

REFERENCE TITLE: income tax; subtraction; small businesses

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

HB 2747

Introduced by
Representative Rivero

AN ACT

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

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

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

4 43-1022. Subtractions from Arizona gross income

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 (b) In taxable years beginning from and after December 31, 2025,
23 \$5,000 for a single individual or head of household.

24 (c) For taxable years beginning from and after December 31, 2025,
25 \$10,000 for a married couple filing a joint return. In the case of a
26 husband and wife who file separate returns, the subtraction may be taken
27 by either taxpayer or may be divided between them, but the total
28 subtractions allowed both husband and wife may not exceed \$10,000.

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

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

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

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

44 17. For property placed in service:

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

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

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

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

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

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

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

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

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

8 20. The portion of the net operating loss carryforward that would
9 have been allowed as a deduction in the current year pursuant to section
10 172 of the internal revenue code if the election described in section
11 172(b)(1)(H) of the internal revenue code had not been made in the year of
12 the loss that exceeds the actual net operating loss carryforward that was
13 deducted in arriving at federal adjusted gross income. This subtraction
14 only applies to taxpayers who made an election under section 172(b)(1)(H)
15 of the internal revenue code as amended by section 1211 of the American
16 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
17 section 13 of the worker, homeownership, and business assistance act of
18 2009 (P.L. 111-92).

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

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

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

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

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

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

43 24. The amount of eligible access expenditures paid or incurred
44 during the taxable year to comply with the requirements of the Americans

1 with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9,
2 article 8 as provided by section 43-1024.

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

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

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

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

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

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

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

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

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

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

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

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

1 (a) "Airdrop" means the receipt of virtual currency through a means
2 of distribution of virtual currency to the distributed ledger addresses of
3 multiple taxpayers.

4 (b) "Non-fungible token" has the same meaning prescribed in section
5 43-1028.

6 (c) "Virtual currency" has the same meaning prescribed in section
7 43-1028.

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

11 31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2026,
12 THE AMOUNT OF INCOME THE TAXPAYER RECEIVED DURING THE TAXABLE YEAR THAT IS
13 DERIVED FROM A SMALL BUSINESS THAT HAS BEEN IN OPERATION FOR FIVE YEARS OR
14 LESS. FOR THE PURPOSES OF THIS PARAGRAPH, "SMALL BUSINESS" MEANS ANY OF
15 THE FOLLOWING ENTITIES THAT EMPLOYS LESS THAN TEN EMPLOYEES:

16 (a) A SOLE PROPRIETORSHIP.

17 (b) A PARTNERSHIP THAT IS REQUIRED TO FILE A RETURN UNDER CHAPTER
18 14 OF THIS TITLE.

19 (c) A LIMITED LIABILITY PARTNERSHIP THAT HAS FILED A STATEMENT OF
20 QUALIFICATION UNDER SECTION 29-1101.

21 (d) A LIMITED LIABILITY COMPANY FORMED UNDER TITLE 29, CHAPTER 7.

22 (e) AN S CORPORATION AS DEFINED IN SECTION 1361 OF THE INTERNAL
23 REVENUE CODE.

24 (f) ANY OTHER FORM OF BUSINESS WHERE A DISTRIBUTIVE SHARE OF INCOME
25 OF THE BUSINESS IS SUBJECT TO TAX UNDER THIS CHAPTER BUT ONLY IN THE
26 INDIVIDUAL CAPACITY OF ITS OWNERS.

27 Sec. 2. Section 43-1122, Arizona Revised Statutes, is amended to
28 read:

29 43-1122. Subtractions from Arizona gross income; corporations

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

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

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

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

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

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

7 6. With respect to a financial institution as defined in section
8 6-101, expenses and interest relating to tax-exempt income disallowed
9 pursuant to section 265 of the internal revenue code.

10 7. Dividends received from another corporation owned or controlled
11 directly or indirectly by a recipient corporation. For the purposes of
12 this paragraph, "control" means direct or indirect ownership or control of
13 fifty percent or more of the voting stock of the payor corporation by the
14 recipient corporation. Dividends shall have the meaning provided in
15 section 316 of the internal revenue code. This subtraction shall apply
16 without regard to section 43-961, paragraph 2 and article 4 of this
17 chapter.

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

19 9. The amount of dividend income from foreign corporations. For
20 the purposes of this paragraph, gross up income as described in section 78
21 of the internal revenue code, global intangible low-taxed income as
22 defined in section 951A of the internal revenue code and subpart F income
23 as defined in section 952 of the internal revenue code shall be considered
24 foreign dividends.

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

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

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

30 13. The amount of deferred exploration expenses allowed by section
31 43-1127.

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

38 15. The amortization of pollution control devices allowed by
39 section 43-1129.

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

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

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

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

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

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

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

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

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

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

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

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

24. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2026, THE AMOUNT OF INCOME DERIVED DURING THE TAXABLE YEAR FROM A SMALL BUSINESS THAT HAS BEEN IN OPERATION FOR FIVE YEARS OR LESS. FOR THE PURPOSES OF THIS PARAGRAPH, "SMALL BUSINESS" MEANS A CORPORATION THAT EMPLOYS LESS THAN TEN EMPLOYEES.