

REFERENCE TITLE: legal tender exchange; tax exclusion

State of Arizona
House of Representatives
Fifty-second Legislature
Second Regular Session
2016

HB 2043

Introduced by
Representatives Finchem, Borrelli, Senator Burges: Representatives Cobb,
Lawrence, Livingston

AN ACT

AMENDING SECTIONS 43-1022 AND 43-1122, ARIZONA REVISED STATUTES; RELATING TO
INCOME TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 43-1022, Arizona Revised Statutes, is amended to
3 read:

4 43-1022. Subtractions from Arizona gross income

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

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

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

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

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

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

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

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

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

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

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

44 9. The portion of any wages or salaries paid or incurred by the
45 taxpayer for the taxable year that is equal to the amount of the federal work

1 opportunity credit, the empowerment zone employment credit, the credit for
2 employer paid social security taxes on employee cash tips and the Indian
3 employment credit that the taxpayer received under sections 45A, 45B, 51(a)
4 and 1396 of the internal revenue code.

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

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

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

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

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

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

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

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

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

44 19. The amount authorized by section 43-1030 relating to holocaust
45 survivors.

1 20. For property placed in service:

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

8 (b) In taxable years beginning from and after December 31, 2012
9 through December 31, 2013, an amount determined in the year the asset was
10 placed in service based on the calculation in subdivision (a) of this
11 paragraph. In the first taxable year beginning from and after December 31,
12 2013, the taxpayer may elect to subtract the amount necessary to make the
13 depreciation claimed to date for the purposes of this title the same as it
14 would have been if subdivision (c) of this paragraph had applied for the
15 entire time the asset was in service. Subdivision (c) of this paragraph
16 applies for the remainder of the asset's life. If the taxpayer does not make
17 the election under this subdivision, subdivision (a) of this paragraph
18 applies for the remainder of the asset's life.

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

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

30 22. With respect to property for which an adjustment was made under
31 section 43-1021, paragraph 17, an amount equal to one-fifth of the amount of
32 the adjustment pursuant to section 43-1021, paragraph 17 in the year in which
33 the amount was adjusted under section 43-1021, paragraph 17 and in each of
34 the following four years.

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

39 (a) Two thousand dollars for a single individual or a head of
40 household.

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

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

6 25. The amount of previously deferred discharge of indebtedness income
7 that is included in the computation of federal adjusted gross income in the
8 current taxable year pursuant to section 108(i) of the internal revenue code
9 as added by section 1231 of the American recovery and reinvestment act of
10 2009 (P.L. 111-5), to the extent that the amount was previously added to
11 Arizona gross income pursuant to section 43-1021, paragraph 19.

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

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

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

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

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

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

38 For the purposes of this paragraph, a transferee that receives an asset by
39 gift or at the death of a transferor is considered to have acquired the asset
40 when the asset was acquired by the transferor. If the date an asset is
41 acquired cannot be verified, a subtraction under this paragraph is not
42 allowed.

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

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

5 31. THE AMOUNT OF ANY NET CAPITAL GAIN INCLUDED IN FEDERAL ADJUSTED
6 GROSS INCOME FOR THE TAXABLE YEAR THAT IS DERIVED FROM THE EXCHANGE OF ONE
7 KIND OF LEGAL TENDER FOR ANOTHER KIND OF LEGAL TENDER. FOR THE PURPOSES OF
8 THIS PARAGRAPH:

9 (a) "LEGAL TENDER" MEANS A MEDIUM OF EXCHANGE, INCLUDING SPECIE, THAT
10 IS AUTHORIZED BY THE UNITED STATES CONSTITUTION OR CONGRESS FOR THE PAYMENT
11 OF DEBTS, PUBLIC CHARGES, TAXES AND DUES.

12 (b) "SPECIE" MEANS COINS HAVING PRECIOUS METAL CONTENT.

13 Sec. 2. Section 43-1122, Arizona Revised Statutes, is amended to read:
14 43-1122. Subtractions from Arizona gross income; corporations

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

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

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

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

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

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

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

44 7. With respect to property for which an adjustment was made under
45 section 43-1121, paragraph 6, an amount equal to one-fifth of the amount of

1 the adjustment pursuant to section 43-1121, paragraph 6 in the year in which
2 the amount was adjusted under section 43-1121, paragraph 6 and in each of the
3 following four years.

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

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

15 10. With respect to a financial institution as defined in section
16 6-101, expenses and interest relating to tax-exempt income disallowed
17 pursuant to section 265 of the internal revenue code.

18 11. Dividends received from another corporation owned or controlled
19 directly or indirectly by a recipient corporation. For the purposes of this
20 paragraph, "control" means direct or indirect ownership or control of fifty
21 ~~per cent~~ PERCENT or more of the voting stock of the payor corporation by the
22 recipient corporation. Dividends shall have the meaning provided in section
23 316 of the internal revenue code. This subtraction shall apply without
24 regard to section 43-961, paragraph 2 and article 4 of this chapter.

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

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

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

28 15. The amount of any state income tax refunds received ~~which~~ THAT were
29 included as income in computing federal taxable income.

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

32 17. The amount of deferred exploration expenses allowed by section
33 43-1127.

34 18. The amount of exploration expenses related to the exploration of
35 oil, gas or geothermal resources, computed in the same manner and on the same
36 basis as a deduction for mine exploration pursuant to section 617 of the
37 internal revenue code. This computation is subject to the adjustments
38 contained in section 43-1121, paragraph 15 and paragraphs 16 and 17 of this
39 section relating to exploration expenses.

40 19. The amortization of pollution control devices allowed by section
41 43-1129.

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

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

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

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

10 24. An amount equal to the depreciation allowable pursuant to section
11 167(a) of the internal revenue code for the taxable year computed as if the
12 election described in section 168(k)(2)(D)(iii) of the internal revenue code
13 had been made for each applicable class of property in the year the property
14 was placed in service.

15 25. THE AMOUNT OF ANY NET CAPITAL GAIN INCLUDED IN FEDERAL TAXABLE
16 INCOME FOR THE TAXABLE YEAR THAT IS DERIVED FROM THE EXCHANGE OF ONE KIND OF
17 LEGAL TENDER FOR ANOTHER KIND OF LEGAL TENDER. FOR THE PURPOSES OF THIS
18 PARAGRAPH:

19 (a) "LEGAL TENDER" MEANS A MEDIUM OF EXCHANGE, INCLUDING SPECIE, THAT
20 IS AUTHORIZED BY THE UNITED STATES CONSTITUTION OR CONGRESS FOR THE PAYMENT
21 OF DEBTS, PUBLIC CHARGES, TAXES AND DUES.

22 (b) "SPECIE" MEANS COINS HAVING PRECIOUS METAL CONTENT.