

REFERENCE TITLE: **income tax subtraction; capital gains**

State of Arizona
Senate
Fifty-seventh Legislature
First Regular Session
2025

SB 1331

Introduced by
Senator Mesnard

AN ACT

AMENDING SECTION 43-1022, 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 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
6 shall 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 \$2,500 received from one or more of the following:

10 (a) The United States government service retirement and disability
11 fund, the United States foreign service retirement and disability system
12 and any other retirement system or plan established by federal law, except
13 retired or retainer pay of the uniformed services of the United States
14 that qualifies for a subtraction under paragraph 26 of this section.

15 (b) The Arizona state retirement system, the corrections officer
16 retirement plan, the public safety personnel retirement system, the
17 elected officials' retirement plan, an optional retirement program
18 established by the Arizona board of regents under section 15-1628, an
19 optional retirement program established by a community college district
20 board under section 15-1451 or a retirement plan established for employees
21 of a county, city or 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,
26 minus any interest on indebtedness, or other related expenses, and
27 deducted in arriving at Arizona gross income, that were incurred or
28 continued to purchase or carry such obligations.

29 5. The excess of a partner's share of income required to be
30 included under section 702(a)(8) of the internal revenue code over the
31 income required 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 allowed by section 43-1025 for contributions during
36 the taxable year of agricultural crops to charitable organizations.

37 8. The portion of any wages or salaries paid or incurred by the
38 taxpayer for the taxable year that is equal to the amount of the federal
39 work opportunity credit, the empowerment zone employment credit, the
40 credit for employer paid social security taxes on employee cash tips and
41 the Indian employment credit that the taxpayer received under sections
42 45A, 45B, 51(a) and 1396 of the internal revenue code.

43 9. The amount of exploration expenses that is determined pursuant
44 to section 617 of the internal revenue code, that has been deferred in a
45 taxable year ending before January 1, 1990 and for which a subtraction has

1 not previously been made. The subtraction shall be made on a ratable
2 basis as the units of produced ores or minerals discovered or explored as
3 a result of this exploration are sold.

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

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

12 12. The amount of unreimbursed medical and hospital costs, adoption
13 counseling, legal and agency fees and other nonrecurring costs of adoption
14 not to exceed \$3,000. In the case of a husband and wife who file separate
15 returns, the subtraction may be taken by either taxpayer or may be divided
16 between them, but the total subtractions allowed both husband and wife may
17 not exceed \$3,000. The subtraction under this paragraph may be taken for
18 the costs that are described in this paragraph and that are incurred in
19 prior years, but the subtraction may be taken only in the year during
20 which the final adoption order is granted.

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

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

28 15. Any amount of qualified educational expenses that is
29 distributed from a qualified state tuition program determined pursuant to
30 section 529 of the internal revenue code and that is included in income in
31 computing federal adjusted gross income.

32 16. Any item of income resulting from an installment sale that has
33 been properly subjected to income tax in another state in a previous
34 taxable year and that is included in Arizona gross income in the current
35 taxable year.

36 17. For property placed in service:

37 (a) In taxable years beginning before December 31, 2012, an amount
38 equal to the depreciation allowable pursuant to section 167(a) of the
39 internal revenue code for the taxable year computed as if the election
40 described in section 168(k) of the internal revenue code had been made for
41 each applicable class of property in the year the property was placed in
42 service.

43 (b) In taxable years beginning from and after December 31, 2012
44 through December 31, 2013, an amount determined in the year the asset was
45 placed in service based on the calculation in subdivision (a) of this

1 paragraph. In the first taxable year beginning from and after
2 December 31, 2013, the taxpayer may elect to subtract the amount necessary
3 to make the depreciation claimed to date for the purposes of this title
4 the same as it would have been if subdivision (c) of this paragraph had
5 applied for the entire time the asset was in service. Subdivision (c) of
6 this paragraph applies for the remainder of the asset's life. If the
7 taxpayer does not make the election under this subdivision, subdivision
8 (a) of this paragraph applies for the remainder of the asset's life.

9 (c) In taxable years beginning from and after December 31, 2013
10 through December 31, 2015, an amount equal to the depreciation allowable
11 pursuant to section 167(a) of the internal revenue code for the taxable
12 year as computed as if the additional allowance for depreciation had been
13 ten percent of the amount allowed pursuant to section 168(k) of the
14 internal revenue code.

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

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

26 18. With respect to property that is sold or otherwise disposed of
27 during the taxable year by a taxpayer that complied with section 43-1021,
28 paragraph 11 with respect to that property, the amount of depreciation
29 that has been allowed pursuant to section 167(a) of the internal revenue
30 code to the extent that the amount has not already reduced Arizona taxable
31 income in the current or prior taxable years.

32 19. The amount contributed during the taxable year to college
33 savings plans established pursuant to section 529 of the internal revenue
34 code on behalf of the designated beneficiary to the extent that the
35 contributions were not deducted in computing federal adjusted gross
36 income. The amount subtracted may not exceed:

37 (a) \$2,000 per beneficiary for a single individual or a head of
38 household.

39 (b) \$4,000 per beneficiary for a married couple filing a joint
40 return. In the case of a husband and wife who file separate returns, the
41 subtraction may be taken by either taxpayer or may be divided between
42 them, but the total subtractions allowed both husband and wife may not
43 exceed \$4,000 per beneficiary.

44 20. The portion of the net operating loss carryforward that would
45 have been allowed as a deduction in the current year pursuant to section

1 172 of the internal revenue code if the election described in section
2 172(b)(1)(H) of the internal revenue code had not been made in the year of
3 the loss that exceeds the actual net operating loss carryforward that was
4 deducted in arriving at federal adjusted gross income. This subtraction
5 only applies to taxpayers who made an election under section 172(b)(1)(H)
6 of the internal revenue code as amended by section 1211 of the American
7 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
8 section 13 of the worker, homeownership, and business assistance act of
9 2009 (P.L. 111-92).

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

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

18 ~~(a) For taxable years beginning from and after December 31, 2012
19 through December 31, 2013, ten percent of the net long-term capital gain
20 included in federal adjusted gross income.~~

21 ~~(b) For taxable years beginning from and after December 31, 2013
22 through December 31, 2014, twenty percent of the net long-term capital
23 gain included in federal adjusted gross income.~~

24 ~~(c) for taxable years beginning from and after December 31, 2014
25 2025, THAT IS twenty-five percent of the net long-term capital gain
26 included in federal adjusted gross income.~~

27 For the purposes of this paragraph, a transferee that receives an asset by
28 gift or at the death of a transferor is considered to have acquired the
29 asset when the asset was acquired by the transferor. If the date an asset
30 is acquired cannot be verified, a subtraction under this paragraph is not
31 allowed.

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

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

39 25. For taxable years beginning from and after December 31, 2017,
40 the amount of any net capital gain included in Arizona gross income for
41 the taxable year that is derived from the exchange of one kind of legal
42 tender for another kind of legal tender. For the purposes of this
43 paragraph:

1 (a) "Legal tender" means a medium of exchange, including specie,
2 that is authorized by the United States Constitution or Congress to pay
3 debts, public charges, taxes and dues.

4 (b) "Specie" means coins having precious metal content.

5 26. Benefits, annuities and pensions received as retired or
6 retainer pay of the uniformed services of the United States in amounts as
7 follows:

8 (a) For taxable years through December 31, 2018, an amount totaling
9 not more than \$2,500.

10 (b) For taxable years beginning from and after December 31, 2018
11 through December 31, 2020, an amount totaling not more than \$3,500.

12 (c) For taxable years beginning from and after December 31, 2020,
13 the full amount received.

14 27. For taxable years beginning from and after December 31, 2020,
15 the amount contributed during the taxable year to an achieving a better
16 life experience account established pursuant to section 529A of the
17 internal revenue code on behalf of the designated beneficiary to the
18 extent that the contributions were not deducted in computing federal
19 adjusted gross income. The amount subtracted may not exceed:

20 (a) \$2,000 per beneficiary for a single individual or a head of
21 household.

22 (b) \$4,000 per beneficiary for a married couple filing a joint
23 return. In the case of a husband and wife who file separate returns, the
24 subtraction may be taken by either taxpayer or may be divided between
25 them, but the total subtractions allowed both husband and wife may not
26 exceed \$4,000 per beneficiary.

27 28. For taxable years beginning from and after December 31, 2020,
28 Arizona small business gross income but only if an individual taxpayer has
29 elected to separately report and pay tax on the taxpayer's Arizona small
30 business adjusted gross income on the Arizona small business income tax
31 return.

32 29. To the extent not already excluded from Arizona gross income
33 under the internal revenue code, the value of virtual currency and
34 non-fungible tokens the taxpayer received pursuant to an airdrop at the
35 time of the airdrop. This paragraph may not be interpreted as providing a
36 subtraction for any appreciation in value that occurs from holding the
37 virtual currency after the initial receipt of the airdrop. For the
38 purposes of this paragraph:

39 (a) "Airdrop" means the receipt of virtual currency through a means
40 of distribution of virtual currency to the distributed ledger addresses of
41 multiple taxpayers.

