals discovered or explored by
26 reason of such expenditures are sold. An election made for any taxable year
27 shall be binding for such year.

28 B. If such property is sold, it shall be treated in the same manner
29 and on the same basis as property held for the production of income pursuant
30 to section 43-1121, paragraph 4 or section 43-1122, paragraph 3.

31 Sec. 12. Section 43-1130.01, Arizona Revised Statutes, is amended to
32 read:

33 43-1130.01. Restoration of a substantial amount held under
34 claim of right; computation of tax

35 A. This section applies if:

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

39 2. A deduction would be allowable under the internal revenue code or
40 this title for the taxable year, without application of section 1341(b)(3) of
41 the internal revenue code or section 43-1121, paragraph ~~23~~ 22, because after
42 the close of the prior taxable year or years it was established that the
43 taxpayer did not have an unrestricted right to all or part of the item.

44 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 carried over under this chapter to the same
33 extent and in the same manner as provided under section 43-1123, and under
34 prior law.

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

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

39 (a) The loss shall be:

40 (i) Carried over under this chapter to the same extent and in the same
41 manner as was provided under prior law for taxable years beginning on or
42 before December 31, 1987.

43 (ii) Carried back and carried over to the same extent and in the same
44 manner as provided under section 1212 of the internal revenue code for
45 taxable years beginning from and after December 31, 1987.

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. 13. Retroactivity

8 Sections 42-1104, 42-1123, 42-2059, 42-2075 and 42-5069, Arizona
9 Revised Statutes, as amended by this act, apply retroactively to taxable
10 years beginning from and after December 31, 2014.