State of Arizona  
House of Representatives  
Fiftieth Legislature  
Second Regular Session  
2012

HB 2315

Introduced by  
Representatives Farley, Carter, Gallego, Wheeler: Saldate, Tovar

AN ACT

AMENDING SECTIONS 43-1011 AND 43-1022, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 3, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1026; RELATING TO INDIVIDUAL INCOME TAX; PROVIDING FOR CONDITIONAL REPEAL.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 43-1011, Arizona Revised Statutes, is amended to read:

43-1011. Taxes and tax rates
There shall be levied, collected and paid for each taxable year upon the entire taxable income of every resident of this state and upon the entire taxable income of every nonresident which is derived from sources within this state taxes determined in the following manner:

1. For taxable years beginning from and after December 31, 1996 through December 31, 1997:
   (a) In the case of a single person or a married person filing separately:
      If taxable income is:  The tax is:
      $0 - $10,000  2.90% of taxable income
      $10,001 - $25,000 $290, plus 3.30% of the excess over $10,000
      $25,001 - $50,000 $785, plus 3.90% of the excess over $25,000
      $50,001 - $150,000 $1,760, plus 4.80% of the excess over $50,000
      $150,001 and over $6,560, plus 5.17% of the excess over $150,000
   (b) In the case of a married couple filing a joint return or a single person who is a head of a household:
      If taxable income is:  The tax is:
      $0 - $20,000  2.90% of taxable income
      $20,001 - $50,000 $580, plus 3.30% of the excess over $20,000
      $50,001 - $100,000 $1,570, plus 3.90% of the excess over $50,000
      $100,001 - $300,000 $3,520, plus 4.80% of the excess over $100,000
      $300,001 and over $13,120, plus 5.17% of the excess over $300,000

2. For taxable years beginning from and after December 31, 1997 through December 31, 1998:
   (a) In the case of a single person or a married person filing separately:
      If taxable income is:  The tax is:
      $0 - $10,000  2.88% of taxable income
      $10,001 - $25,000 $288, plus 3.24% of the excess over $10,000
      $25,001 - $50,000 $774, plus 3.82% of the excess over $25,000
      $50,001 - $150,000 $1,729, plus 4.74% of the excess over $50,000
      $150,001 and over $6,469, plus 5.10% of the excess over $150,000
   (b) In the case of a married couple filing a joint return or a single person who is a head of a household:
      If taxable income is:  The tax is:
      $0 - $20,000  2.88% of taxable income
      $20,001 - $50,000 $576, plus 3.24% of the excess over $20,000
      $50,001 - $100,000 $1,548, plus 3.82% of the excess over $50,000
      $100,001 - $300,000 $3,458, plus 4.74% of the excess over $100,000
      $300,001 and over $12,938, plus 5.10% of the excess over $300,000
3. For taxable years beginning from and after December 31, 1998 through December 31, 2005:
   (a) In the case of a single person or a married person filing separately:

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $10,000</td>
<td>2.87%</td>
</tr>
<tr>
<td>$10,001 - $25,000</td>
<td>$287,</td>
</tr>
<tr>
<td>$25,001 - $50,000</td>
<td>$767,</td>
</tr>
<tr>
<td>$50,001 - $150,000</td>
<td>$1,702,</td>
</tr>
<tr>
<td>$150,001 and over</td>
<td>$6,422,</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $20,000</td>
<td>2.87%</td>
</tr>
<tr>
<td>$20,001 - $50,000</td>
<td>$574,</td>
</tr>
<tr>
<td>$50,001 - $100,000</td>
<td>$1,534,</td>
</tr>
<tr>
<td>$100,001 - $300,000</td>
<td>$3,404,</td>
</tr>
<tr>
<td>$300,001 and over</td>
<td>$12,844,</td>
</tr>
</tbody>
</table>

4. For taxable years beginning from and after December 31, 2005 through December 31, 2006:
   (a) In the case of a single person or a married person filing separately:

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $10,000</td>
<td>2.73%</td>
</tr>
<tr>
<td>$10,001 - $25,000</td>
<td>$273,</td>
</tr>
<tr>
<td>$25,001 - $50,000</td>
<td>$729,</td>
</tr>
<tr>
<td>$50,001 - $150,000</td>
<td>$1,617,</td>
</tr>
<tr>
<td>$150,001 and over</td>
<td>$6,097,</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $20,000</td>
<td>2.73%</td>
</tr>
<tr>
<td>$20,001 - $50,000</td>
<td>$546,</td>
</tr>
<tr>
<td>$50,001 - $100,000</td>
<td>$1,458,</td>
</tr>
<tr>
<td>$100,001 - $300,000</td>
<td>$3,233,</td>
</tr>
<tr>
<td>$300,001 and over</td>
<td>$12,193,</td>
</tr>
</tbody>
</table>

5. For taxable years beginning from and after December 31, 2006:
   (a) In the case of a single person or a married person filing separately:

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $10,000</td>
<td>2.59%</td>
</tr>
<tr>
<td>$10,001 - $25,000</td>
<td>$259,</td>
</tr>
<tr>
<td>$25,001 - $50,000</td>
<td>$691,</td>
</tr>
<tr>
<td>Taxable Income Range</td>
<td>Tax Calculation</td>
</tr>
<tr>
<td>---------------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>$0 - $20,000</td>
<td>2.59% of taxable income</td>
</tr>
<tr>
<td>$20,001 - $50,000</td>
<td>$518, plus 2.88% of the excess over $20,000</td>
</tr>
<tr>
<td>$50,001 - $100,000</td>
<td>$1,382, plus 3.36% of the excess over $50,000</td>
</tr>
<tr>
<td>$100,001 - $300,000</td>
<td>$3,062, plus 4.24% of the excess over $100,000</td>
</tr>
<tr>
<td>$300,001 and over</td>
<td>$11,542, plus 4.54% of the excess over $300,000</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Taxable Income Range</th>
<th>Tax Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,001 - $150,000</td>
<td>$1,531, plus 4.24% of the excess over $50,000</td>
</tr>
<tr>
<td>$150,001 and over</td>
<td>$5,771, plus 4.54% of the excess over $150,000</td>
</tr>
</tbody>
</table>

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

43-1022. Subtractions from Arizona gross income

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

1. The amount of exemptions allowed by section 43-1023.
2. Benefits, annuities and pensions in an amount totaling not more than two thousand five hundred dollars received from one or more of the following:
   (a) The United States government service retirement and disability fund, retired or retainer pay of the uniformed services of the United States, the United States foreign service retirement and disability system and any other retirement system or plan established by federal law.
   (b) The Arizona state retirement system, the corrections officer retirement plan, the public safety personnel retirement system, the elected officials' retirement plan, an optional retirement program established by the Arizona board of regents under section 15-1628, an optional retirement program established by a community college district board under section 15-1451 or a retirement plan established for employees of a county, city or town in this state.

3. A beneficiary's share of the fiduciary adjustment to the extent that the amount determined by section 43-1333 decreases the beneficiary's Arizona gross income.
4. The amount of any distributions from an individual retirement account as provided for in section 408 of the internal revenue code or from a qualified retirement plan of a self-employed individual as provided for in section 401 of the internal revenue code to the extent that total adjustments made pursuant to this paragraph in all tax years do not exceed the total of all contributions made by the taxpayer to such plans prior to December 31, 1975, which were included in computing Arizona taxable income.
5. The amount of income on an installment receivable which has already been recognized on the death of the taxpayer for purposes of this title for tax years ending before January 1, 1990.
6. Interest income received on obligations of the United States, less any interest on indebtedness, or other related expenses, and deducted in arriving at Arizona gross income, which were incurred or continued to purchase or carry such obligations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) An eligible individual may subtract:

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

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

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

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

24. Any amount of qualified educational expenses that is distributed
from a qualified state tuition program determined pursuant to section 529 of
the internal revenue code and that is included in income in computing federal
adjusted gross income.
25. Any item of income resulting from an installment sale that has been properly subjected to income tax in another state in a previous taxable year and that is included in Arizona gross income in the current taxable year.

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

27. The amount authorized by section 43-1031 for constructing an energy efficient residence.

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

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

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

31. For taxable years beginning from and after December 31, 2007 through December 31, 2012, the amount contributed during the taxable year to college savings plans established pursuant to section 529 of the internal revenue code to the extent that the contributions were not deducted in computing federal adjusted gross income. The amount subtracted shall not exceed:

(a) Seven hundred fifty dollars for a single individual or a head of household.

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

32. To the extent not already excluded from Arizona gross income under the internal revenue code, the amount authorized by section 43-1032 for displaced pupils choice grants.

33. The amount of any original issue discount that was deferred and not allowed to be deducted in computing federal adjusted gross income or federal taxable income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5).
34. The amount of previously deferred discharge of indebtedness income that is included in the computation of federal adjusted gross income or federal taxable income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was previously added to Arizona gross income pursuant to section 43-1021, paragraph 33.

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

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

37. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2011, A PERCENTAGE OF RENT PAID ON THE TAXPAYER'S PRIMARY RESIDENCE, AS PROVIDED BY SECTION 43-1026, IF THE TAXPAYER LOST TITLE TO THE TAXPAYER'S OWNER-OCCUPIED PRIMARY RESIDENCE BY FORECLOSURE, OR VOLUNTARILY IN LIEU OF FORECLOSURE.

Sec. 3. Title 43, chapter 10, article 3, Arizona Revised Statutes, is amended by adding section 43-1026, to read:

43-1026. Subtraction for rent paid after foreclosure

A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2011, IN COMPUTING ARIZONA ADJUSTED GROSS INCOME, A QUALIFYING TAXPAYER MAY SUBTRACT FROM ARIZONA GROSS INCOME A PERCENTAGE OF THE AMOUNT OF RENT PAID BY THE TAXPAYER TO LEASE THE TAXPAYER'S PRIMARY RESIDENCE IN THIS STATE DURING THE TAXABLE YEAR, EXCLUSIVE OF ANY AMOUNT OF THE RENTAL PAYMENTS ATTRIBUTABLE TO DEPOSITS, UTILITIES, TAXES OR OTHER FEES INDEPENDENT OF THE RIGHT TO OCCUPY THE RESIDENCE. THE PERCENTAGE OF RENT ALLOWED AS A SUBTRACTION IS COMPUTED AS FOLLOWS:

<table>
<thead>
<tr>
<th>IF HOUSEHOLD INCOME IS</th>
<th>THE ALLOWABLE PERCENTAGE IS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $10,000</td>
<td>50%</td>
</tr>
<tr>
<td>$10,001 - $25,000</td>
<td>40%</td>
</tr>
<tr>
<td>$25,001 - $50,000</td>
<td>30%</td>
</tr>
<tr>
<td>$50,001 - $75,000</td>
<td>20%</td>
</tr>
<tr>
<td>$75,001 - $100,000</td>
<td>10%</td>
</tr>
<tr>
<td>$100,001 AND OVER</td>
<td>0%</td>
</tr>
</tbody>
</table>

B. TO QUALIFY FOR THE SUBTRACTION UNDER THIS SECTION, THE TAXPAYER MUST HAVE LOST TITLE TO THE TAXPAYER'S OWNER-OCCUPIED RESIDENCE IN THIS STATE.
BY FORECLOSURE, OR VOLUNTARILY IN LIEU OF FORECLOSURE, WITHIN THE THIRTY-SIX MONTHS IMMEDIATELY PRECEDING THE LAST DAY OF THE TAXABLE.

Sec. 4. Conditional repeal; notice
   A. The director of the joint legislative budget committee and the director of the governor’s office of strategic planning and budgeting shall jointly determine and notify in writing the director of legislative council the last day in which the household foreclosure rate in this state is less than one per cent in any three months of any period of six consecutive months first occurs after the effective date of this act.
   B. Section 43-1026, Arizona Revised Statutes, as added by this act, is repealed from and after December 31 first occurring at least twenty-four months after the notice under subsection A of this section.

Sec. 5. Retroactivity
   This act applies retroactively to taxable years beginning from and after December 31, 2011.