

House Engrossed

conformity; internal revenue code; deductions

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

HOUSE BILL 2785

AN ACT

AMENDING SECTIONS 42-1001, 43-105, 43-301, 43-323, 43-1022, 43-1041 AND
43-1122, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 42-1001, Arizona Revised Statutes, is amended to
3 read:

4 **42-1001. Definitions**

5 In this title, unless the context otherwise requires:

6 1. "Board" or "state board" means either the state board of tax
7 appeals or the state board of equalization, as applicable.

8 2. "Court" means the tax court or superior court, whichever is
9 applicable.

10 3. "Department" means the department of revenue.

11 4. "Director" means the director of the department.

12 5. "Electronically send" or "send electronically" means to send by
13 either email or the use of an electronic portal.

14 6. "Electronic portal" means a secure location on a website
15 established by the department that requires the receiver to enter a
16 password to access.

17 7. "Email" means:

18 (a) An electronic transmission of a message to an email address.

19 (b) If the message contains confidential information, the
20 electronic transmission of a message to an email address using encryption
21 software that requires the receiver to enter a password before the message
22 can be retrieved and viewed.

23 8. "Internal revenue code" means the United States internal revenue
24 code of 1986, as amended and in effect as of January 1, ~~2025~~ 2026,
25 including those provisions that became effective during ~~2024~~ 2025 with the
26 specific adoption of their retroactive effective dates but excluding all
27 changes to the code enacted after January 1, ~~2025~~ 2026.

28 Sec. 2. Section 43-105, Arizona Revised Statutes, is amended to
29 read:

30 **43-105. Internal revenue code; definition; application**

31 A. FOR THE PURPOSES OF COMPUTING INCOME TAX PURSUANT TO THIS TITLE,
32 FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, "INTERNAL
33 REVENUE CODE" MEANS THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS
34 AMENDED, IN EFFECT ON JANUARY 1, 2026, INCLUDING THOSE PROVISIONS THAT
35 BECAME EFFECTIVE DURING 2025 WITH THE SPECIFIC ADOPTION OF ALL RETROACTIVE
36 EFFECTIVE DATES, BUT EXCLUDING ANY CHANGES TO THE CODE ENACTED AFTER
37 JANUARY 1, 2026.

38 ~~A.~~ B. For the purposes of computing income tax pursuant to this
39 title, for taxable years beginning from and after December 31, 2024
40 THROUGH DECEMBER 31, 2025, "internal revenue code" means the United States
41 internal revenue code of 1986, as amended, in effect on January 1, 2025,
42 including those provisions that became effective during 2024 with the
43 specific adoption of all retroactive effective dates, ~~but excluding any~~
44 ~~changes to the code enacted after January 1, 2025 AND INCLUDING THOSE~~
45 PROVISIONS OF PUBLIC LAW 119-21 THAT ARE RETROACTIVELY EFFECTIVE DURING

1 TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER
2 31, 2025.

3 ~~B.~~ C. For the purposes of computing income tax pursuant to this
4 title, for taxable years beginning from and after December 31, 2023
5 through December 31, 2024, "internal revenue code" means the United States
6 internal revenue code of 1986, as amended, in effect on January 1, 2024,
7 including those provisions that became effective during 2023 with the
8 specific adoption of all retroactive effective dates, and including those
9 provisions **OF PUBLIC LAW 119-21** that are retroactively effective during
10 taxable years beginning from and after December 31, 2023 through December
11 31, 2024.

12 ~~C.~~ D. For the purposes of computing income tax pursuant to this
13 title, for taxable years beginning from and after December 31, 2022
14 through December 31, 2023, "internal revenue code" means the United States
15 internal revenue code of 1986, as amended, in effect on January 1, 2023,
16 including those provisions that became effective during 2022 with the
17 specific adoption of all retroactive effective dates, and including those
18 provisions **OF PUBLIC LAW 119-21** that are retroactively effective during
19 taxable years beginning from and after December 31, 2022 through December
20 31, 2023.

21 ~~D.~~ E. For the purposes of computing income tax pursuant to this
22 title, for taxable years beginning from and after December 31, 2021
23 through December 31, 2022, "internal revenue code" means the United States
24 internal revenue code of 1986, as amended, in effect on January 1, 2022,
25 including those provisions that became effective during 2021 with the
26 specific adoption of all retroactive effective dates, and including those
27 provisions of the chips and science act of 2022 (P.L. 117-167), the
28 inflation reduction act of 2022 (P.L. 117-169), ~~and~~ the consolidated
29 appropriations act, 2023 (P.L. 117-328) **AND PUBLIC LAW 119-21** that are
30 retroactively effective during taxable years beginning from and after
31 December 31, 2021 through December 31, 2022.

32 ~~E.~~ F. For the purposes of computing income tax pursuant to this
33 title, for taxable years beginning from and after December 31, 2020
34 through December 31, 2021, "internal revenue code" means the United States
35 internal revenue code of 1986, as amended, in effect on March 11, 2021,
36 including those provisions that became effective during 2020 with the
37 specific adoption of all retroactive effective dates and including those
38 provisions of the PPP extension act of 2021 (P.L. 117-6) and the
39 infrastructure investment and jobs act (P.L. 117-58) that are
40 retroactively effective during taxable years beginning from and after
41 December 31, 2020 through December 31, 2021.

42 ~~F.~~ G. For the purposes of computing income tax pursuant to this
43 title, for taxable years beginning from and after December 31, 2019
44 through December 31, 2020, "internal revenue code" means the United States
45 internal revenue code of 1986, as amended, in effect on January 1, 2020,

1 including those provisions that became effective during 2019 with the
2 specific adoption of all retroactive effective dates, and including those
3 provisions of the families first coronavirus response act (P.L. 116-127),
4 the coronavirus aid, relief, and economic security act (P.L. 116-136), the
5 paycheck protection program flexibility act of 2020 (P.L. 116-142), the
6 consolidated appropriations act, 2021 (P.L. 116-260) and the American
7 rescue plan act of 2021 (P.L. 117-2) that are retroactively effective
8 during taxable years beginning from and after December 31, 2019 through
9 December 31, 2020.

10 ~~G.~~ H. For the purposes of computing income tax pursuant to this
11 title, for taxable years beginning from and after December 31, 2018
12 through December 31, 2019, "internal revenue code" means the United States
13 internal revenue code of 1986, as amended, in effect on January 1, 2019,
14 including those provisions that became effective during 2018 with the
15 specific adoption of all retroactive effective dates, and including those
16 provisions of the taxpayer first act (P.L. 116-25), the further
17 consolidated appropriations act, 2020 (P.L. 116-94), the coronavirus aid,
18 relief, and economic security act (P.L. 116-136) and the consolidated
19 appropriations act, 2021 (P.L. 116-260) that are retroactively effective
20 during taxable years beginning from and after December 31, 2018 through
21 December 31, 2019.

22 ~~H.~~ I. For the purposes of computing income tax pursuant to this
23 title, for taxable years beginning from and after December 31, 2017
24 through December 31, 2018, "internal revenue code" means the United States
25 internal revenue code of 1986, as amended, in effect on January 1, 2018,
26 including those provisions that became effective during 2017 with the
27 specific adoption of all retroactive effective dates, and including those
28 provisions of the bipartisan budget act of 2018 (P.L. 115-123), the
29 consolidated appropriations act, 2018 (P.L. 115-141), the further
30 consolidated appropriations act, 2020 (P.L. 116-94), the coronavirus aid,
31 relief, and economic security act (P.L. 116-136) and the consolidated
32 appropriations act, 2021 (P.L. 116-260) that are retroactively effective
33 during taxable years beginning from and after December 31, 2017 through
34 December 31, 2018.

35 ~~I.~~ J. For the purposes of computing income tax pursuant to this
36 title, for taxable years beginning from and after December 31, 2016
37 through December 31, 2017, "internal revenue code" means the United States
38 internal revenue code of 1986, as amended, in effect on January 1, 2017,
39 including those provisions that became effective during 2016 with the
40 specific adoption of all federal retroactive effective dates, and
41 including those provisions of the disaster tax relief and airport and
42 airway extension act of 2017 (P.L. 115-63), the tax cuts and jobs act
43 (P.L. 115-97), the bipartisan budget act of 2018 (P.L. 115-123), the
44 consolidated appropriations act, 2018 (P.L. 115-141), the further
45 consolidated appropriations act, 2020 (P.L. 116-94) and the coronavirus

1 aid, relief, and economic security act (P.L. 116-136) that are
2 retroactively effective during taxable years beginning from and after
3 December 31, 2016 through December 31, 2017.

4 ~~J.~~ K. For the purposes of computing income tax pursuant to this
5 title, for taxable years beginning from and after December 31, 2015
6 through December 31, 2016, "internal revenue code" means the United States
7 internal revenue code of 1986, as amended, in effect on January 1, 2016,
8 including those provisions that became effective during 2015 with the
9 specific adoption of all federal retroactive effective dates, and
10 including those provisions of the United States appreciation for olympians
11 and paralympians act of 2016 (P.L. 114-239), the tax cuts and jobs act
12 (P.L. 115-97), the consolidated appropriations act, 2018 (P.L. 115-141),
13 the further consolidated appropriations act, 2020 (P.L. 116-94) and the
14 coronavirus aid, relief, and economic security act (P.L. 116-136) that are
15 retroactively effective during taxable years beginning from and after
16 December 31, 2015 through December 31, 2016.

17 ~~K. For the purposes of computing income tax pursuant to this title,
18 for taxable years beginning from and after December 31, 2014 through
19 December 31, 2015, "internal revenue code" means the United States
20 internal revenue code of 1986, as amended, in effect on January 1, 2015,
21 including those provisions that became effective during 2014 with the
22 specific adoption of all federal retroactive effective dates, and
23 including those provisions of the slain officer family support act of 2015
24 (P.L. 114-7), the don't tax our fallen public safety heroes act
25 (P.L. 114-14), the surface transportation and veterans health care choice
26 improvement act of 2015 (P.L. 114-41), the consolidated appropriations
27 act, 2016 (P.L. 114-113), the consolidated appropriations act, 2018
28 (P.L. 115-141) and the coronavirus aid, relief, and economic security act
29 (P.L. 116-136) that are retroactively effective during taxable years
30 beginning from and after December 31, 2014 through December 31, 2015.~~

31 Sec 3. Section 43-301, Arizona Revised Statutes, is amended to
32 read:

33 **43-301. Individual returns; definition**

34 A. A full-year or part-year resident individual shall file a return
35 with the department if, for the taxable year, the individual's gross
36 income was greater than the amount of the standard deduction allowed under
37 ~~subsection SECTION 43-1041, subsection A as adjusted for inflation~~
38 ~~pursuant to section 43-1041, subsection H.~~

39 B. A nonresident individual shall file a return with the department
40 if, for the taxable year, the individual's gross income was greater than
41 the amount under subsection A of this section determined for a full-year
42 or part-year resident individual multiplied by the percentage that the
43 individual's Arizona gross income is of the individual's federal adjusted
44 gross income.

1 C. In the case of a husband and wife, the spouse who controls the
2 disposition of or who receives or spends community income as well as the
3 spouse who is taxable on such income is liable for the payment of taxes
4 imposed by this title on such income. If a joint return is filed, the
5 liability for the tax on the aggregate income is joint and several.

6 D. This section applies regardless of whether an individual is
7 required to file a return under the internal revenue code or whether the
8 individual has any federal adjusted gross income for the taxable year.

9 E. For the purposes of this section, "gross income" means gross
10 income as defined in the internal revenue code minus income included in
11 gross income but excluded from taxation under this title.

12 Sec. 4. Section 43-323, Arizona Revised Statutes, is amended to
13 read:

14 43-323. Place and form of filing returns

15 A. All returns required by this title shall be in such a form as
16 the department may from time to time prescribe and shall be filed with the
17 department.

18 B. The department shall prescribe a short form return for
19 individual taxpayers who:

20 1. Are eligible and elect to pay tax based on the optional tax
21 tables pursuant to section 43-1012.

22 2. Elect to claim the optional standard deduction pursuant to
23 section 43-1041, subsection A, but not the increased amount for charitable
24 deductions under section 43-1041, subsection ~~F~~ H.

25 3. Elect not to file for credits against income tax liability other
26 than those contained in sections 43-1072, 43-1072.01, 43-1072.02, 43-1073
27 and 43-1073.01.

28 4. Are not required to add any income under section 43-1021 and do
29 not elect any subtractions under section 43-1022, except for the
30 exemptions allowed under section 43-1023.

31 C. The department may provide a simplified return form for
32 individual taxpayers who:

33 1. Are eligible and elect to pay tax based on the optional tax
34 tables pursuant to section 43-1012.

35 2. Are residents for the full taxable year.

36 3. File as single individuals or married couples filing joint
37 returns under section 43-309.

38 4. Are not sixty-five years of age or older or blind at the end of
39 the taxable year.

40 5. Claim no exemptions under section 43-1023 for the taxable year.

41 6. Elect to claim the optional standard deduction under section
42 43-1041, subsection A, but not the increased amount for charitable
43 deductions under section 43-1041, subsection ~~F~~ H.

44 7. Are not required to add any income under section 43-1021 and do
45 not elect to claim any subtractions under section 43-1022 or file for any

1 credits under chapter 10, article 5 of this title, except the credits
2 provided by sections 43-1072.01, 43-1072.02 and 43-1073.

3 8. Do not elect to contribute a portion of any tax refund as
4 provided by any provision of chapter 6, article 1 of this title.
5 Notwithstanding any provision of chapter 6, article 1 of this title, a
6 simplified return form under this subsection shall not include any space
7 for the taxpayer to so contribute a portion of a refund.

8 D. The department shall prepare blank forms for the returns and
9 furnish them on request. Failure to receive or secure the form does not
10 relieve any taxpayer from making any return required.

11 E. An individual income tax preparer who prepares more than ten
12 original income tax returns that are timely filed during any taxable year
13 that begins from and after December 31, 2017 shall file electronically all
14 individual tax returns prepared by that tax preparer, for that taxable
15 year and each subsequent taxable year. An individual income tax preparer
16 may not charge a separate fee to the taxpayer for filing a return using
17 the department's electronic filing program. This subsection does not
18 apply if the taxpayer elects to have the return filed on paper or if the
19 return cannot be filed electronically for reasons outside of the tax
20 preparer's control.

21 F. Fiduciary returns, partnership returns, withholding returns and
22 corporate returns shall be filed electronically for taxable years
23 beginning from and after December 31, 2019, or when the department
24 establishes an electronic filing program, whichever is later. Any person
25 who is required to file electronically pursuant to this subsection may
26 apply to the director, on a form prescribed by the department, for an
27 annual waiver from the electronic filing requirement. The director may
28 grant the waiver, which may be renewed for one subsequent year, if any of
29 the following applies:

- 30 1. The taxpayer has no computer.
- 31 2. The taxpayer has no internet access.

32 3. Any other circumstance considered to be worthy by the director
33 exists.

34 G. A waiver is not required if the return cannot be electronically
35 filed for reasons beyond the taxpayer's control, including situations in
36 which the taxpayer was instructed by either the internal revenue service
37 or the department of revenue to file by paper.

38 Sec. 5. Section 43-1022, Arizona Revised Statutes, is amended to
39 read:

40 43-1022. Subtractions from Arizona gross income

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

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

44 2. Benefits, annuities and pensions in an amount totaling not more
45 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 26 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

1 United States, including compensation for service in a combat zone as
2 determined under section 112 of the internal revenue code.

3 12. The amount of unreimbursed medical and hospital costs, adoption
4 counseling, legal and agency fees and other nonrecurring costs of
5 adoption. The subtraction under this paragraph may be taken for the costs
6 that are described in this paragraph and that are incurred in prior years,
7 but the subtraction may be taken only in the year during which the final
8 adoption order is granted. The amount subtracted may not exceed:

9 (a) In taxable years beginning before December 31, 2025, \$3,000. In
10 the case of a husband and wife who file separate returns, the subtraction
11 may be taken by either taxpayer or may be divided between them, but the
12 total subtractions allowed both husband and wife may not exceed \$3,000.

13 (b) In taxable years beginning from and after December 31, 2025,
14 \$5,000 for a single individual or head of household.

15 (c) For taxable years beginning from and after December 31, 2025,
16 \$10,000 for a married couple filing a joint return. In the case of a
17 husband and wife who file separate returns, the subtraction may be taken
18 by either taxpayer or may be divided between them, but the total
19 subtractions allowed both husband and wife may not exceed \$10,000.

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

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

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

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

35 17. For property placed in service:

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

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

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

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

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

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

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

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

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

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

43 20. The portion of the net operating loss carryforward that would
44 have been allowed as a deduction in the current year pursuant to section
45 172 of the internal revenue code if the election described in section

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

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

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

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

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

23 (c) For taxable years beginning from and after December 31, 2014,
24 twenty-five percent of the net long-term capital gain included in federal
25 adjusted gross income. For the purposes of this paragraph, a transferee
26 that receives an asset by gift or at the death of a transferor is
27 considered to have acquired the asset when the asset was acquired by the
28 transferor. If the date an asset is acquired cannot be verified, a
29 subtraction under this paragraph is not allowed.

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

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

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

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

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

1 26. Benefits, annuities and pensions received as retired or
2 retainer pay of the uniformed services of the United States in amounts as
3 follows:

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

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

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

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

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

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

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

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

35 (a) "Airdrop" means the receipt of virtual currency through a means
36 of distribution of virtual currency to the distributed ledger addresses of
37 multiple taxpayers.

38 (b) "Non-fungible token" has the same meaning prescribed in section
39 43-1028.

40 (c) "Virtual currency" has the same meaning prescribed in section
41 43-1028.

42 30. The amount allowed as a subtraction by section 43-1028 for gas
43 fees not already included in the taxpayer's virtual currency or
44 non-fungible token basis.

1 31. TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME
2 UNDER THE INTERNAL REVENUE CODE, THE AMOUNT DEDUCTED FOR A QUALIFIED
3 INDIVIDUAL UNDER SECTION 151(d)(5)(C) OF THE INTERNAL REVENUE CODE.

4 32. TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME
5 UNDER THE INTERNAL REVENUE CODE, THE AMOUNT DEDUCTED FOR QUALIFIED
6 PASSENGER VEHICLE LOAN INTEREST UNDER SECTION 163(h)(4) OF THE INTERNAL
7 REVENUE CODE.

8 33. TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME
9 UNDER THE INTERNAL REVENUE CODE, THE AMOUNT OF QUALIFIED TIPS RECEIVED
10 DURING THE TAXABLE YEAR THAT IS DEDUCTED UNDER SECTION 224 OF THE INTERNAL
11 REVENUE CODE.

12 34. TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME
13 UNDER THE INTERNAL REVENUE CODE, THE AMOUNT OF QUALIFIED OVERTIME
14 COMPENSATION RECEIVED DURING THE TAXABLE YEAR THAT IS DEDUCTED UNDER
15 SECTION 225 OF THE INTERNAL REVENUE CODE.

16 Sec. 6. Section 43-1041, Arizona Revised Statutes, is amended to
17 read:

18 43-1041. Optional standard deduction

19 A. A taxpayer may elect to take a standard deduction ~~as follows:~~

20 1. ~~In the case of a single person or a married person filing~~
21 ~~separately, the standard deduction is \$12,200, subject to subsection H of~~
22 ~~this section.~~

23 2. ~~In the case of a single person who is a head of a household, the~~
24 ~~standard deduction is \$18,350, subject to subsection H of this section.~~

25 3. ~~In the case of a married couple filing a joint return, the~~
26 ~~standard deduction is \$24,400, subject to subsection H of this section.~~

27 THE AMOUNT OF THE STANDARD DEDUCTION IS THE AMOUNT OF THE FEDERAL BASIC
28 STANDARD DEDUCTION PURSUANT TO SECTION 63 OF THE INTERNAL REVENUE CODE FOR
29 THE TAXPAYER'S FILING STATUS IN EFFECT ON JANUARY 1, 2026.

30 B. The standard deduction provided for in subsection A of this
31 section is in lieu of all itemized deductions allowed by section 43-1042,
32 which are to be subtracted from Arizona adjusted gross income in computing
33 taxable income.

34 C. The standard deduction is allowed if the taxpayer so
35 elects. The election is made by the taxpayer claiming on the tax return
36 the amount provided for in this section in lieu of the itemized deductions
37 allowed under section 43-1042. Electing to file a short form return or a
38 simplified return that does not allow itemized deductions to be claimed is
39 considered to be an election to claim the standard deduction.

40 D. In the case of a husband and wife, the standard deduction
41 provided for in subsection A of this section is not allowed to either if
42 the taxable income of one of the spouses is determined without regard to
43 the standard deduction.

1 E. The standard deduction provided for by subsection A of this
2 section is not allowed in the case of a taxable year of less than twelve
3 months on account of a change in the accounting period.

4 F. Except as provided in subsection G of this section, a change of
5 an election to take, or not to take, the standard deduction for any
6 taxable year may be made after the filing of the return for that year.

7 G. A taxpayer is not allowed to change an election to take, or not
8 to take, the standard deduction if:

9 1. The spouse of the taxpayer filed a separate return for any
10 taxable year corresponding, for the purposes of subsection D of this
11 section, to the taxable year of the taxpayer unless both of the following
12 apply:

13 (a) The spouse makes a change of election with respect to the
14 standard deduction for the taxable year covered in the separate return
15 consistent with the change of election sought by the taxpayer.

16 (b) The taxpayer and spouse consent in writing to the assessment,
17 within such a period as may be agreed on with the department, of any
18 deficiency, to the extent attributable to the change of election, even
19 though at the time of filing the consent the assessment of the deficiency
20 would otherwise be prevented by the operation of any law or rule of law.

21 2. The tax liability of the taxpayer or the taxpayer's spouse for
22 the taxable year has been compromised.

23 H. ~~For each taxable year beginning from and after December 31, 2019, the department shall adjust the dollar amounts prescribed by subsection A, paragraphs 1, 2 and 3 of this section for inflation in the same manner in which the federal basic standard deduction is adjusted for inflation pursuant to section 63 of the internal revenue code.~~

24 I. ~~For taxable years beginning from and after December 31, 2018,~~

25 H. The standard deduction allowed under subsection A of this
26 section shall be increased AS FOLLOWS:

27 1. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2018
28 THROUGH DECEMBER 31, 2025, by the amount equal to twenty-five percent of
29 the total amount of a taxpayer's charitable deductions that would have
30 been allowed if the taxpayer elected to claim itemized deductions under
31 section 43-1042 rather than elect the standard deduction. For taxable
32 years beginning from and after December 31, 2021 THROUGH DECEMBER 31,
33 2025, the department shall adjust the percentage prescribed in this
34 ~~subsection~~ PARAGRAPH according to the average annual change in the
35 metropolitan Phoenix consumer price index published by the United States
36 department of labor, bureau of labor statistics, except that the adjusted
37 percentage may not exceed one hundred percent. The revised percentage
38 shall be raised to the nearest whole percent and may not be revised below
39 the amounts prescribed in the prior taxable year.

1 2. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, BY
2 AN AMOUNT EQUAL TO THE TOTAL AMOUNT OF A TAXPAYER'S CHARITABLE
3 CONTRIBUTIONS AS DEFINED IN SECTION 170(c) OF THE INTERNAL REVENUE
4 CODE. THE INCREASE ALLOWED BY THIS PARAGRAPH MAY NOT EXCEED:

5 (a) IN THE CASE OF A SINGLE PERSON OR A MARRIED PERSON FILING
6 SEPARATELY, \$1,000.

7 (b) IN THE CASE OF A MARRIED COUPLE FILING A JOINT RETURN, \$2,000.

8 Sec. 7. Section 43-1122, Arizona Revised Statutes, is amended to
9 read:

10 43-1122. Subtractions from Arizona gross income: corporations

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

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

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

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

21 4. The portion of any wages or salaries paid or incurred by the
22 taxpayer for the taxable year that is equal to the amount of the federal
23 work opportunity credit, the empowerment zone employment credit, the
24 credit for employer paid social security taxes on employee cash tips and
25 the Indian employment credit that the taxpayer received under sections
26 45A, 45B, 51(a) and 1396 of the internal revenue code.

27 5. With respect to property that is sold or otherwise disposed of
28 during the taxable year by a taxpayer that complied with section 43-1121,
29 paragraph 4 with respect to that property, the amount of depreciation that
30 has been allowed pursuant to section 167(a) of the internal revenue code
31 to the extent that the amount has not already reduced Arizona taxable
32 income in the current taxable year or prior taxable years.

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

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

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

1 9. The amount of dividend income from foreign corporations. For
2 the purposes of this paragraph, gross up income as described in section 78
3 of the internal revenue code, ~~global intangible low-taxed~~ THE income ~~as~~
4 ~~defined~~ DESCRIBED in section 951A of the internal revenue code and subpart
5 F income as defined in section 952 of the internal revenue code shall be
6 considered foreign dividends.

7 10. The amount of net operating loss allowed by section 43-1123.

8 11. The amount of any state income tax refunds received that were
9 included as income in computing federal taxable income.

10 12. The amount of expense recapture included in income pursuant to
11 section 617 of the internal revenue code for mine exploration expenses.

12 13. The amount of deferred exploration expenses allowed by section
13 43-1127.

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

20 15. The amortization of pollution control devices allowed by
21 section 43-1129.

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

24 17. The amount of income from a domestic international sales
25 corporation required to be included in the income of its shareholders
26 pursuant to section 995 of the internal revenue code.

27 18. The income of an insurance company that is exempt under section
28 43-1201 to the extent that it is included in computing Arizona gross
29 income on a consolidated return pursuant to section 43-947.

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

33 20. An amount equal to the depreciation allowable pursuant to
34 section 167(a) of the internal revenue code for the taxable year computed
35 as if the election described in section 168(k)(7) of the internal revenue
36 code had been made for each applicable class of property in the year the
37 property was placed in service.

38 21. The amount of eligible access expenditures paid or incurred
39 during the taxable year to comply with the requirements of the Americans
40 with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9,
41 article 8 as provided by section 43-1124.

42 22. For taxable years beginning from and after December 31, 2017,
43 the amount of any net capital gain included in Arizona gross income for
44 the taxable year that is derived from the exchange of one kind of legal

1 tender for another kind of legal tender. For the purposes of this
2 paragraph:

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

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

7 23. With respect to a public service corporation operating a water
8 system or sewage disposal facility, the amount of monies or property
9 received as a contribution in aid of construction. For the purposes of
10 this paragraph:

11 (a) "Contribution in aid of construction" means any amount of
12 monies or other property contributed to a public service corporation that
13 provides water or sewage disposal services to the extent that the purpose
14 of the contribution is to provide for expanding, improving or replacing
15 the public service corporation's water system or sewage disposal
16 facilities, including any amount of monies or other property contributed
17 to a public service corporation for a water system or sewage disposal
18 facility subject to a contingent obligation to repay the amount, in whole
19 or in part, to the contributor.

20 (b) "Public service corporation" means a public service corporation
21 as defined in article XV, section 2, Constitution of Arizona, that is
22 regulated by the corporation commission.

23 Sec. 8. Retroactivity

24 This act applies retroactively to taxable years beginning from and
25 after December 31, 2024.