Chapter 436

Senate Bill 1783

An Act

Amending sections 43-104 and 43-222, Arizona Revised Statutes; amending title 43, chapter 2, article 3, Arizona Revised Statutes, by adding section 43-243; amending title 43, chapter 3, article 1, Arizona Revised Statutes, by adding section 43-302; amending title 43, chapter 5, article 6, Arizona Revised Statutes, by adding section 43-583; amending section 43-1022, Arizona Revised Statutes; amending title 43, chapter 10, article 5, Arizona Revised Statutes, by adding section 43-1075; amending section 43-1311, Arizona Revised Statutes; amending title 43, Arizona Revised Statutes, by adding chapter 17; relating to taxation of income.

(Text of bill begins on next page)
Be it enacted by the Legislature of the State of Arizona:
Section 1. Section 43-104, Arizona Revised Statutes, is amended to read:
43-104. Definitions
In this title, unless the context otherwise requires:
1. "Assessment" includes a proposed additional assessment.
2. "Board" means the state board of tax appeals or, when applicable, a division of the state board.
3. "Corporation" means a corporation, joint stock company, bank, insurance company, business trust or so-called "Massachusetts trust", investment company or building and loan association and any other association whether incorporated or unincorporated.
4. "Department" means the department of revenue, the director or his authorized delegate, as the context requires.
5. "Director" means the director of the department of revenue.
6. "Fiduciary" means a guardian, trustee, personal representative, executor, administrator, receiver or conservator, whether individual or corporate, or any person acting in any fiduciary capacity for any person, estate or trust.
7. "Fiscal year" means an accounting period of twelve months ending on the last day of any month other than December.
8. "Foreign country" means any jurisdiction other than one embraced within the United States.
9. "Income derived from or attributable to sources within this state" includes income from tangible or intangible property located or having a situs in this state and income from any activities carried on in this state, regardless of whether carried on in intrastate, interstate or foreign commerce.
11. "Income year" means "taxable year".
12. "Individual" means a natural person.
13. "Military or naval forces of the United States" includes the army, the navy, the air force, the marine corps, the coast guard, the army nurse corps, female, the women's army auxiliary corps, the navy nurse corps, female, and the women's reserve branch of the naval reserve, and all auxiliary branches of service.
14. "Nonresident" means every individual other than a resident.
15. "Paid or incurred" and "paid or accrued" shall be construed according to the method of accounting upon the basis of which the taxable income is computed under this title.
16. "Partner" means a member of a partnership.
17. "Partnership" includes a syndicate, group, pool, joint venture or other unincorporated organization, through or by means of which any
business, financial operation or venture is carried on and which THAT is not, within the meaning of this title, a trust, estate or corporation.

18. "Person" includes individuals, fiduciaries, partnerships and corporations.

19. "Resident" includes:
   (a) Every individual who is in this state for other than a temporary or transitory purpose.
   (b) Every individual who is domiciled in this state and who is outside the state for a temporary or transitory purpose. Any individual who is a resident of this state continues to be a resident even though temporarily absent from the state.
   (c) Every individual who spends in the aggregate more than nine months of the taxable year within this state shall be presumed to be a resident. The presumption may be overcome by competent evidence that the individual is in the state for a temporary or transitory purpose.

20. "SMALL BUSINESS TAXPAYER" MEANS ANY INDIVIDUAL TAXPAYER WHO REPORTS ON THE TAXPAYER'S FEDERAL INCOME TAX RETURN ANY INCOME THAT CONSTITUTES ARIZONA SMALL BUSINESS GROSS INCOME AS DEFINED IN SECTION 43-1701.

21. "State" includes the states of the United States, the District of Columbia and the possessions of the United States.

22. "State" includes the states of the United States, the District of Columbia and the possessions of the United States.

23. "Tax" means the taxes imposed under this title.

24. "Taxable year" means:
   (a) The calendar year or the fiscal year, ending during such calendar year, upon the basis of which the taxable income is computed under this title.
   (b) If no fiscal year has been established, "taxable year" means the calendar year.
   (c) In the case of a return made for a fractional part of a year under this title or under rules prescribed by the department, the period for which the return is made.

24. "Taxpayer":
   (a) Means any person subject to a tax imposed by this title. but in no case shall it
   (b) DOES NOT include the United States, this state, counties, cities, towns, school districts or other political subdivisions or units of this state or the federal government.

25. "Trade or business" includes the performance of the functions of a public office.

26. "United States", when used in a geographical sense, includes the states, the District of Columbia and the possessions of the United States.
Sec. 2. Section 43-222, Arizona Revised Statutes, is amended to read:

43-222. Income tax credit review schedule
The joint legislative income tax credit review committee shall review the following income tax credits:

1. For years ending in 0 and 5, sections 43-1079.01, 43-1087, 43-1088, 43-1089.04, 43-1167.01 and 43-1175.
2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02, 43-1075, 43-1083, 43-1083.02, 43-1164.03 and 43-1183.
3. For years ending in 2 and 7, sections 43-1073, 43-1085, 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164 and 43-1169.
4. For years ending in 3 and 8, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and 43-1178.
5. For years ending in 4 and 9, sections 43-1073.01, 43-1076, 43-1081.01, 43-1083.03, 43-1084, 43-1164.04, 43-1164.05 and 43-1184.

Sec. 3. Title 43, chapter 2, article 3, Arizona Revised Statutes, is amended by adding section 43-243, to read:

43-243. State general fund revenue notification; tax rate adjustment

A. On or before September 30, 2022, the director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting shall jointly notify the department whether the fiscal year 2021-2022 state general fund revenue, excluding the beginning balance, was $12,782,800,000 or more.

B. On or before September 30, 2023 and on or before September 30 of each year until the notice is provided as prescribed in subsection A of this section or paragraph 1 of this subsection, and paragraph 2 of this subsection, the director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting shall jointly notify the department whether the previous fiscal year state general fund revenue, excluding the beginning balance, was either of the following amounts:

1. More than $12,782,800,000 but less than $12,976,300,000. The notice required pursuant to this paragraph is not required if the notice required pursuant to subsection A of this section was provided on or before September 30, 2022.
2. $12,976,300,000 or more.

C. On receipt of the notice required pursuant to subsection A or subsection B, paragraph 1 of this section, the department shall use the tax rates provided in section 43-1311, subsection B, paragraph 3 for taxable years beginning and after December 31 of the year in which the notice required pursuant to subsection A or subsection B, paragraph 1 of this section is received. The tax rate prescribed in section 43-1311, subsection B, paragraph 3 applies until the department receives the notice required pursuant to subsection B, paragraph 2 of this section.
D. On receipt of the notice required pursuant to subsection B, paragraph 2 of this section, the department shall use the tax rates provided in section 43-1311, subsection B, paragraph 4 for taxable years beginning from and after December 31 of the year in which the notice required pursuant to subsection B, paragraph 2 of this section is received.

E. The director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting shall notify the department as required pursuant to subsection B, paragraphs 1 and 2 of this section only on the first occurrence that each state general fund revenue threshold is met.

Sec. 4. Title 43, chapter 3, article 1, Arizona Revised Statutes, is amended by adding section 43-302, to read:

43-302. Arizona small business income tax return; election; revocation

A. For taxable years beginning from and after December 31, 2020, a small business taxpayer may elect to file a return for the taxable year with the department to report that small business taxpayer's share of Arizona small business gross income. The election shall be made separately for each taxable year and is effective by reporting Arizona small business adjusted gross income on a timely filed Arizona small business income tax return.

B. The election under subsection A of this section may be revoked on a timely filed amended Arizona small business income tax return and a corresponding Arizona individual income tax return.

Sec. 5. Title 43, chapter 5, article 6, Arizona Revised Statutes, is amended by adding section 43-583, to read:

43-583. Payment of estimated tax by small business taxpayers; penalty; forms

A. A small business taxpayer that is subject to the tax imposed by chapter 17 of this title shall pay estimated tax during the small business taxpayer's taxable year if the small business taxpayer's tax liability under chapter 17 of this title for the taxable year is at least $1,000. The tax liability under chapter 17 of this title is the excess of the tax imposed by section 43-1711 over any tax credits allowed by chapter 17, article 5.

B. Except as otherwise provided in this section, the amount of the required annual estimated tax payment is the lesser of:

1. Ninety percent of the tax shown on the return for the taxable year or, if no return is filed, ninety percent of the tax for that year.

2. One hundred percent of the tax shown on the small business income tax return for the preceding taxable year, except that this paragraph does not apply if:
(a) THE PRECEDING TAXABLE YEAR WAS NOT A TAXABLE YEAR OF TWELVE MONTHS.

(b) THE SMALL BUSINESS DID NOT FILE A RETURN FOR THE PRECEDING TAXABLE YEAR SHOWING A LIABILITY FOR TAX.

3. ZERO FOR TAXABLE YEARS BEGINNING ON OR BEFORE DECEMBER 31, 2021.

C. FOUR INSTALLMENTS OF ESTIMATED TAX PAYMENTS ARE REQUIRED EACH TAXABLE YEAR. THE DUE DATES FOR THE INSTALLMENTS ARE THE DUE DATES PRESCRIBED BY SECTION 6654 OF THE INTERNAL REVENUE CODE. UNLESS OTHERWISE PRESCRIBED BY THIS SECTION, THE AMOUNT OF EACH INSTALLMENT PAYMENT IS TWENTY-FIVE PERCENT OF THE REQUIRED ANNUAL ESTIMATED TAX PAYMENT. IF A TAXABLE YEAR BEGINS ON A DATE OTHER THAN JANUARY 1, THE INSTALLMENT PAYMENTS ARE DUE DURING MONTHS OF THAT FISCAL YEAR THAT CORRESPOND TO THE PRESCRIBED MONTHS OF A CALENDAR YEAR.

D. IF A TAXPAYER FAILS TO PAY THE FULL AMOUNT OF ESTIMATED TAX OR ANY REQUIRED INSTALLMENT UNDER THIS SECTION, THE TAXPAYER IS SUBJECT TO A PENALTY AS PRESCRIBED BY SECTION 42-1125, SUBSECTION Q. FOR THE PURPOSES OF THIS SUBSECTION:

1. THE AMOUNT OF UNDERPAYMENT IS THE EXCESS OF THE REQUIRED INSTALLMENT PAYMENT OVER THE AMOUNT, IF ANY, OF THE INSTALLMENT PAID ON OR BEFORE THE DUE DATE FOR THE PAYMENT.

2. A PAYMENT OF ESTIMATED TAX SHALL BE CREDITED AGAINST UNPAID REQUIRED INSTALLMENT PAYMENTS IN THE ORDER IN WHICH THE INSTALLMENTS ARE REQUIRED TO BE PAID.

E. THE DEPARTMENT SHALL:

1. ADOPT RULES THAT ARE NECESSARY TO ADMINISTER AND ENFORCE THIS SECTION.

2. MAKE AVAILABLE SUITABLE FORMS AND INSTRUCTIONS TO TAXPAYERS WHO MAKE ESTIMATED TAX PAYMENTS PURSUANT TO THIS SECTION.

Sec. 6. 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 $2,500 received from one or more of the following:

   (a) The United States government service retirement and disability fund, the United States foreign service retirement and disability system and any other retirement system or plan established by federal law, except retired or retainer pay of the uniformed services of the United States that qualifies for a subtraction under paragraph 27 of this section.
(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. Interest income received on obligations of the United States, minus any interest on indebtedness, or other related expenses, and deducted in arriving at Arizona gross income, that were incurred or continued to purchase or carry such obligations.

5. 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.

6. 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.

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

8. 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.

9. 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.

10. 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.

11. 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.
12. The amount of unreimbursed medical and hospital costs, adoption
counseling, legal and agency fees and other nonrecurring costs of adoption
not to exceed $3,000. 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 $3,000. 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.

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

14. 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.

15. 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.

16. 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.

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

18. For property placed in service:
   (a) In taxable years beginning before December 31, 2012, 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) of the internal revenue code had been made for
each applicable class of property in the year the property was placed in
service.
   (b) In taxable years beginning from and after December 31, 2012
through December 31, 2013, an amount determined in the year the asset was
placed in service based on the calculation in subdivision (a) of this
paragraph. In the first taxable year beginning from and after
December 31, 2013, the taxpayer may elect to subtract the amount necessary
to make the depreciation claimed to date for the purposes of this title
the same as it would have been if subdivision (c) of this paragraph had
applied for the entire time the asset was in service. Subdivision (c) of
this paragraph applies for the remainder of the asset's life. If the
taxpayer does not make the election under this subdivision, subdivision
(a) of this paragraph applies for the remainder of the asset's life.
(c) In taxable years beginning from and after December 31, 2013 through December 31, 2015, an amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year as computed as if the additional allowance for depreciation had been ten percent of the amount allowed pursuant to section 168(k) of the internal revenue code.

(d) In taxable years beginning from and after December 31, 2015 through December 31, 2016, an amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year as computed as if the additional allowance for depreciation had been fifty-five percent of the amount allowed pursuant to section 168(k) of the internal revenue code.

(e) In taxable years beginning from and after December 31, 2016, an amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year as computed as if the additional allowance for depreciation had been the full amount allowed pursuant to section 168(k) of the internal revenue code.

19. 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 12 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.

20. 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) $2,000 for a single individual or a head of household.
(b) $4,000 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 $4,000.

21. 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).
22. 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.

23. An amount of any net long-term capital gain included in federal adjusted gross income for the taxable year that is derived from an investment in an asset acquired after December 31, 2011, as follows:
   (a) For taxable years beginning from and after December 31, 2012 through December 31, 2013, ten percent of the net long-term capital gain included in federal adjusted gross income.
   (b) For taxable years beginning from and after December 31, 2013 through December 31, 2014, twenty percent of the net long-term capital gain included in federal adjusted gross income.
   (c) For taxable years beginning from and after December 31, 2014, twenty-five percent of the net long-term capital gain included in federal adjusted gross income. For the purposes of this paragraph, a transferee that receives an asset by gift or at the death of a transferor is considered to have acquired the asset when the asset was acquired by the transferor. If the date an asset is acquired cannot be verified, a subtraction under this paragraph is not allowed.

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

25. The amount of eligible access expenditures paid or incurred during the taxable year to comply with the requirements of the Americans with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9, article 8 as provided by section 43-1024.

26. For taxable years beginning from and after December 31, 2017, the amount of any net capital gain included in Arizona gross income for the taxable year that is derived from the exchange of one kind of legal tender for another kind of legal tender. For the purposes of this paragraph:
   (a) "Legal tender" means a medium of exchange, including specie, that is authorized by the United States Constitution or Congress to pay debts, public charges, taxes and dues.
   (b) "Specie" means coins having precious metal content.

27. Benefits, annuities and pensions received as retired or retainer pay of the uniformed services of the United States in amounts as follows:
   (a) For taxable years through December 31, 2018, an amount totaling not more than $2,500.
   (b) For taxable years beginning from and after December 31, 2018, an amount totaling not more than $3,500.
28. For taxable years beginning from and after December 31, 2020, Arizona small business adjusted gross income, but only if an individual taxpayer has elected to separately report and pay tax on the taxpayer's Arizona small business adjusted gross income on the Arizona small business income tax return.

Sec. 7. Title 43, chapter 10, article 5, Arizona Revised Statutes, is amended by adding section 43-1075, to read:

43-1075. Credit for Arizona small business excess credit amount

A. A credit is allowed against the taxes imposed by this chapter in an amount that is equal to the excess amount determined pursuant to section 43-1742.

B. If any portion of the allowable credit exceeds the taxes due under this chapter or if there are no taxes due under this chapter, the amount of the credit not used to offset the taxes under this chapter may be carried forward as a credit under section 43-1742 to the following taxable year as a credit that is first available to offset the tax due under chapter 17 of this title.

Sec. 8. Section 43-1311, Arizona Revised Statutes, is amended to read:

43-1311. Tax imposed on estates and trusts; rates; annual adjustment

A. Except for trusts that are taxable as partnerships or corporations under the internal revenue code, the taxes imposed by this title upon individuals apply to the income of estates or of any kind of property held in trust is subject only to the income tax imposed by subsection B of this section.

B. The tax rates that are imposed on single individuals under section 43-1011 apply to the taxable income of estates and trusts.

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

1. For taxable years beginning from and after December 31, 2020 through December 31, 2021:

<table>
<thead>
<tr>
<th>If taxable income is:</th>
<th>The tax is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $27,272</td>
<td>2.59% of taxable income</td>
</tr>
<tr>
<td>$27,273 - $54,544</td>
<td>$686, plus 3.34% of the amount over $27,272</td>
</tr>
<tr>
<td>$54,545 - $163,632</td>
<td>$1,571, plus 4.17% of the amount over $54,544</td>
</tr>
<tr>
<td>$163,633 and over</td>
<td>$5,991, plus 4.50% of the amount over $163,632</td>
</tr>
</tbody>
</table>
2. SUBJECT TO SUBSECTION C OF THIS SECTION, FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021 THROUGH DECEMBER 31 OF THE YEAR IN WHICH NOTICE IS PROVIDED TO THE DEPARTMENT PURSUANT TO SECTION 43-243, SUBSECTION A OR SUBSECTION B, PARAGRAPH 1:
   IF TAXABLE INCOME IS:   THE TAX IS:
   $0 — $27,272    2.55% OF TAXABLE INCOME
   $27,273 AND OVER    $695, PLUS 2.98% OF THE AMOUNT OVER $27,272

3. SUBJECT TO SUBSECTION C OF THIS SECTION, FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31 OF THE YEAR IN WHICH NOTICE IS PROVIDED TO THE DEPARTMENT PURSUANT TO SECTION 43-243, SUBSECTION A OR SUBSECTION B, PARAGRAPH 1 THROUGH DECEMBER 31 OF THE YEAR IN WHICH NOTICE IS PROVIDED TO THE DEPARTMENT PURSUANT TO SECTION 43-243, SUBSECTION B, PARAGRAPH 2:
   IF TAXABLE INCOME IS:   THE TAX IS:
   $0 — $27,272    2.53% OF TAXABLE INCOME
   $27,273 AND OVER    $690, PLUS 2.75% OF THE AMOUNT OVER $27,272

4. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31 OF THE YEAR IN WHICH NOTICE IS PROVIDED TO THE DEPARTMENT PURSUANT TO SECTION 43-243, SUBSECTION B, PARAGRAPH 2, THE TAX IS 2.5% OF TAXABLE INCOME.

C. FOR EACH TAXABLE YEAR BEGINNING FROM AND AFTER DECEMBER 31, 2020, THE DEPARTMENT SHALL ADJUST THE INCOME DOLLAR AMOUNT FOR EACH RATE BRACKET PRESCRIBED BY SUBSECTION B, PARAGRAPHS 2 AND 3 OF THIS SECTION, AS APPLICABLE, ACCORDING TO THE AVERAGE ANNUAL CHANGE IN THE METROPOLITAN PHOENIX CONSUMER PRICE INDEX PUBLISHED BY THE UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS. THE REVISED DOLLAR AMOUNTS SHALL BE RAISED TO THE NEAREST WHOLE DOLLAR. THE INCOME DOLLAR AMOUNTS FOR EACH RATE BRACKET MAY NOT BE REVISED BELOW THE AMOUNTS PRESCRIBED IN THE PRIOR TAXABLE YEAR.

Sec. 9. Title 43, Arizona Revised Statutes, is amended by adding chapter 17, to read:

CHAPTER 17
SMALL BUSINESSES
ARTICLE 1. GENERAL PROVISIONS

43-1701. Definitions
IN THIS CHAPTER, UNLESS THE CONTEXT OTHERWISE Requires:
1. "ARIZONA SMALL BUSINESS" MEANS AN ACTIVITY THAT GENERATES ARIZONA SMALL BUSINESS GROSS INCOME.
2. "ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME" OF A RESIDENT TAXPAYER MEANS THE ARIZONA SMALL BUSINESS GROSS INCOME SUBJECT TO THE ADJUSTMENTS PROVIDED IN ARTICLE 3 OF THIS CHAPTER.
3. "ARIZONA SMALL BUSINESS GROSS INCOME" OF A RESIDENT TAXPAYER:
   (a) MEANS THE SUM OF THE AMOUNTS, WHETHER POSITIVE OR NEGATIVE,
   THAT ARE INCLUDED IN A TAXPAYER'S FEDERAL ADJUSTED GROSS INCOME FOR THE
   TAXABLE YEAR, COMPUTED PURSUANT TO THE INTERNAL REVENUE CODE, AND THAT ARE
   REPORTED ON THE FOLLOWING SCHEDULES AND FORMS OR ON EQUIVALENT SUCCESSOR
   SCHEDULES AND FORMS DESIGNATED BY THE INTERNAL REVENUE SERVICE:
      (i) SCHEDULE B, INTEREST AND ORDINARY DIVIDENDS.
      (ii) SCHEDULE C, PROFIT OR LOSS FROM BUSINESS.
      (iii) SCHEDULE E, SUPPLEMENTAL INCOME OR LOSS.
      (iv) SCHEDULE F, PROFIT OR LOSS FROM FARMING.
      (v) FORM 4797, SALE OF BUSINESS PROPERTY.
      (vi) FORM 4835, FARM RENTAL INCOME AND EXPENSES.
   (b) INCLUDES ANY AMOUNT REPORTED ON SCHEDULE D, CAPITAL GAINS AND
   LOSSES, THAT IS RECOGNIZED WITH RESPECT TO EITHER THE TAXABLE DISPOSITION
   OF AN OWNERSHIP INTEREST IN ANY ENTITY OTHER THAN A PUBLICLY TRADED
   ENTITY, OR THE TAXABLE DISPOSITION OF CAPITAL ASSETS USED IN CONNECTION
   WITH A TRADE OR BUSINESS ACTIVITY, INCLUDING GOODWILL AND GOING CONCERN
   VALUE.

4. "ARIZONA SMALL BUSINESS TAXABLE INCOME" OF A RESIDENT TAXPAYER
   MEANS THE ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME MINUS ANY
   DEDUCTIONS ALLOWABLE IN ARTICLE 4 OF THIS CHAPTER.

43-1702. Rules
   THE DEPARTMENT MAY ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS
   NECESSARY TO ADMINISTER THIS CHAPTER.

ARTICLE 2. TAX RATES AND TABLES

43-1711. Taxes and tax rate
   IF AN ARIZONA SMALL BUSINESS TAXPAYER MAKES THE ELECTION PURSUANT TO
   SECTION 43-302, THERE SHALL BE LEVIED, COLLECTED AND PAID FOR EACH TAXABLE
   YEAR ON THE ARIZONA SMALL BUSINESS TAXABLE INCOME TAXES AS DETERMINED IN
   THE FOLLOWING MANNER:
   1. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2020
      THROUGH DECEMBER 31, 2021, AN AMOUNT EQUAL TO 3.5% OF THE ARIZONA SMALL
      BUSINESS TAXABLE INCOME.
   2. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021
      THROUGH DECEMBER 31, 2022, AN AMOUNT EQUAL TO 3.0% OF THE ARIZONA SMALL
      BUSINESS TAXABLE INCOME.
   3. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2022
      THROUGH DECEMBER 31, 2024, AN AMOUNT EQUAL TO 2.8% OF THE ARIZONA SMALL
      BUSINESS TAXABLE INCOME.
   4. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024, AN
      AMOUNT EQUAL TO 2.5% OF THE ARIZONA SMALL BUSINESS TAXABLE INCOME.
ARTICLE 3. ADJUSTMENTS TO ARIZONA SMALL BUSINESS GROSS INCOME

43-1721. Additions and subtractions to Arizona small business gross income

IN COMPUTING ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME, THE ADDITIONS AND SUBTRACTIONS PROVIDED IN SECTIONS 43-1021 AND 43-1022 SHALL BE MADE BUT ONLY TO THE EXTENT THE ADDITIONS AND SUBTRACTIONS DIRECTLY RELATE TO ARIZONA SMALL BUSINESS GROSS INCOME. THE SUBTRACTION PROVIDED IN SECTION 43-1022, PARAGRAPH 28 MAY NOT BE INCLUDED AS A SUBTRACTION UNDER THIS CHAPTER.

ARTICLE 4. DEDUCTIONS

43-1731. Deductions

DEDUCTIONS OTHER THAN THOSE DEDUCTIONS ALREADY REFLECTED IN THE NET AMOUNTS REPORTED ON THE FEDERAL SCHEDULES PRESCRIBED IN SECTION 43-1701 MAY NOT BE TAKEN AGAINST ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME IN COMPUTING ARIZONA SMALL BUSINESS TAXABLE INCOME.

ARTICLE 5. CREDITS

43-1741. Credit for income taxes paid to other states; definitions

A. SUBJECT TO THE FOLLOWING CONDITIONS, RESIDENTS OF THIS STATE ARE ALLOWED A CREDIT AGAINST THE TAXES IMPOSED BY THIS CHAPTER FOR NET INCOME TAXES IMPOSED BY AND PAID TO ANOTHER STATE OR COUNTRY ON INCOME TAXABLE UNDER THIS CHAPTER:

1. THE CREDIT IS ALLOWED ONLY FOR TAXES PAID TO THE OTHER STATE OR COUNTRY ON INCOME THAT IS DERIVED FROM SOURCES WITHIN THAT STATE OR COUNTRY AND THAT IS TAXABLE UNDER ITS LAWS IRRESPECTIVE OF THE RESIDENCE OR DOMICILE OF THE RECIPIENT.

2. THE CREDIT IS NOT ALLOWED IF THE OTHER STATE OR COUNTRY ALLOWS RESIDENTS OF THIS STATE A CREDIT AGAINST THE TAXES IMPOSED BY THAT STATE OR COUNTRY FOR TAXES PAID OR PAYABLE UNDER THIS CHAPTER.

3. THE CREDIT MAY NOT EXCEED THE PROPORTION OF THE TAX PAYABLE UNDER THIS CHAPTER AS THE SMALL BUSINESS INCOME SUBJECT TO TAX IN THE OTHER STATE OR COUNTRY AND ALSO TAXABLE UNDER THIS CHAPTER BEARS TO THE TAXPAYER'S ENTIRE SMALL BUSINESS INCOME ON WHICH THE TAX IS IMPOSED BY THIS CHAPTER.

B. IF ANY TAXES PAID TO ANOTHER STATE OR COUNTRY FOR WHICH A TAXPAYER HAS BEEN ALLOWED A CREDIT UNDER THIS SECTION ARE AT ANY TIME CREDITED OR REFUNDED TO THE TAXPAYER:

1. THE TAXPAYER SHALL IMMEDIATELY REPORT THAT FACT TO THE DEPARTMENT.

2. A TAX EQUAL TO THE CREDIT ALLOWED FOR THE TAXES CREDITED OR REFUNDED BY THE OTHER STATE OR COUNTRY IS DUE AND PAYABLE FROM THE TAXPAYER ON NOTICE AND DEMAND FROM THE DEPARTMENT.

3. INTEREST SHALL BE ADDED TO AND COLLECTED AS A PART OF THE TAX AT THE RATE DETERMINED PURSUANT TO SECTION 42-1123 FROM THE DATE THE CREDIT WAS ALLOWED UNDER THIS CHAPTER TO THE DATE OF THE NOTICE AND DEMAND.
4. IF THE TAX AND INTEREST ARE NOT PAID WITHIN TEN DAYS AFTER THE
DATE OF NOTICE AND DEMAND, THERE SHALL BE COLLECTED AS A PART OF THE TAX
INTEREST ON THE UNPAID AMOUNT OF TAX AND INTEREST AT THE RATE OF TWELVE
PERCENT A YEAR FROM THE DATE OF THE NOTICE AND DEMAND UNTIL THE AMOUNT IS
PAID.

C. THE CREDIT AGAINST THE TAXES IMPOSED BY THIS CHAPTER FOR NET
INCOME TAXES PAID TO ANOTHER STATE OR COUNTRY IS NOT ALLOWED TO ANY
TAXPAYER OR ANY CLASS OF TAXPAYERS IF THE ALLOWANCES OF THE CREDIT WILL
RESULT IN ANY INVALID OR ILLEGAL DISCRIMINATION AGAINST ANOTHER TAXPAYER
OR ANOTHER CLASS OF TAXPAYERS.

D. SUBJECT TO THE FOLLOWING CONDITIONS, A RESIDENT OF THIS STATE,
WHO IS ALSO CONSIDERED TO BE A RESIDENT OF ANOTHER STATE UNDER THE LAWS OF
THE OTHER STATE, IS ALLOWED A CREDIT AGAINST THE TAXES IMPOSED BY THIS
CHAPTER FOR NET INCOME TAXES IMPOSED BY AND PAID TO THAT STATE ON INCOME
TAXABLE UNDER THIS CHAPTER AS FOLLOWS:
1. THE CREDIT IS ALLOWED ONLY IF THE OTHER STATE TAXES THE INCOME
TO THE RESIDENT OF THIS STATE AND DOES NOT ALLOW THE TAXPAYER A CREDIT
AGAINST TAXES IMPOSED BY THAT STATE ON THAT INCOME FOR TAXES PAID OR
PAYABLE ON THAT INCOME UNDER THIS CHAPTER.
2. THE CREDIT IS ALLOWED ONLY FOR THE PROPORTION OF THE TAXES PAID
TO THE OTHER STATE AS THE INCOME TAXABLE UNDER THIS CHAPTER AND ALSO
SUBJECT TO TAX IN THE OTHER STATE BEARS TO THE ENTIRE INCOME UNDER THIS
CHAPTER ON WHICH THE TAXES PAID TO THE OTHER STATE ARE IMPOSED.
3. THE CREDIT MAY NOT EXCEED THE PROPORTION OF THE TAX PAYABLE
UNDER THIS CHAPTER AS THE INCOME TAXABLE UNDER THIS CHAPTER AND ALSO
SUBJECT TO TAX IN THE OTHER STATE BEARS TO THE ENTIRE INCOME TAXABLE UNDER
THIS CHAPTER.
4. FOR THE PURPOSE OF THE CREDIT ALLOWED UNDER THIS SUBSECTION,
"INCOME TAXABLE UNDER THIS CHAPTER AND ALSO SUBJECT TO TAX IN THE OTHER
STATE" MEANS INCOME THAT WOULD BE SOURCED TO THE OTHER STATE IF THE OTHER
STATE WERE IMPOSING ITS INCOME TAX ON THE TAXPAYER AS IF THE TAXPAYER WAS
A NONRESIDENT OF THAT OTHER STATE.

E. THE TAXPAYER MAY APPLY THE ALLOWABLE CREDIT ONLY AGAINST ARIZONA
INCOME TAX FOR THE SAME TAXABLE YEAR IN WHICH THE INCOME IS SUBJECT TO TAX
IN THE OTHER STATE.

F. A SMALL BUSINESS TAXPAYER WHO PARTICIPATES IN A COMPOSITE INCOME
TAX RETURN IN ANOTHER STATE MAY CLAIM A CREDIT FOR TAXES PAID TO THE OTHER
STATE IF THE TAXPAYER MEETS ALL THE REQUIREMENTS OF THIS SECTION AND THE
TAXES PAID TO THE OTHER STATE ARE IMPOSED ON AND PAID DIRECTLY BY THE
SMALL BUSINESS TAXPAYER AND NOT THE ENTITY. FOR THE PURPOSES OF THIS
SUBSECTION, TAXES ARE CONSIDERED TO BE IMPOSED ON AND PAID DIRECTLY BY THE
SMALL BUSINESS TAXPAYER UNDER ONE OR MORE OF THE FOLLOWING CIRCUMSTANCES:
1. THE SMALL BUSINESS TAXPAYER MAKES DIRECT PAYMENT TO THE OTHER
STATE.
2. THE SMALL BUSINESS TAXPAYER MAKES DIRECT PAYMENT TO THE ENTITY FILING THE COMPOSITE INCOME TAX RETURN.
3. THE ENTITY CHARGES THE SMALL BUSINESS TAXPAYER’S LOAN ACCOUNT FOR THE AMOUNT OF THE TAX.
4. THE ENTITY REDUCES THE SMALL BUSINESS TAXPAYER’S CAPITAL ACCOUNT.

G. IF THE TAXPAYER CLAIMS THE CREDIT FOR TAXES PAID TO A FOREIGN COUNTRY, THE TAXPAYER SHALL USE THE CONVERSION RATE IN EFFECT ON THE DATE THE TAXPAYER PAID THE TAXES TO THE FOREIGN COUNTRY.

H. FOR THE PURPOSES OF THIS SECTION:
1. "COMPOSITE INCOME TAX RETURN" MEANS A SINGLE INCOME TAX RETURN THAT IS FILED WITH ANOTHER STATE ON BEHALF OF A GROUP OF SMALL BUSINESS TAXPAYERS WHO ARE PARTNERS OR SHAREHOLDERS OF THE PARTNERSHIP OR CORPORATION THAT FILED THE RETURN ON THEIR BEHALF.
2. "ENTIRE SMALL BUSINESS INCOME ON WHICH THE TAX IS IMPOSED BY THIS CHAPTER" MEANS ARIZONA SMALL BUSINESS ADJUSTED GROSS INCOME AS DEFINED AND COMPUTED UNDER SECTION 43-1701.
3. "INCOME SUBJECT TO TAX IN THE OTHER STATE OR COUNTRY AND ALSO TAXABLE UNDER THIS CHAPTER" MEANS THE PORTION OF INCOME THAT IS INCLUDED IN THE ENTIRE INCOME ON WHICH THE TAX IS IMPOSED BY THIS CHAPTER THAT IS ALSO INCLUDED IN THE ENTIRE SMALL BUSINESS INCOME ON WHICH THE OTHER STATE'S OR COUNTRY'S TAX IS IMPOSED. THE TAXPAYER SHALL INCREASE OR REDUCE THE PORTION OF INCOME THAT IS INCLUDED IN THE ENTIRE SMALL BUSINESS INCOME ON WHICH THE TAX IS IMPOSED BY THIS CHAPTER BY ANY RELATED ADDITIONS UNDER SECTION 43-1021 AND BY ANY RELATED SUBTRACTIONS UNDER SECTION 43-1022. THE TAXPAYER SHALL INCREASE OR REDUCE THE PORTION OF INCOME THAT IS INCLUDED IN THE ENTIRE SMALL BUSINESS INCOME ON WHICH THE OTHER STATE'S OR COUNTRY'S TAX IS IMPOSED BY ANY RELATED ADDITIONS AND SUBTRACTIONS UNDER THE OTHER STATE'S EQUIVALENT OF SECTIONS 43-1021 AND 43-1022, AS APPLICABLE.
4. "NET INCOME TAX":
(a) MEANS:
   (i) A TAX THAT GRANTS DEDUCTIONS OR EXEMPTIONS FROM GROSS INCOME.
   (ii) ANY TAX IMPOSED BY ANOTHER COUNTRY THAT QUALIFIES FOR A CREDIT UNDER SECTIONS 901 AND 903 OF THE INTERNAL REVENUE CODE AND THE REGULATIONS UNDER THOSE SECTIONS, EVEN IF WITHHELD FROM INCOME.
(b) EXCEPT AS SPECIFICALLY INCLUDED IN SUBDIVISION (a) OF THIS PARAGRAPH, DOES NOT INCLUDE:
   (i) A SYSTEM OF TAXATION THAT ASSESSES TAXES ON GROSS INCOME, GROSS RECEIPTS OR GROSS DIVIDENDS.
   (ii) TAXES WITHHELD FROM INCOME.
5. "SMALL BUSINESS INCOME ON WHICH THE OTHER STATE'S OR COUNTRY'S TAX IS IMPOSED" MEANS THE OTHER STATE'S OR COUNTRY'S INCOME COMPUTED UNDER THE EQUIVALENT OF SECTION 43-1094 BUT DOES NOT INCLUDE ANY EXEMPTION ALLOWABLE UNDER THE EQUIVALENT OF SECTION 43-1023.
6. "TAX PAYABLE UNDER THIS CHAPTER" MEANS THE INCOME TAX IMPOSED BY THIS STATE ON THE TAXPAYER'S TAXABLE INCOME AS DEFINED BY SECTION 43-1001 MINUS ANY TAX CREDIT AMOUNT CLAIMED FOR THE TAXABLE YEAR UNDER THIS ARTICLE BUT NOT INCLUDING THE CREDIT AMOUNT ALLOWED UNDER THIS SECTION.

43-1742. Individual income tax credits; applicability

THE CREDITS ALLOWED UNDER CHAPTER 10, ARTICLE 5 OF THIS TITLE ARE ALLOWED AGAINST THE TAX DUE UNDER THIS CHAPTER TO THE EXTENT THE CREDIT IS DERIVED FROM ITEMS OTHERWISE INCLUDED IN COMPUTING ARIZONA SMALL BUSINESS GROSS INCOME. TO THE EXTENT THE CREDITS ALLOWED BY THIS SECTION EXCEED THE TAX DUE UNDER THIS CHAPTER FOR THE TAXABLE YEAR, THE EXCESS AMOUNT OF THE CREDITS CLAIMED BY THE ARIZONA SMALL BUSINESS IS ALLOWED AS A CREDIT AGAINST THE TAX IMPOSED ON THE SMALL BUSINESS TAXPAYER UNDER CHAPTER 10 OF THIS TITLE.

ARTICLE 6. NONRESIDENTS

43-1751. Nonresidents

NOTWITHSTANDING ANY OTHER LAW, CHAPTER 10, ARTICLE 6 OF THIS TITLE APPLIES IN THE CASE OF NONRESIDENTS SUCH THAT ARIZONA SMALL BUSINESS GROSS INCOME INCLUDES ONLY THAT PORTION OF FEDERAL ADJUSTED GROSS INCOME THAT REPRESENTS INCOME FROM SOURCES WITHIN THIS STATE. ALL OTHER PROVISIONS OF CHAPTER 10, ARTICLE 6 OF THIS TITLE APPLY TO THE EXTENT THE PROVISIONS DIRECTLY RELATE TO ARIZONA SMALL BUSINESS GROSS INCOME.

Sec. 10. Purpose

Pursuant to section 43-223, Arizona Revised Statutes, the legislature enacts section 43-1075, Arizona Revised Statutes, as added by this act, as part of a mechanism to provide Arizona small businesses with an alternate option to report trade or business income for Arizona income tax purposes.

Sec. 11. Retroactivity

This act applies retroactively to taxable years beginning from and after December 31, 2020.

APPROVED BY THE GOVERNOR JULY 9, 2021.