

House Engrossed

taxation; omnibus; 2026-2027

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

HOUSE BILL 4168

AN ACT

AMENDING SECTIONS 20-224 AND 20-224.01, ARIZONA REVISED STATUTES; REPEALING SECTION 20-224.03, ARIZONA REVISED STATUTES; AMENDING SECTIONS 20-837, 20-1010, 20-1060 AND 20-1097.07, ARIZONA REVISED STATUTES; REPEALING SECTIONS 41-1507 AND 41-1525, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-1001, 42-5032.02, 42-11111, 43-105, 43-222, 43-1021, 43-1022, 43-1041, 43-1042 AND 43-1073.01, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1074, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1074.01, 43-1083.03, 43-1121 AND 43-1122, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1161, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1164.04 AND 43-1168, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1170, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1183 AND 48-4203, 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 20-224, Arizona Revised Statutes, is amended to
3 read:

4 20-224. Premium tax; reports

5 A. On or before March 1 of each year, each authorized domestic
6 insurer, each other insurer and each formerly authorized insurer referred
7 to in section 20-206, subsection B shall file with the director a report
8 in a form prescribed by the director showing total direct premium income
9 including policy membership and other fees and all other considerations
10 for insurance from all classes of business whether designated as a premium
11 or otherwise received by it during the preceding calendar year on account
12 of policies and contracts covering property, subjects or risks located,
13 resident or to be performed in this state, after deducting from such total
14 direct premium income applicable cancellations, returned premiums, the
15 amount of reduction in or refund of premiums allowed to industrial life
16 policyholders for payment of premiums direct to an office of the insurer
17 and all policy dividends, refunds, savings coupons and other similar
18 returns paid or credited to policyholders within this state and not
19 reapplied as premiums for new, additional or extended insurance. No
20 deduction shall be made of the cash surrender values of policies or
21 contracts. Considerations received on annuity contracts, as well as the
22 unabsorbed portion of any premium deposit, shall not be included in total
23 direct premium income, and neither shall be subject to tax. The report
24 shall separately indicate the total direct fire insurance premium income
25 received from property located in the incorporated cities and towns
26 certified by the office of the state fire marshal pursuant to section
27 9-951, subsection B, as procuring the services of a private fire company.

28 B. Coincident with the filing of the tax report, each insurer shall
29 pay to the director for deposit, pursuant to sections 35-146 and 35-147, a
30 tax on such net premiums at the following rates:

31 1. For fire insurance:

32 (a) On property located in a city or town certified by the office
33 of the state fire marshal pursuant to section 9-951, subsection B, as
34 procuring the services of a private fire company, .66 percent.

35 (b) On all other property, 2.2 percent.

36 2. For disability insurance, 2.0 percent.

37 3. For health care service plans, the rates prescribed under
38 sections 20-837, 20-1010 and 20-1060.

39 4. For other insurance:

40 (a) For premiums received in calendar year 2016, 1.95 percent.

41 (b) For premiums received in calendar year 2017, 1.90 percent.

42 (c) For premiums received in calendar year 2018, 1.85 percent.

43 (d) For premiums received in calendar year 2019, 1.80 percent.

1 (e) For premiums received in calendar year 2020, 1.75 percent.

2 (f) For premiums received in calendar year 2021 and for each
3 subsequent calendar year, 1.70 percent.

4 C. Any payments of tax pursuant to subsection F of this section
5 shall be deducted from the tax payable pursuant to subsection B of this
6 section. Each insurer shall reflect the cost savings attributable to the
7 lower tax in fire insurance premiums charged on property located in an
8 incorporated city or town certified by the office of the state fire
9 marshal pursuant to section 9-951, subsection B, as procuring the services
10 of a private fire company. No insurer shall be liable to the state or to
11 any other person, or shall be subject to regulatory action, relating to
12 the calculation or submittal of fire insurance premium taxes based in good
13 faith on the office of the state fire marshal's certification.

14 D. Eighty-five percent of the tax paid under this section by an
15 insurer on account of premiums received for fire insurance shall be
16 separately specified in the report and shall be apportioned in the manner
17 provided by sections 9-951, 9-952 and 9-972, except that all of the tax so
18 allocated to a fund of a municipality or fire district that has no
19 volunteer firefighters or pension obligations to volunteer firefighters
20 shall be appropriated to the account of the municipality or fire district
21 in the public safety personnel retirement system and all of the tax so
22 allocated to a fund of a municipality or fire district that has both
23 full-time paid firefighters and volunteer firefighters or pension
24 obligations to full-time paid firefighters or volunteer firefighters shall
25 be appropriated to the account of the municipality or fire district in the
26 public safety personnel retirement system where it shall be reallocated by
27 actuarial procedures proportionately to the municipality or fire district
28 for the account of the full-time paid firefighters and to the municipality
29 or fire district for the account of the volunteer firefighters. A
30 municipality or fire district shall provide to the public safety personnel
31 retirement system all information that the system deems necessary to
32 perform the reallocation prescribed by this section. A full accounting of
33 the reallocation shall be forwarded to the municipality or fire district
34 and its local boards.

35 E. This section does not apply to title insurance. Title insurers
36 shall be taxed as provided in section 20-1566.

37 F. Any insurer that paid or is required to pay a tax of \$50,000 or
38 more on net premiums received during the preceding calendar year, pursuant
39 to subsection B of this section and sections 20-224.01, 20-837, 20-1010,
40 20-1060 and 20-1097.07, shall file on or before the fifteenth day of each
41 month from March through August a report for that month, on a form
42 prescribed by the director, accompanied by a payment in an amount equal to
43 fifteen percent of the amount paid or required to be paid during the
44 preceding calendar year pursuant to subsection B of this section and
45 sections 20-224.01, 20-837, 20-1010, 20-1060 and 20-1097.07. The payments

1 are due and payable on or before the fifteenth day of each month and shall
2 be made to the director for deposit, pursuant to sections 35-146 and
3 35-147.

4 G. Except for the tax paid on fire insurance premiums pursuant to
5 subsections B and D of this section, an insurer may claim a premium tax
6 credit if the insurer qualifies for a credit pursuant to section
7 ~~20-224.03, 20-224.04~~, 20-224.06 or 20-224.07.

8 H. On receipt of a properly documented claim, a refund shall be
9 provided to an insurer from available funds for the excess amount of any
10 fire insurance premium improperly paid by the insurer. The insurer shall
11 reflect the refund in the fire insurance premiums charged on the property
12 that was charged the excessive amount.

13 I. On or before September 30 of each year, the director of the
14 department of insurance and financial institutions shall report to the
15 directors of the joint legislative budget committee and the governor's
16 office of strategic planning and budgeting on the amount of insurance
17 premium tax credits established by sections ~~20-224.03, 20-224.04~~,
18 20-224.05, 20-224.06 and 20-224.07 that were used during the previous
19 fiscal year.

20 J. For the purposes of:

21 1. Subsection B of this section, fire insurance is one hundred
22 percent of fire lines, forty percent of commercial multiple peril
23 nonliability lines, thirty-five percent of homeowners' multiple peril
24 lines, twenty-five percent of farm owners' multiple peril lines and twenty
25 percent of allied lines.

26 2. Section 20-416, fire insurance is eighty-five percent of fire
27 and allied lines.

28 K. From and after December 31, 2017, the director may require that
29 reports and payments under this section be submitted electronically. If
30 the director requires electronic submission, the director shall include on
31 the department's official website a list of one or more acceptable
32 third-party services through which an insurer must submit reports and
33 payments.

34 Sec. 2. Section 20-224.01, Arizona Revised Statutes, is amended to
35 read:

36 20-224.01. Additional premium tax; civil penalty

37 A. Coincident with ~~the~~ filing ~~of~~ the tax report as required in
38 section 20-224, each insurer shall pay to the director, for deposit,
39 pursuant to sections 35-146 and 35-147, a tax of .4312 percent of such net
40 premiums received from all insurance carried for or on vehicles as defined
41 in section 28-101, in addition to other applicable taxes.

42 B. The tax of .4312 percent of such net premiums received by the
43 director and paid by an insurer on account of premiums received for
44 insurance on certain vehicles as defined in section 28-101 shall be
45 separately specified in the insurer's report required in section 20-224

1 and is appropriated to the public safety personnel retirement system and
2 shall be transferred by the state treasurer to the board of trustees of
3 the public safety personnel retirement system for deposit in the highway
4 patrol account. If the tax received is greater than the amount necessary
5 to fund the highway patrol account, ~~beginning in the 1991-1992 fiscal year~~
6 the state treasurer shall deposit the excess in the Arizona highway patrol
7 fund established by section 41-1752 in any amount required by legislative
8 appropriation.

9 C. An insurer shall report and pay the taxes required by this
10 section in the manner prescribed by section 20-224. An insurer ~~who~~ THAT
11 fails to pay the tax on or before the prescribed payment dates is subject
12 to a civil penalty determined pursuant to section 20-225.

13 ~~D. An insurer shall not claim a premium tax credit pursuant to~~
14 ~~section 20-224.03 for the premium taxes paid pursuant to this section.~~

15 Sec. 3. Repeal

16 Section 20-224.03, Arizona Revised Statutes, is repealed.

17 Sec. 4. Section 20-837, Arizona Revised Statutes, is amended to
18 read:

19 20-837. Tax exemption; exceptions

20 ~~A.~~ Every corporation doing business pursuant to this article is
21 declared to be a nonprofit and benevolent institution and to be exempt
22 from state, county, district, municipal and school taxes, including the
23 taxes prescribed by this title, and excepting only the fees prescribed by
24 section 20-167 and taxes on real and tangible personal property located
25 within this state. Each corporation is subject to a state tax of 2.0
26 percent on net premiums that are received to effect or maintain the
27 corporation's subscription contracts, except that the tax shall not apply
28 with respect to any coverage concerning which the corporation's
29 relationship is as administrative or fiscal agent for national, state or
30 municipal government or any political subdivision or body thereof, and
31 such tax shall not apply with respect to any premiums received from funds
32 of national, state or municipal government or any political subdivision or
33 body thereof. The tax shall be determined, filed and reported in the
34 manner prescribed in section 20-224. The failure by a corporation to pay
35 the tax on or before the prescribed payment dates results in a civil
36 penalty determined pursuant to section 20-225.

37 ~~B. A corporation may claim a premium tax credit if the corporation~~
38 ~~qualifies for a credit pursuant to section 20-224.03.~~

39 Sec. 5. Section 20-1010, Arizona Revised Statutes, is amended to
40 read:

41 20-1010. Taxes

42 A. On the tax payment dates prescribed in section 20-224, each
43 prepaid dental plan organization shall pay to the director for deposit,
44 pursuant to sections 35-146 and 35-147, in a form prescribed by the

1 director a tax for transacting a prepaid dental plan in the amount of 2.0
2 percent of prepaid net charges received from members.

3 B. The failure by an organization to pay the tax imposed by this
4 section results in a civil penalty determined pursuant to section 20-225.

5 ~~C. A prepaid dental plan organization may claim a premium tax
6 credit if the organization qualifies for a credit pursuant to section
7 20-224.03.~~

8 Sec. 6. Section 20-1060, Arizona Revised Statutes, is amended to
9 read:

10 20-1060. Taxes; exemption

11 A. Except as provided in subsection C of this section, on the tax
12 payment dates prescribed in section 20-224, each health care services
13 organization shall pay to the director for deposit, pursuant to sections
14 35-146 and 35-147, in a form prescribed by the director a tax for
15 transacting a health care plan in the amount of 2.0 percent of net charges
16 received from enrollees.

17 B. The failure by an organization to pay the tax imposed by this
18 section results in a civil penalty determined pursuant to section 20-225.

19 C. Payments received by health care services organizations from the
20 United States secretary of health and human services pursuant to a
21 contract issued pursuant to 42 United States Code section 1395mm(g) are
22 not taxable under this section.

23 ~~D. A health care services organization may claim a premium tax
24 credit if the organization qualifies for a credit pursuant to section
25 20-224.03.~~

26 Sec. 7. Section 20-1097.07, Arizona Revised Statutes, is amended to
27 read:

28 20-1097.07. Fees and taxes

29 ~~A.~~ Any prepaid legal insurance corporation licensed pursuant to
30 this article shall pay those fees prescribed by section 20-167 and those
31 taxes prescribed by section 20-224.

32 ~~B. A prepaid legal insurance corporation may claim a premium tax
33 credit if the corporation qualifies for a credit pursuant to section
34 20-224.03.~~

35 Sec. 8. Repeal

36 Sections 41-1507 and 41-1525, Arizona Revised Statutes, are
37 repealed.

38 Sec. 9. Section 42-1001, Arizona Revised Statutes, is amended to
39 read:

40 42-1001. Definitions

41 In this title, unless the context otherwise requires:

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

44 2. "Court" means the tax court or superior court, whichever is
45 applicable.

- 1 3. "Department" means the department of revenue.
2 4. "Director" means the director of the department.
3 5. "Electronically send" or "send electronically" means to send by
4 either email or the use of an electronic portal.
5 6. "Electronic portal" means a secure location on a website
6 established by the department that requires the receiver to enter a
7 password to access.
8 7. "Email" means:
9 (a) An electronic transmission of a message to an email address.
10 (b) If the message contains confidential information, the
11 electronic transmission of a message to an email address using encryption
12 software that requires the receiver to enter a password before the message
13 can be retrieved and viewed.
14 8. "Internal revenue code" means the United States internal revenue
15 code of 1986, as amended and in effect as of January 1, ~~2025~~ 2026,
16 including those provisions that became effective during ~~2024~~ 2025 with the
17 specific adoption of their retroactive effective dates but excluding all
18 changes to the code enacted after January 1, ~~2025~~ 2026.

19 Sec. 10. Section 42-5032.02, Arizona Revised Statutes, is amended
20 to read:

21 42-5032.02. Distribution of revenues for city, town or county
22 infrastructure improvements related to
23 manufacturing facilities; definitions

24 A. Subject to subsection B of this section, from and after
25 September 30, 2013 through September 30, 2033, the state treasurer shall
26 pay in monthly increments a city, town or county up to the amount
27 determined under subsection C of this section for public infrastructure
28 improvements for the benefit of a manufacturing facility.

29 B. The state treasurer shall not make any payments under subsection
30 C of this section until both of the following apply:

31 1. Ten percent of the qualifying capital investment that is
32 certified under subsection D of this section and that constitutes
33 construction phase services, as defined in section 42-5075, has been made
34 by the manufacturing facility.

35 2. From and after June 30, 2014.

36 C. The total amount paid to a city, town or county under subsection
37 A of this section shall not exceed the total amount of state transaction
38 privilege tax revenues collected under section 42-5010, subsection A from
39 persons conducting business under section 42-5075 derived from contracts
40 to construct buildings and associated improvements for the benefit of a
41 manufacturing facility or ~~eighty~~ SEVENTY-FIVE percent of the total cost of
42 the public infrastructure improvements, whichever is less. The total
43 amount paid to all cities, towns and counties under this subsection shall
44 not exceed ~~a maximum of \$200,000,000~~ THE FOLLOWING:

- 45 1. THROUGH JUNE 30, 2027, A MAXIMUM OF \$250,000,000

1 2. THROUGH JUNE 30, 2028, A MAXIMUM OF \$300,000,000.

2 3. FROM AND AFTER JUNE 30, 2028, A MAXIMUM OF \$350,000,000.

3 D. Within one hundred eighty days after the commencement of the
4 construction of buildings and associated improvements for the benefit of a
5 manufacturing facility that will require a city, town or county to make
6 infrastructure improvements, the manufacturing facility shall file a sworn
7 certification with the Arizona commerce authority and submit a copy of
8 this sworn certification to the applicable city, town or county that the
9 manufacturing facility agrees to either:

10 1. Make at least ~~\$500,000,000~~ \$3,000,000,000 in capital investment
11 if the manufacturing facility is located in a county that has a population
12 of eight hundred thousand persons or more.

13 2. Make at least ~~\$50,000,000~~ \$100,000,000 in capital investment if
14 the manufacturing facility is located in a county that has a population of
15 less than eight hundred thousand persons.

16 E. The certification under subsection D of this section shall
17 contain a sworn statement or certification, signed by an officer of the
18 manufacturing facility under penalty of perjury, that the information
19 contained is true and correct according to the best belief and knowledge
20 of the person submitting the information after a reasonable investigation
21 of the facts.

22 F. Before submitting the certification to the Arizona commerce
23 authority, the manufacturing facility and the city, town or county must
24 enter into a written agreement that:

25 1. Identifies and states the cost of the public infrastructure
26 improvements that will be constructed.

27 2. Identifies the sources of monies, including monies received
28 pursuant to this section, that will be used to pay for the public
29 infrastructure improvements.

30 G. On receipt of the sworn certification from a manufacturing
31 facility pursuant to subsection D of this section, the city, town or
32 county shall enter into a written agreement with the department. This
33 agreement and any amendments or changes to the agreement shall:

34 1. State the cost of the public infrastructure improvements and
35 separately identify the particular improvements that will be made.

36 2. State that the monies received under this section will be used
37 exclusively to pay for public infrastructure improvements that are
38 necessary to support the activities of the manufacturing facility.

39 3. State that the city, town or county will commit all of its
40 portion of the revenue received pursuant to section 42-5029, subsection D
41 derived from contracts subject to section 42-5075 to construct buildings
42 and associated improvements for the benefit of the manufacturing facility
43 for public infrastructure improvements that benefit the manufacturing
44 facility.

1 4. State that the city, town or county will immediately notify the
2 department when monies received under this section exceed ~~eighty percent~~
3 ~~of the cost of the infrastructure improvements~~ THE APPLICABLE PERCENTAGE
4 OF THE TOTAL COST OF THE PUBLIC INFRASTRUCTURE IMPROVEMENTS PRESCRIBED BY
5 SUBSECTION C OF THIS SECTION and will return the amount of the excess to
6 the state treasurer for deposit in the state general fund.

7 5. Stipulate the actual amount of the construction funding that
8 will be derived from sources other than this state.

9 6. STATE THAT THE CITY, TOWN OR COUNTY WILL PROVIDE AT LEAST FIVE
10 PERCENT OF THE ACTUAL AMOUNT OF THE CONSTRUCTION FUNDING STIPULATED TO
11 UNDER PARAGRAPH 5 OF THIS SUBSECTION.

12 ~~6.~~ 7. Identify the persons who will be prime contractors on the
13 construction of buildings and associated improvements for the benefit of a
14 manufacturing facility and state that each prime contractor has been
15 notified as to which portion of the contractor's income shall be
16 separately identified to the department pursuant to section 42-5075,
17 subsection H.

18 ~~7.~~ 8. State that the city, town or county agrees that any amounts
19 paid by the department to a prime contractor as identified under paragraph
20 ~~6- 7~~ of this subsection resulting from an audit adjustment or claim for
21 credit or refund of taxes described in subsection C of this section shall
22 be recovered by the department from the city, town or county by reducing
23 the amount paid to the city, town or county under section 42-5029 from
24 monies designated as distribution base in the month next succeeding the
25 month in which the adjustment or claim is paid.

26 ~~8.~~ 9. State that the city, town or county agrees that the
27 department will use the amounts subject to any distribution required under
28 subsection A of this section in calculating the maximum amount set by
29 subsection C of this section.

30 ~~9.~~ 10. State that the city, town or county agrees that if, on
31 notification by the department, the state treasurer ceases payments
32 because of the condition described in subsection H of this section, the
33 city, town or county has no claim to additional payments if the department
34 subsequently pays amounts to a prime contractor identified in an agreement
35 with any city, town or county, as described in paragraph ~~6- 7~~ of this
36 subsection, due to an audit adjustment or claim for credit or refund of
37 taxes described in subsection C of this section.

38 11. STATE THAT THE CITY, TOWN OR COUNTY WILL PROVIDE TO THE
39 DEPARTMENT AN ANALYSIS OF THE ANTICIPATED DIRECT AND INDIRECT REVENUES
40 THIS STATE WILL RECEIVE AS A RESULT OF CONSTRUCTING THE MANUFACTURING
41 FACILITY. THE ANALYSIS MUST INCLUDE MEASURES RELATING TO THE ANTICIPATED
42 NEW JOBS TO BE DIRECTLY CREATED BY THE MANUFACTURING FACILITY, INCLUDING
43 THE TOTAL NUMBER OF NEW JOBS, THE RANGE OF ANNUAL WAGES PER EMPLOYEE AND
44 THE MEDIAN ANNUAL WAGES PER EMPLOYEE. THE DEPARTMENT SHALL RETAIN THE
45 ANALYSIS AND MAY PROVIDE THE ANALYSIS ON REQUEST. INFORMATION IN THE

1 ANALYSIS THAT QUALIFIES AS A TRADE SECRET AS DEFINED IN SECTION 44-401 OR
2 AS CONFIDENTIAL PROPRIETARY INFORMATION THAT, IF MADE PUBLIC, COULD HARM
3 THE COMPETITIVE POSITION OF THE MANUFACTURING FACILITY IS CONFIDENTIAL, IS
4 NOT A PUBLIC RECORD AND MAY NOT BE DISCLOSED BY THE DEPARTMENT.

5 ~~10.~~ 12. Provide any other information deemed necessary by the
6 department.

7 H. On notification by the department, the state treasurer shall
8 cease payments under subsection A of this section if either of the
9 following occurs:

10 1. The city, town or county has received monies that meet or exceed
11 ~~eighty percent~~ THE APPLICABLE PERCENTAGE of the TOTAL cost of the public
12 infrastructure improvements PRESCRIBED BY SUBSECTION C OF THIS SECTION
13 that are necessary to support the activities related to the manufacturing
14 facility as described in the written agreement pursuant to subsection G of
15 this section.

16 2. The total amount subject to any distribution required under
17 subsection A of this section has met the maximum amount set by subsection
18 C of this section.

19 I. NOTWITHSTANDING SUBSECTION H, PARAGRAPH 2 OF THIS SECTION, THE
20 DEPARTMENT'S PROCESSING AND PAYMENT OF ELIGIBLE REQUESTS FOR PAYMENT ARE
21 SUBJECT TO ALL OF THE FOLLOWING:

22 1. THE DEPARTMENT MAY CONTINUE TO RECEIVE AND PROCESS ELIGIBLE
23 REQUESTS FOR PAYMENT, INCLUDING PARTIAL PAYMENTS, AFTER THE STATE
24 TREASURER HAS CEASED PAYMENTS PURSUANT TO SUBSECTION H, PARAGRAPH 2 OF
25 THIS SECTION.

26 2. AMOUNTS SEPARATELY ACCOUNTED FOR UNDER SECTION 42-5075,
27 SUBSECTION H THAT HAVE NOT BEEN DISTRIBUTED TO THE APPLICABLE CITY, TOWN
28 OR COUNTY SHALL BE RETAINED BY THE DEPARTMENT AND REMAIN AVAILABLE FOR
29 DISTRIBUTION TO THE APPLICABLE CITY, TOWN OR COUNTY WHEN THE REMAINING
30 CAPACITY AND AMOUNTS SEPARATELY ACCOUNTED FOR UNDER SECTION 42-5075,
31 SUBSECTION H FOR THE CITY, TOWN OR COUNTY ARE SUFFICIENT TO PROCESS AN
32 ELIGIBLE REQUEST FOR PAYMENT, SUBJECT TO PARAGRAPH 6 OF THIS SUBSECTION.

33 3. THE DEPARTMENT SHALL PROCESS ELIGIBLE REQUESTS FOR PAYMENT
34 DURING EACH REPORTING PERIOD IN WHICH THE DEPARTMENT CLOSES AND RECONCILES
35 TRANSACTION PRIVILEGE TAX COLLECTIONS UNDER THIS SECTION. PAYMENT OF EACH
36 ELIGIBLE REQUEST FOR PAYMENT IS SUBJECT TO THE AVAILABILITY OF AMOUNTS
37 SEPARATELY ACCOUNTED FOR UNDER SECTION 42-5075, SUBSECTION H FOR THE
38 APPLICABLE CITY, TOWN OR COUNTY. IF THE REMAINING CAPACITY IS SUFFICIENT
39 TO PAY ALL ELIGIBLE REQUESTS FOR PAYMENT ON HAND, THE DEPARTMENT SHALL
40 INSTRUCT THE STATE TREASURER TO PAY EACH REQUEST. AN ELIGIBLE REQUEST FOR
41 PAYMENT, OR ANY UNPAID BALANCE OF A PARTIALLY PAID REQUEST, THAT CANNOT BE
42 FULLY PAID DURING A REPORTING PERIOD REMAINS ON HAND FOR PROCESSING IN
43 SUBSEQUENT REPORTING PERIODS, SUBJECT TO THIS SUBSECTION.

1 4. IF THE REMAINING CAPACITY IS INSUFFICIENT TO PAY ALL ELIGIBLE
2 REQUESTS FOR PAYMENT ON HAND, THE DEPARTMENT SHALL ALLOCATE THE REMAINING
3 CAPACITY AMONG THE ELIGIBLE REQUESTS FOR PAYMENT ON A PRO RATA BASIS
4 ACCORDING TO THE REQUESTED AMOUNTS. IF THE PRO RATA SHARE ALLOCATED TO A
5 CITY, TOWN OR COUNTY EXCEEDS THE AMOUNTS SEPARATELY ACCOUNTED UNDER
6 SECTION 42-5075, SUBSECTION H FOR THAT CITY, TOWN OR COUNTY, THE EXCESS
7 REMAINING CAPACITY SHALL BE REALLOCATED ON A PRO RATA BASIS AMONG THE
8 REMAINING ELIGIBLE REQUESTS FOR PAYMENT.

9 5. A CITY, TOWN OR COUNTY THAT HAS NOT SUBMITTED AN ELIGIBLE
10 REQUEST FOR PAYMENT DURING A REPORTING PERIOD DOES NOT REDUCE THE
11 REMAINING CAPACITY AVAILABLE TO CITIES, TOWNS OR COUNTIES THAT HAVE
12 SUBMITTED ELIGIBLE REQUESTS FOR PAYMENT DURING THAT REPORTING PERIOD.

13 6. WHEN THE REMAINING CAPACITY IS ZERO AND THE MAXIMUM AMOUNT
14 PRESCRIBED IN SUBSECTION C, PARAGRAPH 3 OF THIS SECTION HAS BEEN MET, THE
15 DEPARTMENT SHALL DISTRIBUTE ANY AMOUNTS RETAINED UNDER PARAGRAPH 2 OF THIS
16 SUBSECTION TO THE STATE GENERAL FUND AND TO CITIES, TOWNS AND COUNTIES
17 PURSUANT TO THE DISTRIBUTION PROVISIONS OF THIS CHAPTER THAT WOULD HAVE
18 APPLIED IF THE AMOUNTS HAD NOT BEEN SEPARATELY ACCOUNTED FOR UNDER THIS
19 SECTION.

20 J. THE DEPARTMENT SHALL POST ON THE DEPARTMENT'S WEBSITE THE
21 INTERGOVERNMENTAL AGREEMENTS ENTERED INTO WITH A CITY, TOWN OR COUNTY
22 PURSUANT TO THIS SECTION AND THE DEVELOPMENT AGREEMENTS ENTERED INTO IN
23 CONNECTION WITH THIS SECTION. ON REQUEST BY THE DEPARTMENT, A CITY, TOWN
24 OR COUNTY THAT HAS ENTERED INTO AN AGREEMENT PURSUANT TO SUBSECTION G OF
25 THIS SECTION SHALL PROVIDE THE DEPARTMENT WITH A COPY OF ANY DEVELOPMENT
26 AGREEMENT BETWEEN THE CITY, TOWN OR COUNTY AND A MANUFACTURING FACILITY
27 ENTERED INTO IN CONNECTION WITH THIS SECTION. BEFORE POSTING A DEVELOPMENT
28 AGREEMENT, THE DEPARTMENT SHALL:

29 1. PROVIDE THE MANUFACTURING FACILITY WITH WRITTEN NOTICE AND A
30 REASONABLE OPPORTUNITY TO DESIGNATE, WITHIN THIRTY DAYS AFTER RECEIVING
31 THE NOTICE, SPECIFIC INFORMATION IN THE AGREEMENT THAT THE MANUFACTURING
32 FACILITY CONSIDERS TO BE EITHER:

33 (a) A TRADE SECRET AS DEFINED IN SECTION 44-401.

34 (b) CONFIDENTIAL PROPRIETARY INFORMATION THAT, IF MADE PUBLIC,
35 COULD HARM THE COMPETITIVE POSITION OF THE MANUFACTURING FACILITY.

36 2. REDACT INFORMATION DESIGNATED BY THE MANUFACTURING FACILITY
37 UNDER PARAGRAPH 1 OF THIS SUBSECTION BEFORE POSTING THE AGREEMENT, UNLESS
38 THE DEPARTMENT DETERMINES AFTER CONSULTATION WITH THE MANUFACTURING
39 FACILITY THAT THE DESIGNATION IS NOT REASONABLE UNDER THE CIRCUMSTANCES.
40 INFORMATION DESIGNATED AND REDACTED UNDER THIS PARAGRAPH IS CONFIDENTIAL,
41 IS NOT A PUBLIC RECORD AND MAY NOT BE DISCLOSED BY THE DEPARTMENT.

42 ~~I.~~ K. For the purposes of this section:

43 1. "Associated improvement" includes any public infrastructure
44 improvement that is made for the benefit of the manufacturing facility

1 outside of the parcel or parcels of real property where the manufacturing
2 facility is located.

3 2. "Capital investment" means an expenditure to acquire, lease or
4 improve property that is used for the benefit of a manufacturing facility,
5 including land, buildings, machinery and fixtures.

6 3. "ELIGIBLE REQUEST FOR PAYMENT" MEANS A REQUEST FOR PAYMENT
7 SUBMITTED BY A CITY, TOWN OR COUNTY UNDER AN AGREEMENT ENTERED INTO
8 PURSUANT TO SUBSECTION G OF THIS SECTION THAT THE DEPARTMENT HAS
9 DETERMINED COMPLIES WITH THE APPLICABLE AGREEMENT.

10 ~~3.~~ 4. "Manufacturing facility":

11 (a) Means an establishment that is engaged in the mechanical,
12 physical or chemical transformation or fabrication of materials,
13 substances or components into new products in this state, that is
14 classified within sections 31 through 33 inclusive of the 2007 edition of
15 the North American industry classification system as published by the
16 national technical information service of the United States department of
17 commerce and that agrees to either:

18 (i) Make at least ~~\$500,000,000~~ \$3,000,000,000 in capital investment
19 if the manufacturing facility is located in a county that has a population
20 of eight hundred thousand persons or more.

21 (ii) Make at least ~~\$50,000,000~~ \$100,000,000 in capital investment
22 if the manufacturing facility is located in a county that has a population
23 of less than eight hundred thousand persons.

24 (b) Does not include mining, milling or smelting mineral ore or
25 generating electricity.

26 ~~4.~~ 5. "Population" means the population determined in the most
27 recent United States decennial census or the most recent special census as
28 provided in section 28-6532.

29 ~~5.~~ 6. "Public infrastructure" means water production, delivery and
30 disposal facilities, wastewater production, RECLAMATION, RECYCLING,
31 TREATMENT, STORAGE, delivery and disposal facilities and roads that are
32 necessary to support the activities of the manufacturing facility.

33 7. "REMAINING CAPACITY" MEANS THE AMOUNT BY WHICH THE APPLICABLE
34 MAXIMUM AMOUNT PRESCRIBED IN SUBSECTION C OF THIS SECTION EXCEEDS THE
35 TOTAL AMOUNT DISTRIBUTED TO ALL CITIES, TOWNS AND COUNTIES UNDER
36 SUBSECTION A OF THIS SECTION.

37 Sec. 11. Section 42-11111, Arizona Revised Statutes, is amended to
38 read:

39 42-11111. Exemption for property; widows and widowers; persons
40 with a total and permanent disability; veterans
41 with a disability; definitions

42 A. The property of widows and widowers, of persons with total and
43 permanent disabilities and of veterans with service or nonservice
44 connected disabilities who are residents of this state is exempt from

1 taxation as provided by article IX, section 2, Constitution of Arizona,
2 and subject to the conditions and limits prescribed by this section.

3 B. Pursuant to article IX, section 2, subsection F, Constitution of
4 Arizona, the exemptions from taxation under this section are allowed as
5 provided in subsections C, D, ~~and~~ E, F AND G of this section.

6 C. The primary residence of a veteran with a service-connected
7 disability whose disability rating by the United States department of
8 veterans affairs is one hundred percent OR WHOSE DISABILITY STATUS IS
9 TOTAL DISABILITY BASED ON INDIVIDUAL UNEMPLOYABILITY is fully exempt from
10 taxation. ~~The surviving spouse of a veteran whose primary residence is~~
11 ~~receiving the exemption under this subsection may continue to claim the~~
12 ~~full exemption for the surviving spouse's primary residence as long as the~~
13 ~~surviving spouse does not remarry.~~ For the purposes of this subsection, a
14 primary residence that is owned by a veteran who is eligible for the
15 exemption under this subsection and the veteran's spouse shall be treated
16 as if owned solely by the veteran.

17 D. The property of a veteran with a nonservice-connected disability
18 whose disability rating by the United States department of veterans
19 affairs is one hundred percent or less or with a service-connected
20 disability whose disability rating by the United States department of
21 veterans affairs is less than one hundred percent is exempt in the amount
22 of \$4,188. The limit under this subsection is further limited by
23 multiplying the total exemption amount by the percentage of the veteran's
24 disability, as rated by the United States department of veterans affairs.

25 E. EXCEPT AS PROVIDED IN SUBSECTION F OR G OF THIS SECTION, the
26 property of a widow or widower or a person with a total and permanent
27 disability WHOSE INCOME FROM ALL SOURCES DOES NOT EXCEED THE LIMITS
28 PRESCRIBED BY SUBSECTION J OF THIS SECTION is exempt in the amount of:

29 1. \$4,188 if the person's total assessment does not exceed the
30 amount provided in paragraph 2 of this subsection.

31 2. No exemption if the person's total assessment exceeds \$28,459.

32 F. THE PRIMARY RESIDENCE OF A WIDOW OR WIDOWER WHO IS THE SURVIVING
33 SPOUSE OF A VETERAN WHO WAS ELIGIBLE FOR THE EXEMPTION UNDER SUBSECTION C
34 OF THIS SECTION IS FULLY EXEMPT FROM TAXATION.

35 G. THE PRIMARY RESIDENCE OF A WIDOW OR WIDOWER WHO IS THE SURVIVING
36 SPOUSE OF A VETERAN WHO WAS ELIGIBLE FOR THE EXEMPTION UNDER SUBSECTION D
37 OF THIS SECTION IS EXEMPT IN THE AMOUNT OF \$4,188. THE LIMIT UNDER THIS
38 SUBSECTION IS FURTHER LIMITED BY MULTIPLYING THE TOTAL EXEMPTION AMOUNT BY
39 THE PERCENTAGE OF THAT VETERAN'S DISABILITY, AS RATED BY THE UNITED STATES
40 DEPARTMENT OF VETERANS AFFAIRS.

41 ~~F.~~ H. On or before December 31 of each year, the department shall
42 increase the following amounts:

43 1. The total allowable exemption amount under subsection D, ~~and~~
44 subsection E, paragraph 1 AND SUBSECTION G of this section based on the

1 average annual percentage increase, if any, in the GDP price deflator in
2 the two most recent complete state fiscal years.

3 2. Beginning in tax year 2026, the total assessment limit amount
4 under subsection E, paragraph 2 of this section based on the average
5 annual percentage increase, if any, in the federal house price index for
6 the two most recent complete state fiscal years.

7 3. The total income limit amounts under subsection ~~H~~ J, paragraphs
8 1 and 2 of this section based on the average annual percentage increase,
9 if any, in the GDP price deflator in the two most recent complete state
10 fiscal years.

11 ~~G~~ I. For the purpose of determining the amount of the allowable
12 exemption pursuant to subsection E of this section, the person's total
13 assessment shall not include the value of any vehicle that is taxed under
14 title 28, chapter 16, article 3.

15 ~~H~~ J. Pursuant to article IX, section 2, subsection F,
16 Constitution of Arizona, to qualify for ~~an~~ THE exemption ~~under~~ PRESCRIBED
17 IN SUBSECTION E OF this section, the total income from all sources of the
18 claimant and the claimant's spouse and the income from all sources of all
19 of the claimant's children who resided with the claimant in the claimant's
20 residence in the year immediately preceding the year for which the
21 claimant applies for the exemption shall not exceed:

22 1. \$34,901 if none of the claimant's children under eighteen years
23 of age resided with the claimant in the claimant's residence.

24 2. \$41,870 if one or more of the claimant's children residing with
25 the claimant in the claimant's residence either:

26 (a) Were under eighteen years of age.

27 (b) Had a total and permanent physical or mental disability, as
28 certified by competent medical authority as provided by law.

29 ~~I. For the purposes of subsection H of this section, "income from~~
30 ~~all sources" means the sum of the following, excluding the items listed in~~
31 ~~subsection J of this section:~~

32 ~~1. Adjusted gross income as defined by the department.~~

33 ~~2. The amount of capital gains excluded from adjusted gross income.~~

34 ~~3. Nontaxable strike benefits.~~

35 ~~4. Nontaxable interest that is received from the federal government~~
36 ~~or any of its instrumentalities.~~

37 ~~5. Payments that are received from a retirement program and paid~~
38 ~~by:~~

39 ~~(a) This state or any of its political subdivisions.~~

40 ~~(b) The United States through any of its agencies,~~
41 ~~instrumentalities or programs, except as provided in subsection J of this~~
42 ~~section.~~

43 ~~6. The gross amount of any pension or annuity that is not otherwise~~
44 ~~exempted.~~

1 ~~J. Notwithstanding subsection I of this section, income from all~~
2 ~~sources does not include monies received from:~~

- 3 ~~1. Cash public assistance and relief.~~
- 4 ~~2. Railroad retirement benefits.~~
- 5 ~~3. Payments under the federal social security act (49 Stat. 620).~~
- 6 ~~4. Payments under the unemployment insurance laws of this state.~~
- 7 ~~5. Payments from any veterans pensions.~~
- 8 ~~6. Workers' compensation payments.~~
- 9 ~~7. Loss of time insurance.~~

10 ~~8. Gifts from nongovernmental sources, surplus foods or other~~
11 ~~relief in kind supplied by a governmental agency.~~

12 K. A ~~widow or widower, a person with a total and permanent~~
13 ~~disability or a veteran with a disability~~ PERSON shall establish
14 eligibility for exemption under this section by filing an affidavit with
15 the county assessor under section 42-11152 when initially claiming the
16 exemption AND, IF CLAIMING THE EXEMPTION UNDER SUBSECTION F OR G OF THIS
17 SECTION, PROVIDING EVIDENCE OF THE VETERAN SPOUSE'S DISABILITY RATING BY
18 THE UNITED STATES DEPARTMENT OF VETERANS AFFAIRS OR TOTAL DISABILITY BASED
19 ON INDIVIDUAL UNEMPLOYABILITY TO THE COUNTY ASSESSOR. Each year
20 thereafter, the person WHO CLAIMS THE EXEMPTION PRESCRIBED IN SUBSECTION E
21 OF THIS SECTION or the person's representative shall annually calculate
22 income from the preceding year to ensure that the person still qualifies
23 for the exemption. ~~and~~ THE PERSON OR THE PERSON'S REPRESENTATIVE SHALL
24 notify the county assessor in writing of any DISQUALIFYING event ~~that~~
25 ~~disqualifies the person from further exemption.~~ Regardless of whether the
26 person or THE PERSON'S representative notifies the COUNTY assessor as
27 required by this subsection, the property is subject to tax as provided by
28 law from the date of ~~disqualification~~ THE DISQUALIFYING EVENT, including
29 interest, penalties and proceedings for tax delinquencies. ~~Disqualifying~~
30 ~~events include~~ A DISQUALIFYING EVENT INCLUDES:

- 31 1. ~~Except as provided in subsection C of this section,~~ The person's
32 death.
- 33 2. The remarriage of a widow or widower.
- 34 3. FOR THE EXEMPTION PRESCRIBED IN SUBSECTION E OF THIS SECTION,
35 the person's income from all sources exceeding the limits prescribed by
36 subsection ~~H~~ J of this section.
- 37 4. The conveyance of title to the property to another owner.

38 L. IN ORDER FOR A SUBSEQUENT PRIMARY RESIDENCE OF A PERSON WHO
39 CLAIMS ANY OF THE EXEMPTIONS PRESCRIBED BY THIS SECTION TO BE ELIGIBLE FOR
40 EXEMPTION, WITHIN SIXTY DAYS AFTER THE SUBSEQUENT PRIMARY RESIDENCE
41 BECOMES THE PERSON'S PRIMARY RESIDENCE THE PERSON MUST FILE WITH THE
42 COUNTY ASSESSOR OF THE COUNTY IN WHICH THE SUBSEQUENT PRIMARY RESIDENCE IS
43 LOCATED A FULLY COMPLETED EXEMPTION TRANSFER FORM AS PRESCRIBED BY THE
44 DEPARTMENT.

1 ~~M.~~ M. Any dollar amount of exemption that is unused in a tax year
2 against the limited property value of property and improvements owned by
3 the individual may be applied for the tax year against the value of
4 personal property subject to special property taxes, including the taxes
5 collected pursuant to title 5, chapter 3, article 3 and title 28, chapter
6 16, article 3.

7 ~~M.~~ N. The property tax exemptions ~~provided~~ PRESCRIBED in
8 subsections C, D, ~~and~~ E, F AND G of this section are exclusive from each
9 other, and an individual is not entitled to property tax exemptions under
10 more than one ~~category as a widow or widower, a person with a total and~~
11 ~~permanent disability or a veteran with a disability~~ SUBSECTION even if the
12 individual is eligible for an exemption in more than one
13 ~~category~~ SUBSECTION.

14 ~~N.~~ O. For the purposes of this section:

15 1. "Competent medical authority" means any of the following:

16 (a) An individual licensed under title 32, chapter 8, 13, 14, 17,
17 19.1, 25 or 29 or a comparable law of another state.

18 (b) A registered nurse practitioner as defined in section 32-1601.

19 (c) The United States department of veterans affairs, as evidenced
20 by a disability award letter.

21 2. "Federal house price index" means the average measure of
22 movement of single-family house prices in the United States published by
23 the federal housing finance agency, or its successor, for this state.

24 3. "GDP price deflator" means the average of the four implicit
25 price deflators for the gross domestic product reported by the United
26 States department of commerce or its successor for the four quarters of
27 the state fiscal year.

28 4. "INCOME FROM ALL SOURCES":

29 (a) MEANS THE SUM OF THE FOLLOWING:

30 (i) ADJUSTED GROSS INCOME AS DEFINED BY THE DEPARTMENT.

31 (ii) THE AMOUNT OF CAPITAL GAINS EXCLUDED FROM ADJUSTED GROSS
32 INCOME.

33 (iii) NONTAXABLE STRIKE BENEFITS.

34 (iv) NONTAXABLE INTEREST THAT IS RECEIVED FROM THE FEDERAL
35 GOVERNMENT OR ANY OF ITS INSTRUMENTALITIES.

36 (v) PAYMENTS THAT ARE RECEIVED FROM A RETIREMENT PROGRAM AND PAID
37 BY THIS STATE OR ANY POLITICAL SUBDIVISION OF THIS STATE OR THE UNITED
38 STATES THROUGH ANY OF ITS AGENCIES, INSTRUMENTALITIES OR PROGRAMS, EXCEPT
39 AS PROVIDED IN SUBDIVISION (b) OF THIS PARAGRAPH.

40 (vi) THE GROSS AMOUNT OF ANY PENSION OR ANNUITY THAT IS NOT
41 OTHERWISE EXEMPTED.

42 (b) DOES NOT INCLUDE MONIES RECEIVED FROM:

43 (i) CASH PUBLIC ASSISTANCE AND RELIEF.

44 (ii) RAILROAD RETIREMENT BENEFITS.

1 (iii) PAYMENTS UNDER THE FEDERAL SOCIAL SECURITY ACT (49 STAT.
2 620).

3 (iv) PAYMENTS UNDER THE UNEMPLOYMENT INSURANCE LAWS OF THIS STATE.

4 (v) PAYMENTS FROM ANY VETERANS PENSIONS.

5 (vi) WORKERS' COMPENSATION PAYMENTS.

6 (vii) LOSS OF TIME INSURANCE.

7 (viii) GIFTS FROM NONGOVERNMENTAL SOURCES, SURPLUS FOODS OR OTHER
8 RELIEF IN KIND SUPPLIED BY A GOVERNMENTAL AGENCY.

9 (iv) VETERANS DISABILITY PAYMENTS DUE TO THE DISABILITY RATING OR
10 STATUS OF TOTAL DISABILITY BASED ON INDIVIDUAL UNEMPLOYABILITY.

11 ~~4.~~ 5. "Person with a total and permanent disability" means a
12 person who is unable to engage in any substantial gainful activity, for
13 pay or profit, by reason of any physical or mental impairment that is
14 expected to last for a continuous period of at least twelve months or
15 result in death within twelve months as certified by a competent medical
16 authority.

17 ~~5.~~ 6. "Veteran" means an individual who has served in, and been
18 discharged, separated or released under honorable conditions from, active
19 or inactive service in the uniformed services of the United States,
20 including:

21 (a) All regular, reserve and national guard components of the
22 United States army, navy, air force, marine corps and coast guard.

23 (b) The commissioned corps of the national oceanic and atmospheric
24 administration.

25 (c) The commissioned corps of the United States public health
26 service.

27 (d) A nurse in the service of the American red cross or in the army
28 and navy nurse corps.

29 (e) Any other civilian service that is authorized by federal law to
30 be considered active military duty for the purpose of laws administered by
31 the United States secretary of veterans affairs.

32 Sec. 12. Section 43-105, Arizona Revised Statutes, is amended to
33 read:

34 43-105. Internal revenue code; definition; application

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

42 ~~A.~~ B. For the purposes of computing income tax pursuant to this
43 title, for taxable years beginning from and after December 31, 2024
44 THROUGH DECEMBER 31, 2025, "internal revenue code" means the United States
45 internal revenue code of 1986, as amended, in effect on January 1, 2025,

1 including those provisions that became effective during 2024 with the
2 specific adoption of all retroactive effective dates, ~~but excluding any~~
3 ~~changes to the code enacted after January 1, 2025~~ AND INCLUDING THOSE
4 PROVISIONS OF PUBLIC LAW 119-21 THAT ARE RETROACTIVELY EFFECTIVE DURING
5 TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER
6 31, 2025.

7 ~~B.~~ C. For the purposes of computing income tax pursuant to this
8 title, for taxable years beginning from and after December 31, 2023
9 through December 31, 2024, "internal revenue code" means the United States
10 internal revenue code of 1986, as amended, in effect on January 1, 2024,
11 including those provisions that became effective during 2023 with the
12 specific adoption of all retroactive effective dates, and including those
13 provisions OF PUBLIC LAW 119-21 that are retroactively effective during
14 taxable years beginning from and after December 31, 2023 through December
15 31, 2024.

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

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

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

1 ~~F.~~ G. For the purposes of computing income tax pursuant to this
2 title, for taxable years beginning from and after December 31, 2019
3 through December 31, 2020, "internal revenue code" means the United States
4 internal revenue code of 1986, as amended, in effect on January 1, 2020,
5 including those provisions that became effective during 2019 with the
6 specific adoption of all retroactive effective dates, and including those
7 provisions of the families first coronavirus response act (P.L. 116-127),
8 the coronavirus aid, relief, and economic security act (P.L. 116-136), the
9 paycheck protection program flexibility act of 2020 (P.L. 116-142), the
10 consolidated appropriations act, 2021 (P.L. 116-260) and the American
11 rescue plan act of 2021 (P.L. 117-2) that are retroactively effective
12 during taxable years beginning from and after December 31, 2019 through
13 December 31, 2020.

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

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

39 ~~I.~~ J. For the purposes of computing income tax pursuant to this
40 title, for taxable years beginning from and after December 31, 2016
41 through December 31, 2017, "internal revenue code" means the United States
42 internal revenue code of 1986, as amended, in effect on January 1, 2017,
43 including those provisions that became effective during 2016 with the
44 specific adoption of all federal retroactive effective dates, and
45 including those provisions of the disaster tax relief and airport and

1 airway extension act of 2017 (P.L. 115-63), the tax cuts and jobs act
2 (P.L. 115-97), the bipartisan budget act of 2018 (P.L. 115-123), the
3 consolidated appropriations act, 2018 (P.L. 115-141), the further
4 consolidated appropriations act, 2020 (P.L. 116-94) and the coronavirus
5 aid, relief, and economic security act (P.L. 116-136) that are
6 retroactively effective during taxable years beginning from and after
7 December 31, 2016 through December 31, 2017.

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

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

35 Sec. 13. Section 43-222, Arizona Revised Statutes, is amended to
36 read:

37 43-222. Income tax credit review schedule

38 The joint legislative income tax credit review committee shall
39 review the following income tax credits:

40 1. For years ending in 0 and 5, sections 43-1079.01, 43-1088,
41 43-1089.04, 43-1167.01 and 43-1175.

42 2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02,
43 ~~43-1075~~, 43-1076.01, 43-1077, 43-1078, 43-1083, 43-1083.02, 43-1162,
44 43-1164.03 and 43-1183.

1 3. For years ending in 2 and 7, sections 43-1073, 43-1082, 43-1085,
2 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164, 43-1165,
3 and 43-1181.

4 4. For years ending in 3 and 8, sections 43-1074.01,
5 43-1168, ~~43-1170~~ and 43-1178.

6 5. For years ending in 4 and 9, sections 43-1073.01, 43-1081.01,
7 43-1083.03, 43-1084, 43-1164.04, 43-1164.05 and 43-1184.

8 Sec. 14. Section 43-1021, Arizona Revised Statutes, is amended to
9 read:

10 43-1021. Addition to Arizona gross income

11 In computing Arizona adjusted gross income, the following amounts
12 shall be added to Arizona gross income:

13 1. A beneficiary's share of the fiduciary adjustment to the extent
14 that the amount determined by section 43-1333 increases the beneficiary's
15 Arizona gross income.

16 2. An amount equal to the ordinary income portion of a lump sum
17 distribution that was excluded from federal adjusted gross income pursuant
18 to the special rule for individuals who attained fifty years of age before
19 January 1, 1986 under Public Law 99-514, section 1122(h)(3).

20 3. The amount of interest income received on obligations of any
21 state, territory or possession of the United States, or any political
22 subdivision thereof, located outside of this state, reduced, for taxable
23 years beginning from and after December 31, 1996, by the amount of any
24 interest on indebtedness and other related expenses that were incurred or
25 continued to purchase or carry those obligations and that are not
26 otherwise deducted or subtracted in arriving at Arizona gross income.

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

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

34 6. Any amount of agricultural water conservation expenses that were
35 deducted pursuant to the internal revenue code for which a credit is
36 claimed under section 43-1084.

37 7. The amount by which the depreciation or amortization computed
38 under the internal revenue code with respect to property for which a
39 credit was taken under section 43-1081.01 or that is pollution control
40 equipment for which a credit was taken before taxable year 2022 exceeds
41 the amount of depreciation or amortization computed pursuant to the
42 internal revenue code on the Arizona adjusted basis of the property.

43 8. The amount by which the adjusted basis computed under the
44 internal revenue code with respect to property for which a credit was
45 claimed under section 43-1074.02 or 43-1081.01 or that is pollution

1 control equipment for which a credit was taken before taxable year 2022
2 and that is sold or otherwise disposed of during the taxable year exceeds
3 the adjusted basis of the property computed under section 43-1074.02 or
4 43-1081.01 or for pollution control equipment, the section in which the
5 credit was taken, as applicable.

6 9. The deduction referred to in section 1341(a)(4) of the internal
7 revenue code for restoration of a substantial amount held under a claim of
8 right.

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

13 11. The amount of any depreciation allowance allowed pursuant to
14 section 167(a) of the internal revenue code to the extent not previously
15 added.

16 12. The amount of a nonqualified withdrawal, as defined in section
17 15-1871, from a college savings plan established pursuant to section 529
18 of the internal revenue code that is made to a distributee to the extent
19 the amount is not included in computing federal adjusted gross income,
20 except that the amount added under this paragraph shall not exceed the
21 difference between the amount subtracted under section 43-1022 in prior
22 taxable years and the amount added under this section in any prior taxable
23 years.

24 13. If a subtraction is or has been taken by the taxpayer under
25 section 43-1024, in the current or a prior taxable year for the full
26 amount of eligible access expenditures paid or incurred to comply with the
27 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)
28 or title 41, chapter 9, article 8, any amount of eligible access
29 expenditures that is recognized under the internal revenue code, including
30 any amount that is amortized according to federal amortization schedules,
31 and that is included in computing taxable income for the current taxable
32 year.

33 14. For taxable years beginning from and after December 31, 2017,
34 the amount of any net capital loss included in Arizona gross income for
35 the taxable year that is derived from the exchange of one kind of legal
36 tender for another kind of legal tender. For the purposes of this
37 paragraph:

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

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

42 15. For taxable years beginning from and after December 31, 2021,
43 the amount deducted by the partnership or S corporation pursuant to the
44 internal revenue code for the amount paid to this state under section
45 43-1014 and for taxes that the department determines are substantially

1 similar to the tax imposed under section 43-1014. This amount shall be
2 reflected in the partner's or shareholder's Arizona gross income and the
3 partnership's or S corporation's Arizona taxable income.

4 16. The amount of any motion picture production costs that was
5 deducted pursuant to the internal revenue code for which a tax credit is
6 claimed under section 43-1082.

7 17. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
8 THE AMOUNT OF THE SPECIAL DEPRECIATION ALLOWANCE FOR QUALIFIED PRODUCTION
9 PROPERTY ALLOWED PURSUANT TO SECTION 168(n) OF THE INTERNAL REVENUE CODE
10 FOR THE TAXABLE YEAR TO THE EXTENT NOT PREVIOUSLY ADDED.

11 Sec. 15. Section 43-1022, Arizona Revised Statutes, is amended to
12 read:

13 43-1022. Subtractions from Arizona gross income

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

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

17 2. Benefits, annuities and pensions in an amount totaling not more
18 than \$2,500 received from one or more of the following:

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

24 (b) The Arizona state retirement system, the corrections officer
25 retirement plan, the public safety personnel retirement system, the
26 elected officials' retirement plan, an optional retirement program
27 established by the Arizona board of regents under section 15-1628, an
28 optional retirement program established by a community college district
29 board under section 15-1451 or a retirement plan established for employees
30 of a county, city or town in this state.

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

34 4. Interest income received on obligations of the United States,
35 minus any interest on indebtedness, or other related expenses, and
36 deducted in arriving at Arizona gross income, that were incurred or
37 continued to purchase or carry such obligations.

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

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

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

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

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

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

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

23 12. The amount of unreimbursed medical and hospital costs, adoption
24 counseling, legal and agency fees and other nonrecurring costs of
25 adoption. The subtraction under this paragraph may be taken for the costs
26 that are described in this paragraph and that are incurred in prior years,
27 but the subtraction may be taken only in the year during which the final
28 adoption order is granted. The amount subtracted may not exceed:

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

33 (b) In taxable years beginning from and after December 31, 2025,
34 \$5,000 for a single individual or head of household.

35 (c) For taxable years beginning from and after December 31, 2025,
36 \$10,000 for a married couple filing a joint return. In the case of a
37 husband and wife who file separate returns, the subtraction may be taken
38 by either taxpayer or may be divided between them, but the total
39 subtractions allowed both husband and wife may not exceed \$10,000.

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

43 14. The amount by which a net operating loss carryover or capital
44 loss carryover allowable pursuant to section 43-1029, subsection F exceeds

1 the net operating loss carryover or capital loss carryover allowable
2 pursuant to section 1341(b)(5) of the internal revenue code.

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

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

11 17. For property placed in service:

12 (a) In taxable years beginning before December 31, 2012, an amount
13 equal to the depreciation allowable pursuant to section 167(a) of the
14 internal revenue code for the taxable year computed as if the election
15 described in section 168(k) of the internal revenue code had been made for
16 each applicable class of property in the year the property was placed in
17 service.

18 (b) In taxable years beginning from and after December 31, 2012
19 through December 31, 2013, an amount determined in the year the asset was
20 placed in service based on the calculation in subdivision (a) of this
21 paragraph. In the first taxable year beginning from and after
22 December 31, 2013, the taxpayer may elect to subtract the amount necessary
23 to make the depreciation claimed to date for the purposes of this title
24 the same as it would have been if subdivision (c) of this paragraph had
25 applied for the entire time the asset was in service. Subdivision (c) of
26 this paragraph applies for the remainder of the asset's life. If the
27 taxpayer does not make the election under this subdivision, subdivision
28 (a) of this paragraph applies for the remainder of the asset's life.

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

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

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

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

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

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

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

19 20. The portion of the net operating loss carryforward that would
20 have been allowed as a deduction in the current year pursuant to section
21 172 of the internal revenue code if the election described in section
22 172(b)(1)(H) of the internal revenue code had not been made in the year of
23 the loss that exceeds the actual net operating loss carryforward that was
24 deducted in arriving at federal adjusted gross income. This subtraction
25 only applies to taxpayers who made an election under section 172(b)(1)(H)
26 of the internal revenue code as amended by section 1211 of the American
27 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
28 section 13 of the worker, homeownership, and business assistance act of
29 2009 (P.L. 111-92).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13 (a) "Airdrop" means the receipt of virtual currency through a means
14 of distribution of virtual currency to the distributed ledger addresses of
15 multiple taxpayers.

16 (b) "Non-fungible token" has the same meaning prescribed in section
17 43-1028.

18 (c) "Virtual currency" has the same meaning prescribed in section
19 43-1028.

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

23 31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024,
24 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
25 INTERNAL REVENUE CODE, THE AMOUNT OF QUALIFIED TIPS RECEIVED DURING THE
26 TAXABLE YEAR THAT IS DEDUCTED UNDER SECTION 224 OF THE INTERNAL REVENUE
27 CODE.

28 32. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024,
29 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
30 INTERNAL REVENUE CODE, THE AMOUNT OF QUALIFIED OVERTIME COMPENSATION
31 RECEIVED DURING THE TAXABLE YEAR THAT IS DEDUCTED UNDER SECTION 225 OF THE
32 INTERNAL REVENUE CODE.

33 33. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
34 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
35 INTERNAL REVENUE CODE, THE AMOUNT OF A DISTRIBUTION FROM AN ACCOUNT
36 ESTABLISHED PURSUANT TO SECTION 530A OF THE INTERNAL REVENUE CODE.

37 34. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
38 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
39 INTERNAL REVENUE CODE, THE AMOUNT OF CHILD AND DEPENDENT CARE EXPENSES FOR
40 A QUALIFYING INDIVIDUAL UNDER SECTION 21 OF THE INTERNAL REVENUE CODE PAID
41 OR INCURRED BY THE TAXPAYER FOR THE TAXABLE YEAR THAT EXCEEDS THE AMOUNT
42 OF THE FEDERAL CREDIT THAT THE TAXPAYER RECEIVED UNDER SECTION 21 OF THE
43 INTERNAL REVENUE CODE.

1 35. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024,
2 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
3 INTERNAL REVENUE CODE, THE AMOUNT DEDUCTED FOR A QUALIFIED INDIVIDUAL
4 UNDER SECTION 151(d)(5)(C) OF THE INTERNAL REVENUE CODE.

5 36. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024
6 THROUGH DECEMBER 31, 2025, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA
7 GROSS INCOME UNDER THE INTERNAL REVENUE CODE, THE AMOUNT DEDUCTED FOR
8 QUALIFIED PASSENGER VEHICLE LOAN INTEREST UNDER SECTION 163(h)(4) OF THE
9 INTERNAL REVENUE CODE.

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

12 43-1041. Optional standard deduction

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

14 1. In the case of a single person or a married person filing
15 separately, the standard deduction is ~~\$12,200~~ \$15,750, subject to
16 subsection H of this section.

17 2. In the case of a single person who is a head of a household, the
18 standard deduction is ~~\$18,350~~ \$23,625, subject to subsection H of this
19 section.

20 3. In the case of a married couple filing a joint return, the
21 standard deduction is ~~\$24,400~~ \$31,500, subject to subsection H of this
22 section.

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

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

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

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

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

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

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

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

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

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

15 H. For each taxable year beginning from and after December 31,
16 2019, the department shall adjust the dollar amounts prescribed by
17 subsection A, paragraphs 1, 2 and 3 of this section for inflation in the
18 same manner in which the federal basic standard deduction is adjusted for
19 inflation pursuant to section 63 of the internal revenue code.

20 I. ~~For taxable years beginning from and after December 31, 2018,~~
21 The standard deduction allowed under subsection A of this section shall be
22 increased AS FOLLOWS:

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

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

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

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

1 Sec. 17. Section 43-1042, Arizona Revised Statutes, is amended to
2 read:

3 43-1042. Itemized deductions

4 A. Except as provided by subsections B, ~~and~~ C AND D of this
5 section, at the election of the taxpayer, and in lieu of the standard
6 deduction allowed by section 43-1041, in computing taxable income the
7 taxpayer may take the amount of itemized deductions allowable for the
8 taxable year pursuant to subtitle A, chapter 1, subchapter B, parts VI and
9 VII, but subject to the ~~limitations~~ LIMITS prescribed by sections 67, 68
10 and 274 of the internal revenue code.

11 B. In lieu of the amount of the federal itemized deduction for
12 expenses paid for medical care allowed under section 213 of the internal
13 revenue code, the taxpayer may deduct the full amount of such expenses.

14 C. A taxpayer shall not claim both a deduction provided by this
15 section and a credit allowed by this title with respect to the same
16 charitable contributions. This subsection applies to any contribution for
17 which a credit is allowed by this title even if the contribution is
18 treated as a payment of state income tax.

19 D. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, IN
20 LIEU OF THE AMOUNT OF THE FEDERAL ITEMIZED DEDUCTION FOR STATE AND LOCAL
21 TAXES ALLOWED UNDER SECTION 164(b)(7) OF THE INTERNAL REVENUE CODE, THE
22 TAXPAYER MAY DEDUCT UP TO \$10,000 OF THAT AMOUNT FOR SUCH STATE AND LOCAL
23 TAXES.

24 ~~D.~~ E. The taxpayer may add any interest expense paid by the
25 taxpayer for the taxable year that is equal to the amount of federal
26 credit for interest on certain home mortgages allowed by section 25 of the
27 internal revenue code.

28 Sec. 18. Section 43-1073.01, Arizona Revised Statutes, is amended
29 to read:

30 43-1073.01. Dependent tax credit

31 A. A credit is allowed against the taxes imposed by this title for
32 a taxable year for each dependent of a taxpayer as provided by this
33 section.

34 B. For taxpayers whose federal adjusted gross income is less than
35 \$200,000 for a taxpayer who is a single person, a married person filing
36 separately or a head of household or is less than \$400,000 for a married
37 couple filing a joint return, the amount of the credit is:

38 1. ~~\$100~~ \$125 for each dependent who is under seventeen years of age
39 at the end of the taxable year.

40 2. \$25 for each dependent who is at least seventeen years of age at
41 the end of the taxable year.

42 C. For taxpayers whose federal adjusted gross income is \$200,000 or
43 more for a taxpayer who is a single person, a married person filing
44 separately or a head of household or is \$400,000 or more for a married
45 couple filing a joint return, the amount of the credit is:

1 1. ~~\$100~~ \$125 minus five percent for each \$1,000, or fraction
2 thereof, by which the taxpayer's federal adjusted gross income exceeds the
3 applicable threshold provided in this subsection for each dependent who is
4 under seventeen years of age at the end of the taxable year.

5 2. \$25 minus five percent for each \$1,000, or fraction thereof, by
6 which the taxpayer's federal adjusted gross income exceeds the applicable
7 threshold provided in this subsection for each dependent who is at least
8 seventeen years of age at the end of the taxable year.

9 D. In the case of a nonresident or part-year resident taxpayer, the
10 credit allowed under this section is allowed in the percentage that the
11 taxpayer's Arizona gross income is of the federal adjusted gross income.

12 Sec. 19. Repeal

13 Section 43-1074, Arizona Revised Statutes, is repealed.

14 Sec. 20. Section 43-1074.01, Arizona Revised Statutes, is amended
15 to read:

16 43-1074.01. Credit for increased research activities

17 A. A credit is allowed against the taxes imposed by this title in
18 an amount determined pursuant to section 41 of the internal revenue code,
19 except that:

20 1. The amount of the credit is based on the excess, if any, of the
21 qualified research expenses for the taxable year over the base amount as
22 defined in section 41(c) of the internal revenue code and is computed as
23 follows:

24 (a) If the excess is \$2,500,000 or less:

25 (i) For taxable years beginning before December 31, 2030, the
26 credit is equal to twenty-four percent of that amount.

27 (ii) For taxable years beginning from and after December 31, 2030,
28 the credit is equal to twenty percent of that amount.

29 (b) If the excess is over \$2,500,000:

30 (i) For taxable years beginning before December 31, 2030, the
31 credit is equal to \$600,000 plus fifteen percent of any amount
32 exceeding \$2,500,000.

33 (ii) For taxable years beginning from and after December 31, 2030,
34 the credit is equal to \$500,000 plus eleven percent of any amount
35 exceeding \$2,500,000.

36 (c) For taxable years beginning from and after December 31, 2011,
37 an additional credit amount is allowed if the taxpayer made basic research
38 payments during the taxable year to a university under the jurisdiction of
39 the Arizona board of regents. The additional credit amount is equal to
40 ten percent of the excess, if any, of the basic research payments over the
41 qualified organization base period amount for the taxable year. The
42 department shall not allow credit amounts under this subdivision and
43 section 43-1168, subsection A, paragraph 1, subdivision (d) that exceed,
44 in the aggregate, a combined total of \$10,000,000 in any calendar year.
45 Subject to that limit, on application by the taxpayer, the department

1 shall certify credit amounts under this subdivision and section 43-1168,
2 subsection A, paragraph 1, subdivision (d) based on priority placement
3 established by the date that the taxpayer filed the application. For
4 taxable years beginning from and after December 31, 2014, any basic
5 research payments used to determine the additional credit under this
6 subdivision must first receive certification from the Arizona commerce
7 authority pursuant to section 41-1507.01. The additional credit amount
8 under this subdivision shall not exceed the amount allowed based on actual
9 basic research payments or the department's certification, whichever is
10 less. If an application, if certified in full, would exceed the
11 \$10,000,000 limit, the department shall certify only an amount within that
12 limit. After the limit is attained, the department shall deny any
13 subsequent applications regardless of whether other certified amounts are
14 not actually claimed as a credit or other taxpayers fail to qualify to
15 actually claim certified amounts. Notwithstanding ~~subsections~~ SUBSECTION
16 B ~~and C~~ of this section, any amount of the additional credit under this
17 subdivision that exceeds the taxes otherwise due under this title is not
18 refundable, but may be carried forward to the next five consecutive
19 taxable years. For the purposes of this subdivision, "basic research
20 payments" and "qualified organization base period amount" have the same
21 meanings prescribed by section 41(e) of the internal revenue code without
22 regard to whether the taxpayer is or is not a corporation.

23 2. Qualified research includes only research conducted in this
24 state, including research conducted at a university in this state and paid
25 for by the taxpayer.

26 3. If two or more taxpayers, including partners in a partnership
27 and shareholders of an S corporation, as defined in section 1361 of the
28 internal revenue code, share in the eligible expenses, each taxpayer is
29 eligible to receive a proportionate share of the credit.

30 4. The credit under this section applies only to expenses incurred
31 from and after December 31, 2000.

32 5. The termination provisions of section 41 of the internal revenue
33 code do not apply.

34 B. ~~Except as provided by subsection C of this section,~~ If the
35 allowable credit under this section exceeds the taxes otherwise due under
36 this title on the claimant's income, or if there are no taxes due under
37 this title, the amount of the credit that is claimed for taxable years
38 beginning before January 1, 2022 and that is not used to offset taxes may
39 be carried forward to the next fifteen consecutive taxable years and the
40 amount of the credit that is claimed for taxable years beginning from and
41 after December 31, 2021 and that is not used to offset taxes may be
42 carried forward to the next ten consecutive taxable years. The amount of
43 credit carryforward from taxable years beginning from and after December
44 31, 2002 that may be used in any taxable year may not exceed the
45 taxpayer's tax liability under this title minus the credit under this

1 section for the current taxable year's qualified research expenses.
2 ~~A taxpayer who carries forward any amount of credit under this subsection~~
3 ~~may not thereafter claim a refund of any amount of the credit under~~
4 ~~subsection C of this section.~~

5 ~~C. For taxable years beginning from and after December 31, 2009, if~~
6 ~~a taxpayer who claims a credit under this section employs fewer than one~~
7 ~~hundred fifty persons in the taxpayer's trade or business and if the~~
8 ~~allowable credit under this section exceeds the taxes otherwise due under~~
9 ~~this title on the claimant's income, or if there are no taxes due under~~
10 ~~this title, in lieu of carrying the excess amount of credit forward to~~
11 ~~subsequent taxable years under subsection B of this section, the taxpayer~~
12 ~~may elect to receive a refund as follows:~~

13 ~~1. The taxpayer must apply to the Arizona commerce authority for~~
14 ~~qualification for the refund pursuant to section 41-1507 and submit a copy~~
15 ~~of the authority's certificate of qualification to the department of~~
16 ~~revenue with the taxpayer's income tax return.~~

17 ~~2. The amount of the refund is limited to seventy-five percent of~~
18 ~~the amount by which the allowable credit under this section exceeds the~~
19 ~~taxpayer's tax liability under this title for the taxable year. The~~
20 ~~remainder of the excess amount of the credit is waived.~~

21 ~~3. The refund shall be paid in the manner prescribed by section~~
22 ~~42-1118.~~

23 ~~4. The refund is subject to setoff under section 42-1122.~~

24 ~~5. If the department determines that a credit refunded pursuant to~~
25 ~~this subsection is incorrect or invalid, the excess credit issued may be~~
26 ~~treated as a tax deficiency pursuant to section 42-1108.~~

27 Sec. 21. Section 43-1083.03, Arizona Revised Statutes, is amended
28 to read:

29 43-1083.03. Credit for qualified facilities

30 A. For taxable years beginning from and after December 31, 2012
31 through December 31, 2030, a credit is allowed against the taxes imposed
32 by this title for qualifying investment and employment in expanding or
33 locating a qualified facility in this state. To qualify for the credit,
34 after June 30, 2012 the taxpayer must invest in a new qualified facility
35 or expand an existing qualified facility in this state and produce new
36 full-time employment positions where the job duties are associated with
37 the location of the qualifying investment. The taxpayer must meet the
38 employee compensation and employee health benefit requirements prescribed
39 by section 41-1512.

40 B. The amount of the credit is computed as follows:

41 1. Ten percent of the lesser of:

42 (a) The total qualifying investment in the qualified facility.

1 (b) Either:

2 (i) If the total qualifying investment is less than \$2,000,000,000,
3 \$200,000 for each net new full-time employment position that has duties
4 associated with the qualified facility.

5 (ii) If the total qualifying investment is \$2,000,000,000 or more,
6 \$300,000 for each net new full-time employment position that has duties
7 associated with the qualified facility.

8 2. The amount of the credit shall not exceed the postapproval
9 amount determined by the Arizona commerce authority under section 41-1512,
10 subsection P.

11 3. Subject to subsections G and ~~J~~ I of this section:

12 (a) The credit amount computed under paragraph 1 of this subsection
13 is apportioned, and the taxpayer shall claim the credit in five equal
14 annual installments in each of five consecutive taxable years.

15 (b) The taxpayer may claim all five annual installments of a credit
16 that was preapproved before January 1, 2031 by the Arizona commerce
17 authority notwithstanding any intervening repeal or other termination of
18 the credit.

19 C. To claim the credit the taxpayer must:

20 1. Conduct a business that qualifies under section 41-1512.

21 2. Receive preapproval and postapproval from the Arizona commerce
22 authority pursuant to section 41-1512.

23 3. Submit to the department a copy of a current and valid
24 certification of qualification issued to the taxpayer by the Arizona
25 commerce authority.

26 D. To be counted for the purposes of the credit, an employee must
27 have been employed with job duties associated with the qualified facility
28 for at least ninety days during the taxable year in a permanent full-time
29 employment position of at least one thousand seven hundred fifty hours per
30 year. An employee who is hired during the last ninety days of the taxable
31 year shall be considered a new employee during the next taxable year. To
32 be counted for the purposes of the credit during the first taxable year of
33 employment, the employee must not have been previously employed by the
34 taxpayer within twelve months before the current date of hire. The terms
35 of employment must comply in all cases with the requirements of section
36 41-1512 and be certified by the Arizona commerce authority.

37 E. Co-owners of a business, including partners in a partnership,
38 members of a limited liability company and shareholders of an
39 S corporation, as defined in section 1361 of the internal revenue code,
40 may each claim only the pro rata share of the credit allowed under this
41 section based on the ownership interest. The total of the credits allowed
42 all owners of the business may not exceed the amount that would have been
43 allowed for a sole owner of the business.

1 F. If the allowable tax credit for a taxable year exceeds the
2 income taxes otherwise due on the claimant's income, or if there are no
3 state income taxes due on the claimant's income, the amount of the claim
4 not used as an offset against income taxes shall be paid to the taxpayer
5 in the same manner as a refund under section 42-1118. Refunds made
6 pursuant to this subsection are subject to setoff under section 42-1122.
7 If the department determines that a refund is incorrect or invalid, the
8 excess refund may be treated as a tax deficiency pursuant to section
9 42-1108.

10 G. ~~Except as provided by subsection H of this section,~~ If, within
11 five taxable years after first receiving a credit pursuant to this
12 section, the certification of qualification of a business is terminated or
13 revoked under section 41-1512, other than for reasons beyond the control
14 of the business as determined by the Arizona commerce authority, the
15 taxpayer is disqualified from credits under this section in subsequent
16 taxable years. On a determination that the taxpayer has committed fraud
17 or relocated outside of this state within five taxable years after first
18 receiving a credit pursuant to this section, the credits allowed the
19 taxpayer in all taxable years pursuant to this section are subject to
20 recapture pursuant to this subsection. This subsection applies only in
21 the case of the termination or revocation of a certification of
22 qualification under section 41-1512. This subsection does not apply if,
23 in any taxable year, a taxpayer otherwise does not qualify for or fails to
24 claim the credit under this section. The recapture of credits is computed
25 by increasing the amount of taxes imposed in the year following the year
26 of termination or revocation by the full amount of all credits previously
27 allowed under this section.

28 ~~H. A taxpayer who claims a credit under section 43-1074 may not~~
29 ~~claim a credit under this section with respect to the same full-time~~
30 ~~employment positions.~~

31 ~~H.~~ H. The department of revenue shall adopt rules and prescribe
32 forms and procedures as necessary for the purposes of this section. The
33 department of revenue and the Arizona commerce authority shall collaborate
34 in adopting rules as necessary to avoid duplication and contradictory
35 requirements while accomplishing the intent and purposes of this section.

36 ~~I.~~ I. Each taxable year after the postapproval of the credit under
37 section 41-1512, subsection P, when the taxpayer files the taxpayer's
38 income tax return, the taxpayer shall:

39 1. Notify the department, on a form prescribed by the department,
40 of any full-time employment position for which a credit was claimed under
41 this section and that was vacant for more than one hundred fifty days
42 after the date the full-time employment position was originally filled to
43 the end of that taxable year. The period that a full-time employment
44 position was vacant may not include the period before the full-time
45 employment position was filled for the first time.

1 2. Reduce the portion of the credit claimed for the taxable year
2 pursuant to subsection B, paragraph 3 of this section by \$4,000 for each
3 full-time employment position reported pursuant to paragraph 1 of this
4 subsection.

5 Sec. 22. Section 43-1121, Arizona Revised Statutes, is amended to
6 read:

7 43-1121. Additions to Arizona gross income; corporations

8 In computing Arizona taxable income for a corporation, the following
9 amounts shall be added to Arizona gross income:

10 1. The amount of interest income received on obligations of any
11 state, territory or possession of the United States, or any political
12 subdivision thereof, located outside this state, reduced, for taxable
13 years beginning from and after December 31, 1996, by the amount of any
14 interest on indebtedness and other related expenses that were incurred or
15 continued to purchase or carry those obligations and that are not
16 otherwise deducted or subtracted in arriving at Arizona gross income.

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

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

24 4. The amount of any depreciation allowance allowed pursuant to
25 section 167(a) of the internal revenue code to the extent not previously
26 added.

27 5. The amount of dividend income received from corporations and
28 allowed as a deduction pursuant to sections 243, 245, 245A and
29 250(a)(1)(B) of the internal revenue code.

30 6. Taxes that are based on income paid to states, local governments
31 or foreign governments and that were deducted in computing federal taxable
32 income.

33 7. Expenses and interest relating to tax-exempt income on
34 indebtedness incurred or continued to purchase or carry obligations the
35 interest on which is wholly exempt from the tax imposed by this title.
36 Financial institutions, as defined in section 6-101, shall be governed by
37 section 43-961, paragraph 2.

38 8. Commissions, rentals and other amounts paid or accrued to a
39 domestic international sales corporation controlled by the payor
40 corporation if the domestic international sales corporation is not
41 required to report its taxable income to this state because its income is
42 not derived from or attributable to sources within this state. If the
43 domestic international sales corporation is subject to article 4 of this
44 chapter, the department shall prescribe by rule the method of determining
45 the portion of the commissions, rentals and other amounts that are paid or

1 accrued to the controlled domestic international sales corporation and
2 that shall be deducted by the payor. For the purposes of this paragraph,
3 "control" means direct or indirect ownership or control of fifty percent
4 or more of the voting stock of the domestic international sales
5 corporation by the payor corporation.

6 9. The amount of net operating loss taken pursuant to section 172
7 of the internal revenue code.

8 10. The amount of exploration expenses determined pursuant to
9 section 617 of the internal revenue code to the extent that they exceed
10 \$75,000 and to the extent that the election is made to defer those
11 expenses not in excess of \$75,000.

12 11. Amortization of costs incurred to install pollution control
13 devices and deducted pursuant to the internal revenue code or the amount
14 of deduction for depreciation taken pursuant to the internal revenue code
15 on pollution control devices for which an election is made pursuant to
16 section 43-1129.

17 12. The amount of depreciation or amortization of costs of child
18 care facilities deducted pursuant to section 167 or 188 of the internal
19 revenue code for which an election is made to amortize pursuant to section
20 43-1130.

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

24 14. The amount by which the depreciation or amortization computed
25 under the internal revenue code with respect to property **THAT IS POLLUTION**
26 **CONTROL EQUIPMENT** for which a credit was taken ~~under section 43-1170~~
27 **BEFORE TAXABLE YEAR 2026** exceeds the amount of depreciation or
28 amortization computed pursuant to the internal revenue code on the Arizona
29 adjusted basis of the property.

30 15. The amount by which the adjusted basis computed under the
31 internal revenue code with respect to property **THAT IS POLLUTION CONTROL**
32 **EQUIPMENT** for which a credit was ~~claimed under section 43-1170~~ **TAKEN**
33 **BEFORE TAXABLE YEAR 2026** and that is sold or otherwise disposed of during
34 the taxable year exceeds the adjusted basis of the property computed under
35 ~~section 43-1170~~ **THE SECTION IN WHICH THE CREDIT WAS TAKEN.**

36 16. The deduction referred to in section 1341(a)(4) of the internal
37 revenue code for restoration of a substantial amount held under a claim of
38 right.

39 17. The amount by which a capital loss carryover allowable pursuant
40 to section 1341(b)(5) of the internal revenue code exceeds the capital
41 loss carryover allowable pursuant to section 43-1130.01, subsection F.

42 18. Any wage expenses deducted pursuant to the internal revenue
43 code for which a credit is claimed under section 43-1175 and representing
44 net increases in qualified employment positions for employment of
45 temporary assistance for needy families recipients.

1 19. Any amount of expenses that were deducted pursuant to the
2 internal revenue code and for which a credit is claimed under section
3 43-1178.

4 20. Any amount deducted pursuant to section 170 of the internal
5 revenue code representing contributions to a school tuition organization
6 for which a credit is claimed under section 43-1183 or 43-1184.

7 21. If a subtraction is or has been taken by the taxpayer under
8 section 43-1124, in the current or a prior taxable year for the full
9 amount of eligible access expenditures paid or incurred to comply with the
10 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)
11 or title 41, chapter 9, article 8, any amount of eligible access
12 expenditures that is recognized under the internal revenue code, including
13 any amount that is amortized according to federal amortization schedules,
14 and that is included in computing Arizona taxable income for the current
15 taxable year.

16 22. For taxable years beginning from and after December 31, 2017,
17 the amount of any net capital loss included in Arizona gross income for
18 the taxable year that is derived from the exchange of one kind of legal
19 tender for another kind of legal tender. For the purposes of this
20 paragraph:

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

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

25 23. The amount of any deduction that is claimed in computing
26 Arizona gross income and that represents a donation of a school site for
27 which a credit is claimed under section 43-1181.

28 24. The amount of any motion picture production costs that was
29 deducted pursuant to the internal revenue code for which a tax credit is
30 claimed under section 43-1165.

31 25. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
32 THE AMOUNT OF THE SPECIAL DEPRECIATION ALLOWANCE FOR QUALIFIED PRODUCTION
33 PROPERTY ALLOWED PURSUANT TO SECTION 168(n) OF THE INTERNAL REVENUE CODE
34 FOR THE TAXABLE YEAR TO THE EXTENT NOT PREVIOUSLY ADDED.

35 Sec. 23. Section 43-1122, Arizona Revised Statutes, is amended to
36 read:

37 43-1122. Subtractions from Arizona gross income; corporations

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

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

- 1 2. The excess of a partner's share of partnership losses determined
2 pursuant to chapter 14, article 2 of this title over the losses allowable
3 under section 702(a)(8) of the internal revenue code.
- 4 3. The amount allowed by section 43-1025 for contributions during
5 the taxable year of agricultural crops to charitable organizations.
- 6 4. The portion of any wages or salaries paid or incurred by the
7 taxpayer for the taxable year that is equal to the amount of the federal
8 work opportunity credit, the empowerment zone employment credit, the
9 credit for employer paid social security taxes on employee cash tips and
10 the Indian employment credit that the taxpayer received under sections
11 45A, 45B, 51(a) and 1396 of the internal revenue code.
- 12 5. With respect to property that is sold or otherwise disposed of
13 during the taxable year by a taxpayer that complied with section 43-1121,
14 paragraph 4 with respect to that property, the amount of depreciation that
15 has been allowed pursuant to section 167(a) of the internal revenue code
16 to the extent that the amount has not already reduced Arizona taxable
17 income in the current taxable year or prior taxable years.
- 18 6. With respect to a financial institution as defined in section
19 6-101, expenses and interest relating to tax-exempt income disallowed
20 pursuant to section 265 of the internal revenue code.
- 21 7. Dividends received from another corporation owned or controlled
22 directly or indirectly by a recipient corporation. For the purposes of
23 this paragraph, "control" means direct or indirect ownership or control of
24 fifty percent or more of the voting stock of the payor corporation by the
25 recipient corporation. Dividends shall have the meaning provided in
26 section 316 of the internal revenue code. This subtraction shall apply
27 without regard to section 43-961, paragraph 2 and article 4 of this
28 chapter.
- 29 8. Interest income received on obligations of the United States.
- 30 9. The amount of dividend income from foreign corporations. For
31 the purposes of this paragraph, gross up income as described in section 78
32 of the internal revenue code, ~~global intangible low-taxed~~ THE income as
33 ~~defined~~ DESCRIBED in section 951A of the internal revenue code and subpart
34 F income as defined in section 952 of the internal revenue code shall be
35 considered foreign dividends.
- 36 10. The amount of net operating loss allowed by section 43-1123.
- 37 11. The amount of any state income tax refunds received that were
38 included as income in computing federal taxable income.
- 39 12. The amount of expense recapture included in income pursuant to
40 section 617 of the internal revenue code for mine exploration expenses.
- 41 13. The amount of deferred exploration expenses allowed by section
42 43-1127.

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

7 15. The amortization of pollution control devices allowed by
8 section 43-1129.

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

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

14 18. The income of an insurance company that is exempt under section
15 43-1201 to the extent that it is included in computing Arizona gross
16 income on a consolidated return pursuant to section 43-947.

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

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

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

29 22. For taxable years beginning from and after December 31, 2017,
30 the amount of any net capital gain included in Arizona gross income for
31 the taxable year that is derived from the exchange of one kind of legal
32 tender for another kind of legal tender. For the purposes of this
33 paragraph:

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

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

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

42 (a) "Contribution in aid of construction" means any amount of
43 monies or other property contributed to a public service corporation that
44 provides water or sewage disposal services to the extent that the purpose
45 of the contribution is to provide for expanding, improving or replacing

1 the public service corporation's water system or sewage disposal
2 facilities, including any amount of monies or other property contributed
3 to a public service corporation for a water system or sewage disposal
4 facility subject to a contingent obligation to repay the amount, in whole
5 or in part, to the contributor.

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

9 Sec. 24. Repeal

10 Section 43-1161, Arizona Revised Statutes, is repealed.

11 Sec. 25. Section 43-1164.04, Arizona Revised Statutes, is amended
12 to read:

13 43-1164.04. Credit for qualified facilities

14 A. For taxable years beginning from and after December 31, 2012
15 through December 31, 2030, a credit is allowed against the taxes imposed
16 by this title for qualifying investment and employment in expanding or
17 locating a qualified facility in this state. To qualify for the credit,
18 after June 30, 2012 the taxpayer must invest in a new qualified facility
19 or expand an existing qualified facility in this state and produce new
20 full-time employment positions where the job duties are associated with
21 the location of the qualifying investment. The taxpayer must meet the
22 employee compensation and employee health benefit requirements prescribed
23 by section 41-1512.

24 B. The amount of the credit is computed as follows:

25 1. Ten percent of the lesser of:

26 (a) The total qualifying investment in the qualified facility.

27 (b) Either:

28 (i) If the total qualifying investment is less than \$2,000,000,000,
29 \$200,000 for each net new full-time employment position that has job
30 duties associated with the qualified facility.

31 (ii) If the total qualifying investment is \$2,000,000,000 or more,
32 \$300,000 for each net new full-time employment position that has job
33 duties associated with the qualified facility.

34 2. The amount of the credit shall not exceed the postapproval
35 amount determined by the Arizona commerce authority under section 41-1512,
36 subsection P.

37 3. Subject to subsections G and ~~I~~ I of this section:

38 (a) The credit amount computed under paragraph 1 of this subsection
39 is apportioned, and the taxpayer shall claim the credit in five equal
40 annual installments in each of five consecutive taxable years.

41 (b) The taxpayer may claim all five annual installments of a credit
42 that was preapproved before January 1, 2031 by the Arizona commerce
43 authority notwithstanding any intervening repeal or other termination of
44 the credit.

1 C. To claim the credit the taxpayer must:

2 1. Conduct a business that qualifies under section 41-1512.

3 2. Receive preapproval and postapproval from the Arizona commerce
4 authority pursuant to section 41-1512.

5 3. Submit to the department a copy of a current and valid
6 certification of qualification issued to the taxpayer by the Arizona
7 commerce authority.

8 D. To be counted for the purposes of the credit, an employee must
9 have been employed with job duties associated with the qualified facility
10 for at least ninety days during the taxable year in a permanent full-time
11 employment position of at least one thousand seven hundred fifty hours per
12 year. An employee who is hired during the last ninety days of the taxable
13 year shall be considered a new employee during the next taxable year. To
14 be counted for the purposes of the credit during the first taxable year of
15 employment, the employee must not have been previously employed by the
16 taxpayer within twelve months before the current date of hire. The terms
17 of employment must comply in all cases with the requirements of section
18 41-1512 and be certified by the Arizona commerce authority.

19 E. Co-owners of a business, including corporate partners in a
20 partnership and members of a limited liability company, may each claim
21 only the pro rata share of the credit allowed under this section based on
22 the ownership interest. The total of the credits allowed all owners of
23 the business may not exceed the amount that would have been allowed for a
24 sole owner of the business.

25 F. If the allowable tax credit for a taxable year exceeds the
26 income taxes otherwise due on the claimant's income, or if there are no
27 state income taxes due on the claimant's income, the amount of the claim
28 not used as an offset against income taxes shall be paid to the taxpayer
29 in the same manner as a refund under section 42-1118. Refunds made
30 pursuant to this subsection are subject to setoff under section 42-1122.
31 If the department determines that a refund is incorrect or invalid, the
32 excess refund may be treated as a tax deficiency pursuant to section
33 42-1108.

34 G. ~~Except as provided by subsection H of this section,~~ If, within
35 five taxable years after first receiving a credit pursuant to this
36 section, the certification of qualification of a business is terminated or
37 revoked under section 41-1512, other than for reasons beyond the control
38 of the business as determined by the Arizona commerce authority, the
39 taxpayer is disqualified from credits under this section in subsequent
40 taxable years. On a determination that the taxpayer has committed fraud
41 or relocated outside of this state within five taxable years after first
42 receiving a credit pursuant to this section, the credits allowed the
43 taxpayer in all taxable years pursuant to this section are subject to
44 recapture pursuant to this subsection. This subsection applies only in
45 the case of the termination or revocation of a certification of

1 qualification under section 41-1512. This subsection does not apply if,
2 in any taxable year, a taxpayer otherwise does not qualify for or fails to
3 claim the credit under this section. The recapture of credits is computed
4 by increasing the amount of taxes imposed in the year following the year
5 of termination or revocation by the full amount of all credits previously
6 allowed under this section.

7 ~~H. A taxpayer that claims a credit under section 43-1161 may not~~
8 ~~claim a credit under this section with respect to the same full-time~~
9 ~~employment positions.~~

10 ~~H.~~ H. The department of revenue shall adopt rules and prescribe
11 forms and procedures as necessary for the purposes of this section. The
12 department of revenue and the Arizona commerce authority shall collaborate
13 in adopting rules as necessary to avoid duplication and contradictory
14 requirements while accomplishing the intent and purposes of this section.

15 ~~I.~~ I. Each taxable year after the postapproval of the credit under
16 section 41-1512, subsection P, when the taxpayer files the taxpayer's
17 income tax return, the taxpayer shall:

18 1. Notify the department, on a form prescribed by the department,
19 of any full-time employment position for which a credit was claimed under
20 this section and that was vacant for more than one hundred fifty days
21 after the date the full-time employment position was originally filled to
22 the end of that taxable year. The period that a full-time employment
23 position was vacant may not include the period before the full-time
24 employment position was filled for the first time.

25 2. Reduce the portion of the credit claimed for the taxable year
26 pursuant to subsection B, paragraph 3 of this section by \$4,000 for each
27 full-time employment position reported pursuant to paragraph 1 of this
28 subsection.

29 Sec. 26. Section 43-1168, Arizona Revised Statutes, is amended to
30 read:

31 43-1168. Credit for increased research activity

32 A. A credit is allowed against the taxes imposed by this title in
33 an amount determined pursuant to section 41 of the internal revenue code,
34 except that:

35 1. The amount of the credit is computed as follows:

36 (a) Add:

37 (i) The excess, if any, of the qualified research expenses for the
38 taxable year over the base amount as defined in section 41(c) of the
39 internal revenue code.

40 (ii) The basic research payments determined under section
41 41(e)(1)(A) of the internal revenue code.

42 (b) If the sum computed under subdivision (a) of this paragraph is
43 \$2,500,000 or less:

44 (i) For taxable years beginning before December 31, 2030, the
45 credit is equal to twenty-four percent of that amount.

1 (ii) For taxable years beginning from and after December 31, 2030,
2 the credit is equal to twenty percent of that amount.

3 (c) If the sum computed under subdivision (a) of this paragraph is
4 over \$2,500,000:

5 (i) For taxable years beginning before December 31, 2030, the
6 credit is equal to \$600,000 plus fifteen percent of any amount exceeding
7 \$2,500,000.

8 (ii) For taxable years beginning from and after December 31, 2030,
9 the credit is equal to \$500,000 plus eleven percent of any amount
10 exceeding \$2,500,000.

11 (d) For taxable years beginning from and after December 31, 2011,
12 an additional credit amount is allowed if the taxpayer made basic research
13 payments during the taxable year to a university under the jurisdiction of
14 the Arizona board of regents. The additional credit amount is equal to
15 ten percent of the excess, if any, of the basic research payments over the
16 qualified organization base period amount for the taxable year. The
17 department shall not allow credit amounts under this subdivision and
18 section 43-1074.01, subsection A, paragraph 1, subdivision (c) that
19 exceed, in the aggregate, a combined total of \$10,000,000 in any calendar
20 year. Subject to that limit, on application by the taxpayer, the
21 department shall certify credit amounts under this subdivision and section
22 43-1074.01, subsection A, paragraph 1, subdivision (c) based on priority
23 placement established by the date that the taxpayer filed the application.
24 For taxable years beginning from and after December 31, 2014, any basic
25 research payments used to determine the additional credit under this
26 subdivision must first receive certification from the Arizona commerce
27 authority pursuant to section 41-1507.01. The additional credit amount
28 under this subdivision shall not exceed the amount allowed based on actual
29 basic research payments or the department's certification, whichever is
30 less. If an application, if certified in full, would exceed the
31 \$10,000,000 limit, the department shall certify only an amount within that
32 limit. After the limit is attained, the department shall deny any
33 subsequent applications regardless of whether other certified amounts are
34 not actually claimed as a credit or other taxpayers fail to qualify to
35 actually claim certified amounts. Notwithstanding ~~subsections~~ **SUBSECTION**
36 **B and C** of this section, any amount of the additional credit under this
37 subdivision that exceeds the taxes otherwise due under this title is not
38 refundable, but may be carried forward to the next five consecutive
39 taxable years. For the purposes of this subdivision, "basic research
40 payments" and "qualified organization base period amount" have the same
41 meanings prescribed by section 41(e) of the internal revenue code.

42 2. Qualified research includes only research conducted in this
43 state, including research conducted at a university in this state and paid
44 for by the taxpayer.

1 3. If two or more taxpayers, including corporate partners in a
2 partnership, share in the eligible expenses, each taxpayer is eligible to
3 receive a proportionate share of the credit.

4 4. The credit under this section applies only to expenses incurred
5 from and after December 31, 1993.

6 5. The termination provisions of section 41 of the internal revenue
7 code do not apply.

8 B. ~~Except as provided by subsection C of this section,~~ If the
9 allowable credit under this section exceeds the taxes otherwise due under
10 this title on the claimant's income, or if there are no taxes due under
11 this title, the amount of the credit claimed for taxable years beginning
12 before January 1, 2022 not used to offset taxes may be carried forward to
13 the next fifteen consecutive taxable years, and the amount of the credit
14 claimed for taxable years beginning from and after December 31, 2021 not
15 used to offset taxes may be carried forward to the next ten consecutive
16 taxable years. The amount of credit carryforward from taxable years
17 beginning from and after December 31, 2002 that may be used under this
18 subsection in any taxable year may not exceed the taxpayer's tax liability
19 under this title minus the credit under this section for the current
20 taxable year's qualified research expenses. ~~A taxpayer that carries
21 forward any amount of credit under this subsection may not thereafter
22 claim a refund of any amount of the credit under subsection C of this
23 section.~~

24 ~~C. For taxable years beginning from and after December 31, 2009, if
25 a taxpayer that claims a credit under this section employs fewer than one
26 hundred fifty persons in the taxpayer's trade or business and if the
27 allowable credit under this section exceeds the taxes otherwise due under
28 this title on the claimant's income, or if there are no taxes due under
29 this title, in lieu of carrying the excess amount of credit forward to
30 subsequent taxable years under subsection B of this section, the taxpayer
31 may elect to receive a refund as follows:~~

32 ~~1. The taxpayer must apply to the Arizona commerce authority for
33 qualification for the refund pursuant to section 41-1507 and submit a copy
34 of the authority's certificate of qualification to the department of
35 revenue with the taxpayer's income tax return.~~

36 ~~2. The amount of the refund is limited to seventy-five percent of
37 the amount by which the allowable credit under this section exceeds the
38 taxpayer's tax liability under this title for the taxable year. The
39 remainder of the excess amount of the credit is waived.~~

40 ~~3. The refund shall be paid in the manner prescribed by section
41 42-1118.~~

42 ~~4. The refund is subject to setoff under section 42-1122.~~

43 ~~5. If the department determines that a credit refunded pursuant to
44 this subsection is incorrect or invalid, the excess credit issued may be
45 treated as a tax deficiency pursuant to section 42-1108.~~

1 Sec. 27. Repeal
2 Section 43-1170, Arizona Revised Statutes, is repealed.
3 Sec. 28. Section 43-1183, Arizona Revised Statutes, is amended to
4 read:
5 43-1183. Credit for contributions to school tuition
6 organization
7 A. Beginning from and after June 30, 2006, a credit is allowed
8 against the taxes imposed by this title for the amount of voluntary cash
9 contributions made by the taxpayer during the taxable year to a school
10 tuition organization that is certified pursuant to chapter 15 of this
11 title at the time of donation.
12 B. The amount of the credit is the total amount of the taxpayer's
13 contributions for the taxable year under subsection A of this section and
14 is preapproved by the department of revenue pursuant to subsection D of
15 this section.
16 C. The department of revenue:
17 1. Shall not allow tax credits under this section and section
18 20-224.06 that exceed in the aggregate a combined total of ~~\$135,000,000~~
19 \$110,000,000 in fiscal year ~~2024-2025~~ 2026-2027 and each fiscal year
20 thereafter.
21 2. Shall preapprove tax credits under this section and section
22 20-224.06 subject to subsection D of this section.
23 3. Shall allow the tax credits under this section and section
24 20-224.06 on a first-come, first-served basis.
25 D. For the purposes of subsection C, paragraph 2 of this section,
26 before making a contribution to a school tuition organization, the
27 taxpayer under this title or title 20 must notify the school tuition
28 organization of the total amount of contributions that the taxpayer
29 intends to make to the school tuition organization. Before accepting the
30 contribution, the school tuition organization shall request preapproval
31 from the department of revenue for the taxpayer's intended contribution
32 amount. The department of revenue shall preapprove or deny the requested
33 amount within twenty days after receiving the request from the school
34 tuition organization. If the department of revenue preapproves the
35 request, the school tuition organization shall immediately notify the
36 taxpayer, and the department of insurance and financial institutions in
37 the case of a credit under section 20-224.06, that the requested amount
38 was preapproved by the department of revenue. In order to receive a tax
39 credit under this subsection, the taxpayer shall make the contribution to
40 the school tuition organization within twenty days after receiving notice
41 from the school tuition organization that the requested amount was
42 preapproved. If the school tuition organization does not receive the
43 preapproved contribution from the taxpayer within the required twenty
44 days, the school tuition organization shall immediately notify the
45 department of revenue, and the department of insurance and financial

1 institutions in the case of a credit under section 20-224.06, and the
2 department of revenue shall no longer include this preapproved
3 contribution amount when calculating the limit prescribed in subsection C,
4 paragraph 1 of this section.

5 E. If the allowable tax credit exceeds the taxes otherwise due
6 under this title on the claimant's income, or if there are no taxes due
7 under this title, the taxpayer may carry the amount of the claim not used
8 to offset the taxes under this title forward for not more than five
9 consecutive taxable years' income tax liability.

10 F. Co-owners of a business, including corporate partners in a
11 partnership and stockholders of an S corporation as defined in section
12 1361 of the internal revenue code, may each claim only the pro rata share
13 of the credit allowed under this section based on the ownership interest.
14 The total of the credits allowed all such owners may not exceed the amount
15 that would have been allowed a sole owner.

16 G. The credit allowed by this section is in lieu of any deduction
17 pursuant to section 170 of the internal revenue code and taken for state
18 tax purposes.

19 H. A taxpayer shall not claim a credit under this section and also
20 under section 43-1184 with respect to the same contribution.

21 I. The tax credit is not allowed if the taxpayer designates the
22 taxpayer's contribution to the school tuition organization for the direct
23 benefit of any specific student.

24 J. The department of revenue, with the cooperation of the
25 department of insurance and financial institutions, shall adopt rules and
26 publish and prescribe forms and procedures necessary to administer this
27 section.

28 Sec. 29. Section 48-4203, Arizona Revised Statutes, is amended to
29 read:

30 48-4203. Powers and duties of board of directors; reporting
31 requirements; conflict of interest

32 A. The board of directors, on behalf of the district, may:

33 1. Adopt and use a corporate seal.

34 2. Sue and be sued.

35 3. Enter into contracts, including intergovernmental agreements
36 under title 11, chapter 7, article 3, as necessary to carry out the
37 purposes and requirements of this chapter. The district may contract with
38 a county sports authority established under title 11, chapter 5 to carry
39 out any power of the district.

40 4. Adopt administrative rules as necessary to administer and
41 operate the district and any property under its jurisdiction.

42 5. Adopt rules that allow weighted voting by board members and
43 establish conditions for terminating the district.

1 6. Employ an executive director and administrative and clerical
2 employees, or contract for other management personnel, and prescribe the
3 terms and conditions of their employment as necessary to carry out the
4 purposes of the district.

5 7. Acquire by any lawful means and operate, maintain, encumber and
6 dispose of real and personal property and interests in property. A
7 district established under section 48-4202, subsection A in a county with
8 a population of less than one million five hundred thousand persons may
9 acquire real property by eminent domain. A district established under
10 section 48-4202, subsection A in a county with a population of one million
11 five hundred thousand persons or more or section 48-4202, subsection B
12 shall not acquire real property by eminent domain. A district established
13 under section 48-4202, subsection C shall not acquire or own real property
14 or interests in real property.

15 8. Administer trusts declared or established for the district,
16 receive and hold in trust or otherwise property located in or out of this
17 state and, if not otherwise provided, dispose of the property for the
18 benefit of the district.

19 9. Retain legal counsel and other consultants as necessary to carry
20 out the purposes of the district.

21 B. The board of directors, on behalf of a district established
22 pursuant to section 48-4202, subsection B, may:

23 1. Use revenues paid to the district pursuant to section 42-5031
24 and other revenues the district may receive from other sources, for the
25 purposes set forth in section 48-4204, subsection B.

26 2. Enter into agreements with developers, contractors, tenants and
27 other users of all or part of a multipurpose facility as determined
28 appropriate.

29 3. Pledge all or part of the revenues described in section 42-5031,
30 subsection B to secure the district's bonds or other financial obligations
31 issued or incurred under this chapter for the construction of all or part
32 of a multipurpose facility.

33 C. The board of directors of a district established pursuant to
34 section 48-4202, subsection B shall provide public outreach and education
35 on the purpose and activities of the district, including:

36 1. Presentations to the governing bodies of the municipalities in
37 the county in which the district is located.

38 2. Presentations to community, civic and business organizations.

39 3. Printed or electronic materials that support the purposes of
40 this subsection.

41 D. The board of directors shall:

42 1. Appoint from among its members a chairperson, a secretary and
43 such other officers as may be necessary to conduct its business. The
44 board of directors may appoint the chief financial officer of the county
45 as the district treasurer of a countywide district established under

1 section 48-4202, subsection A in a county with a population of less than
2 one million five hundred thousand persons. If the board does not appoint
3 the chief financial officer, the county treasurer is designated ex officio
4 as the treasurer. The board of directors of a district that is
5 established pursuant to section 48-4202, subsection A in a county with a
6 population of one million five hundred thousand persons or more or section
7 48-4202, subsection B shall designate a member of the board with financial
8 management or accounting experience or a person with whom the board has
9 contracted for financial management as treasurer of the district. The
10 county treasurer is designated ex officio as the treasurer of a district
11 that is established pursuant to section 48-4202, subsection C.

12 2. Keep and maintain a complete and accurate record of all its
13 proceedings. All proceedings and records of the board shall be open to
14 the public as required by title 38, chapter 3, article 3.1 and title 39,
15 chapter 1.

16 3. Provide for the use, maintenance and operation of the properties
17 and interests controlled by the district.

18 E. The board of directors of a district that is established
19 pursuant to section 48-4202, subsection B shall:

20 1. Determine by agreement the distribution of revenues from
21 operating and using the multipurpose facilities among the municipalities
22 and any participating Indian tribe or community.

23 2. ENSURE THAT FROM THE AMOUNT OF BUDGETED INCOME THAT REMAINS
24 AFTER PAYING OPERATING EXPENSES AND DEBT SERVICE AT LEAST EIGHTY PERCENT
25 OF THE GRANTS AND OTHER FINANCIAL SUPPORT PROVIDED BY THE DISTRICT IN A
26 FISCAL YEAR IS PROVIDED FOR PROJECTS THAT GENERATE TRANSACTION PRIVILEGE
27 TAX REVENUES.

28 ~~2.~~ 3. Report to the legislature by October 1 of each year
29 regarding the activities, operations, revenues and expenditures of the
30 district for the immediately preceding fiscal year. The board shall
31 submit the annual report to the president of the senate and the speaker of
32 the house of representatives and provide a copy of the report to the
33 secretary of state. At the discretion of the chairpersons of the senate
34 finance committee and the house of representatives ways and means
35 committee, or their successor committees, the committees may hold separate
36 or joint hearings to consider the annual report prepared by the district.

37 ~~3.~~ 4. Present to the joint legislative committee on capital review
38 each project for the construction or reconstruction of any facility,
39 structure, infrastructure or other improvement to real property of any
40 kind in an amount exceeding \$500,000.

41 F. The board of directors of a district that is established
42 pursuant to section 48-4202, subsection A in a county with a population of
43 more than one million five hundred thousand persons:

44 1. May enter into agreements with contractors, tenants and other
45 users of all or part of the major league baseball facility or any adjacent

1 building that is owned by the district and operated by the district or the
2 professional baseball franchise organization that occupies the major
3 league baseball facility or adjacent building as determined appropriate,
4 including agreements for reconstructing, equipping, repairing, maintaining
5 or improving the major league baseball facility or adjacent building.

6 2. On or before November 1 of each year through 2055, shall report
7 to the joint legislative budget committee and the governor's office of
8 strategic planning and budgeting regarding all new projects for
9 reconstructing, equipping, repairing, maintaining or improving a major
10 league baseball facility or any adjacent building that is paid for by the
11 district from the county stadium district fund established pursuant to
12 section 48-4231. The report shall indicate which projects the
13 professional baseball franchise organization contributed monies toward and
14 the amount of the contribution.

15 G. The directors, officers and employees of the district are
16 subject to title 38, chapter 3, article 8 relating to conflicts of
17 interest.

18 H. This state and political subdivisions of this state other than
19 the district are not liable for any financial or other obligations of the
20 district and the financial or other obligations do not constitute a debt
21 or liability of this state or any political subdivision of this state,
22 other than the district.

23 Sec. 30. Pinal county transportation excise tax monies;
24 retroactivity; definition

25 A. Notwithstanding any other law, all Pinal county transportation
26 excise tax monies that remain in the escrow account established to hold
27 those monies or that are held by the department of revenue after the
28 processing of refunds is complete must remain in the escrow account or
29 with the department of revenue until otherwise appropriated by the
30 legislature.

31 B. This section applies retroactively to from and after April 9,
32 2026.

33 C. For the purposes of this section, "Pinal county transportation
34 excise tax monies" means net revenues that are collected pursuant to
35 section 42-6106, Arizona Revised Statutes, and that are not distributed
36 pursuant to section 42-6106, subsection D, Arizona Revised Statutes, or
37 refunded pursuant to section 42-1118, Arizona Revised Statutes, and
38 interest earned on those monies.

39 Sec. 31. Arizona commerce authority; computer data center tax
40 relief; moratorium; retroactivity; delayed repeal

41 A. Notwithstanding any other law, beginning on July 1, 2026 through
42 June 30, 2029, the Arizona commerce authority may not accept applications
43 for any new computer data center pursuant to section 41-1519, Arizona
44 Revised Statutes, and no new computer data centers qualify for tax relief
45 under section 41-1519, Arizona Revised Statutes.

1 B. This section applies retroactively to from and after June 30,
2 2026.

3 C. This section is repealed from and after June 30, 2029.

4 Sec. 32. Public infrastructure distribution; interim processing

5 Eligible requests for payment received by the department of revenue
6 pursuant to section 42-5032.02, Arizona Revised Statutes, as amended by
7 this act, between June 1, 2026 and the effective date of this act shall be
8 processed and paid beginning on the effective date of this act, subject to
9 section 42-5032.02, subsection C, Arizona Revised Statutes, as amended by
10 this act, and section 42-5032.02, subsection I, Arizona Revised Statutes,
11 as added by this act.

12 Sec. 33. Unemployment insurance operating fund; exemption;
13 calculation; delayed repeal

14 A. Notwithstanding the contribution rate imposed by section 23-730,
15 Arizona Revised Statutes, for calendar year 2027 each employer with an
16 experience rating account shall pay an amount equal to 3.15 percent of the
17 contributions payable in that calendar quarter to be deposited as follows:

18 1. In the unemployment insurance operating fund established by
19 subsection C of this section, except not more than \$8,000,000 may be
20 deposited in the fund in calendar year 2027.

21 2. Any monies in excess of the amount listed in paragraph 1 of this
22 subsection, in the unemployment compensation fund established by section
23 23-701, Arizona Revised Statutes.

24 B. Notwithstanding section 23-730, Arizona Revised Statutes, the
25 department of economic security shall reduce an employer's contribution by
26 3.15 percent on a quarterly basis or as otherwise prescribed by law.

27 C. The unemployment insurance operating fund is established
28 consisting of monies collected or received by the department of economic
29 security pursuant to subsection A of this section. The department of
30 economic security shall administer the fund. Monies in the fund are
31 continuously appropriated and exempt from the provisions of section
32 35-190, Arizona Revised Statutes, relating to lapsing of appropriations.

33 D. On notice from the department of economic security, the state
34 treasurer shall invest and divest monies in the unemployment insurance
35 operating fund as provided by section 35-313, Arizona Revised Statutes,
36 and monies earned from investment shall be credited to the unemployment
37 insurance operating fund.

38 E. The department of economic security shall use monies in the
39 unemployment insurance operating fund to administer the fund and pay
40 expenses for administering the federal-state unemployment compensation
41 program under title 23, chapter 4, Arizona Revised Statutes.

42 F. The director of the department of economic security may transfer
43 all or a portion of the monies from the unemployment insurance operating
44 fund to the unemployment compensation fund established by section 23-701,
45 Arizona Revised Statutes.

1 G. This section is repealed from and after December 31, 2027.

2 Sec. 34. Applicability

3 A. Sections 20-224.03, 41-1507, 41-1525, 43-1074, 43-1161 and
4 43-1170, Arizona Revised Statutes, as repealed by this act, apply to
5 taxable years beginning from and after December 31, 2025.

6 B. Section 42-11111, Arizona Revised Statutes, as amended by this
7 act, applies to tax years beginning from and after December 31, 2026.

8 C. Section 42-5032.02, subsection C, paragraphs 1, 2 and 3, Arizona
9 Revised Statutes, as added by this act, apply to all agreements entered
10 into pursuant to section 42-5032.02, Arizona Revised Statutes, as amended
11 by this act, regardless of when the agreement was entered into.

12 Sec. 35. Retroactivity

13 A. Sections 42-1001, 43-105, 43-1022, 43-1041, 43-1121 and 43-1122,
14 Arizona Revised Statutes, as amended by this act, apply retroactively to
15 taxable years beginning from and after December 31, 2024.

16 B. Sections 43-1021, 43-1042, 43-1073.01, 43-1074.01 and 43-1168,
17 Arizona Revised Statutes, as amended by this act, apply retroactively to
18 taxable years beginning from and after December 31, 2025.

19 C. Section 42-5032.02, subsection C, paragraphs 1, 2 and 3, Arizona
20 Revised Statutes, as added by this act, apply retroactively to from and
21 after June 30, 2026.

22 Sec. 36. Saving clause

23 A. The repeal of the premium and income tax credits by this act
24 does not affect the continuing validity of any amount of the credit
25 carried forward from previous taxable years for application against
26 subsequent tax liabilities as allowed by prior law.

27 B. Section 42-5032.02, subsection C, Arizona Revised Statutes, as
28 amended by this act, to reduce the percentage of the total cost of public
29 infrastructure improvements from eighty percent to seventy-five percent
30 applies only to agreements entered on or after the effective date of this
31 act. Agreements entered into before the effective date of this act remain
32 subject to the eighty percent limit in effect at the time of execution for
33 the duration of the agreement.

34 C. Section 42-5032.02, subsection D and subsection K, paragraph 4,
35 Arizona Revised Statutes, as amended by this act, apply only to
36 certifications filed on or after the effective date of this act.
37 Certifications filed before the effective date of this act remain valid
38 under the thresholds in effect at the time the certification was filed.

39 D. Section 42-5032.02, subsection G, paragraph 6, Arizona Revised
40 Statutes, as added by this act, applies only to agreements entered into on
41 or after the effective date of this act and does not apply to amendments
42 or changes to agreements entered before the effective date of this act.

1 E. Section 42-5032.02, subsection G, paragraph 11, Arizona Revised
2 Statutes, as added by this act, applies only to agreements entered into on
3 or after the effective date of this act.

4 F. Section 42-5032.02, subsection J, Arizona Revised Statutes, as
5 added by this act, applies only to development agreements entered into in
6 connection with agreements entered into pursuant to section 42-5032.02,
7 subsection G, Arizona Revised Statutes, as amended by this act, on or
8 after the effective date of this act.