

Senate Engrossed

internal revenue code; conformity; deductions

State of Arizona
Senate
Fifty-seventh Legislature
Second Regular Session
2026

SENATE BILL 1106

AN ACT

AMENDING SECTIONS 42-1001, 43-105, 43-301, 43-323 AND 43-1022, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 3, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1030; AMENDING SECTIONS 43-1041, 43-1042 AND 43-1073.01, ARIZONA REVISED STATUTES; AMENDING TITLE 43, ARIZONA REVISED STATUTES, BY ADDING CHAPTER 18; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-1001, Arizona Revised Statutes, is amended to
3 read:

4 42-1001. Definitions

5 In this title, unless the context otherwise requires:

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

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

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

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

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

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

17 7. "Email" means:

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

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

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

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

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

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

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

1 PROVISIONS THAT ARE RETROACTIVELY EFFECTIVE DURING TAXABLE YEARS BEGINNING
2 FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER 31, 2025.

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

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

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

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

40 ~~F.~~ G. For the purposes of computing income tax pursuant to this
41 title, for taxable years beginning from and after December 31, 2019
42 through December 31, 2020, "internal revenue code" means the United States
43 internal revenue code of 1986, as amended, in effect on January 1, 2020,
44 including those provisions that became effective during 2019 with the
45 specific adoption of all retroactive effective dates, and including those

provisions of the families first coronavirus response act (P.L. 116-127), the coronavirus aid, relief, and economic security act (P.L. 116-136), the paycheck protection program flexibility act of 2020 (P.L. 116-142), the consolidated appropriations act, 2021 (P.L. 116-260) and the American rescue plan act of 2021 (P.L. 117-2) that are retroactively effective during taxable years beginning from and after December 31, 2019 through December 31, 2020.

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

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

~~I.~~ J. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2016 through December 31, 2017, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2017, including those provisions that became effective during 2016 with the specific adoption of all federal retroactive effective dates, and including those provisions of the disaster tax relief and airport and airway extension act of 2017 (P.L. 115-63), the tax cuts and jobs act (P.L. 115-97), the bipartisan budget act of 2018 (P.L. 115-123), the consolidated appropriations act, 2018 (P.L. 115-141), the further consolidated appropriations act, 2020 (P.L. 116-94) and the coronavirus aid, relief, and economic security act (P.L. 116-136) that are

retroactively effective during taxable years beginning from and after December 31, 2016 through December 31, 2017.

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

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

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

43-301. Individual returns; definition

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

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

C. In the case of a husband and wife, the spouse who controls the disposition of or who receives or spends community income as well as the

1 spouse who is taxable on such income is liable for the payment of taxes
2 imposed by this title on such income. If a joint return is filed, the
3 liability for the tax on the aggregate income is joint and several.

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

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

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

12 43-323. Place and form of filing returns

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

16 B. The department shall prescribe a short form return for
17 individual taxpayers who:

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

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

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

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

29 C. The department may provide a simplified return form for
30 individual taxpayers who:

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

33 2. Are residents for the full taxable year.

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

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

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

39 6. Elect to claim the optional standard deduction under section
40 43-1041, subsection A, but not the increased amount for charitable
41 deductions under section 43-1041, subsection ~~F~~ H.

42 7. Are not required to add any income under section 43-1021 and do
43 not elect to claim any subtractions under section 43-1022 or file for any
44 credits under chapter 10, article 5 of this title, except the credits
45 provided by sections 43-1072.01, 43-1072.02 and 43-1073.

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

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

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

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

- 28 1. The taxpayer has no computer.
29 2. The taxpayer has no internet access.
30 3. Any other circumstance considered to be worthy by the director
31 exists.

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

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

38 43-1022. Subtractions from Arizona gross income

39 In computing Arizona adjusted gross income, the following amounts
40 shall be subtracted from Arizona gross income:

- 41 1. The amount of exemptions allowed by section 43-1023.
42 2. Benefits, annuities and pensions in an amount totaling not more
43 than \$2,500 received from one or more of the following:
44 (a) The United States government service retirement and disability
45 fund, the United States foreign service retirement and disability system

1 and any other retirement system or plan established by federal law, except
2 retired or retainer pay of the uniformed services of the United States
3 that qualifies for a subtraction under paragraph 26 of this section.

4 (b) The Arizona state retirement system, the corrections officer
5 retirement plan, the public safety personnel retirement system, the
6 elected officials' retirement plan, an optional retirement program
7 established by the Arizona board of regents under section 15-1628, an
8 optional retirement program established by a community college district
9 board under section 15-1451 or a retirement plan established for employees
10 of a county, city or town in this state.

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

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

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

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

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

26 8. The portion of any wages or salaries paid or incurred by the
27 taxpayer for the taxable year that is equal to the amount of the federal
28 work opportunity credit, the empowerment zone employment credit, the
29 credit for employer paid social security taxes on employee cash tips and
30 the Indian employment credit that the taxpayer received under sections
31 45A, 45B, 51(a) and 1396 of the internal revenue code.

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

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

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

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

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

11 (b) In taxable years beginning from and after December 31, 2025,
12 \$5,000 for a single individual or head of household.

13 (c) For taxable years beginning from and after December 31, 2025,
14 \$10,000 for a married couple filing a joint return. In the case of a
15 husband and wife who file separate returns, the subtraction may be taken
16 by either taxpayer or may be divided between them, but the total
17 subtractions allowed both husband and wife may not exceed \$10,000.

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

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

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

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

33 17. For property placed in service:

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

40 (b) In taxable years beginning from and after December 31, 2012
41 through December 31, 2013, an amount determined in the year the asset was
42 placed in service based on the calculation in subdivision (a) of this
43 paragraph. In the first taxable year beginning from and after
44 December 31, 2013, the taxpayer may elect to subtract the amount necessary
45 to make the depreciation claimed to date for the purposes of this title

1 the same as it would have been if subdivision (c) of this paragraph had
2 applied for the entire time the asset was in service. Subdivision (c) of
3 this paragraph applies for the remainder of the asset's life. If the
4 taxpayer does not make the election under this subdivision, subdivision
5 (a) of this paragraph applies for the remainder of the asset's life.

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

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

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

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

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

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

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

41 20. The portion of the net operating loss carryforward that would
42 have been allowed as a deduction in the current year pursuant to section
43 172 of the internal revenue code if the election described in section
44 172(b)(1)(H) of the internal revenue code had not been made in the year of
45 the loss that exceeds the actual net operating loss carryforward that was

1 deducted in arriving at federal adjusted gross income. This subtraction
2 only applies to taxpayers who made an election under section 172(b)(1)(H)
3 of the internal revenue code as amended by section 1211 of the American
4 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
5 section 13 of the worker, homeownership, and business assistance act of
6 2009 (P.L. 111-92).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 31. 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 OF QUALIFIED TIPS RECEIVED DURING THE
4 TAXABLE YEAR THAT IS DEDUCTED UNDER SECTION 224 OF THE INTERNAL REVENUE
5 CODE.

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

11 33. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024,
12 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
13 INTERNAL REVENUE CODE, THE AMOUNT OF A DISTRIBUTION FROM AN ACCOUNT
14 ESTABLISHED PURSUANT TO SECTION 530A OF THE INTERNAL REVENUE CODE.

15 34. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024,
16 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
17 INTERNAL REVENUE CODE, THE AMOUNT OF CHILD AND DEPENDENT CARE EXPENSES FOR
18 A QUALIFYING INDIVIDUAL UNDER SECTION 21 OF THE INTERNAL REVENUE CODE PAID
19 OR INCURRED BY THE TAXPAYER FOR THE TAXABLE YEAR THAT EXCEEDS THE AMOUNT
20 OF THE FEDERAL CREDIT THAT THE TAXPAYER RECEIVED UNDER SECTION 21 OF THE
21 INTERNAL REVENUE CODE.

22 35. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024,
23 THE AMOUNT AUTHORIZED BY SECTION 43-1030 FOR THE TAXABLE YEAR RELATING TO
24 DISTRIBUTIONS FROM A PENSION OR RETIREMENT ACCOUNT.

25 36. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024,
26 THE AMOUNT TOTALING NOT MORE THAN \$6,000 THAT IS CONTRIBUTED DURING THE
27 TAXABLE YEAR TO A RETIREMENT ACCOUNT TO THE EXTENT THAT THE CONTRIBUTIONS
28 WERE NOT DEDUCTED IN COMPUTING FEDERAL ADJUSTED GROSS INCOME. THE TOTAL
29 AMOUNT SUBTRACTED UNDER THIS PARAGRAPH AND SECTION 43-1030 MAY NOT EXCEED
30 \$6,000 FOR A TAXPAYER WHO IS A SINGLE PERSON, A MARRIED PERSON FILING
31 SEPARATELY OR A HEAD OF HOUSEHOLD OR \$12,000 FOR A MARRIED COUPLE FILING A
32 JOINT RETURN. FOR THE PURPOSES OF THIS PARAGRAPH, "RETIREMENT ACCOUNT"
33 MEANS A ROTH INDIVIDUAL RETIREMENT ACCOUNT UNDER SECTION 408A OF THE
34 INTERNAL REVENUE CODE.

35 Sec. 6. Title 43, chapter 10, article 3, Arizona Revised Statutes,
36 is amended by adding section 43-1030, to read:

37 43-1030. Subtraction for distributions from a pension or
38 retirement account; limits; definitions

39 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024, IN
40 COMPUTING ARIZONA ADJUSTED GROSS INCOME, A TAXPAYER WHO IS SIXTY YEARS OF
41 AGE OR OLDER DURING THE TAXABLE YEAR MAY SUBTRACT FROM ARIZONA GROSS
42 INCOME, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME
43 PURSUANT TO SECTION 43-1022 OR THE INTERNAL REVENUE CODE, AN AMOUNT
44 TOTALING NOT MORE THAN \$6,000 RECEIVED FROM A DISTRIBUTION TO A QUALIFIED
45 INDIVIDUAL FROM A PENSION OR RETIREMENT ACCOUNT.

1 B. FOR A TAXPAYER WHOSE ARIZONA GROSS INCOME IS \$75,000 OR MORE FOR
2 A TAXPAYER WHO IS A SINGLE PERSON, A MARRIED PERSON FILING SEPARATELY OR A
3 HEAD OF HOUSEHOLD OR \$150,000 OR MORE FOR A MARRIED COUPLE FILING A JOINT
4 RETURN, THE SUBTRACTION AMOUNT PRESCRIBED BY SUBSECTION A OF THIS SECTION
5 SHALL BE REDUCED BY SIX PERCENT OF THE AMOUNT THAT THE TAXPAYER'S INCOME
6 EXCEEDS THE AMOUNT PRESCRIBED BY THIS SUBSECTION FOR THE TAXPAYER'S FILING
7 STATUS, BUT NOT BELOW ZERO.

8 C. THE TOTAL AMOUNT SUBTRACTED UNDER THIS SECTION AND SECTION
9 43-1022, PARAGRAPH 36 MAY NOT EXCEED \$6,000 FOR A TAXPAYER WHO IS A SINGLE
10 PERSON, A MARRIED PERSON FILING SEPARATELY OR A HEAD OF HOUSEHOLD OR
11 \$12,000 FOR A MARRIED COUPLE FILING A JOINT RETURN.

12 D. FOR THE PURPOSES OF THIS SECTION:

13 1. "PENSION" MEANS EITHER OF THE FOLLOWING:

14 (a) A DEFINED BENEFIT PLAN AUTHORIZED UNDER THE INTERNAL REVENUE
15 CODE PAID TO AN INDIVIDUAL.

16 (b) PERIODIC, FIXED AMOUNT RETIREMENT PAYMENTS MADE BY THE UNITED
17 STATES MILITARY, THE UNITED STATES CIVIL SERVICE OR A STATE OR LOCAL
18 GOVERNMENT OR A PRIVATE EMPLOYER TO FORMER EMPLOYEES AND SURVIVING SPOUSES
19 OF FORMER EMPLOYEES FOR PRIOR SERVICES PERFORMED.

20 2. "QUALIFIED INDIVIDUAL" MEANS:

21 (a) THE TAXPAYER, IF THE TAXPAYER HAS ATTAINED SIXTY YEARS OF AGE
22 BEFORE THE CLOSE OF THE TAXABLE YEAR.

23 (b) IN THE CASE OF A JOINT RETURN, THE TAXPAYER'S SPOUSE, IF THE
24 TAXPAYER'S SPOUSE HAS ATTAINED SIXTY YEARS OF AGE BEFORE THE CLOSE OF THE
25 TAXABLE YEAR.

26 3. "RETIREMENT ACCOUNT" INCLUDES:

27 (a) A QUALIFIED RETIREMENT PLAN UNDER SECTIONS 401 AND 403 OF THE
28 INTERNAL REVENUE CODE AND AN ELIGIBLE DEFERRED COMPENSATION PLAN UNDER
29 SECTION 457 OF THE INTERNAL REVENUE CODE.

30 (b) AN INDIVIDUAL RETIREMENT ACCOUNT UNDER SECTION 408 OF THE
31 INTERNAL REVENUE CODE, INCLUDING A SIMPLIFIED EMPLOYEE PENSION AS DEFINED
32 IN SECTION 408(k) OF THE INTERNAL REVENUE CODE AND A SIMPLE RETIREMENT
33 ACCOUNT AS DEFINED IN SECTION 408(p) OF THE INTERNAL REVENUE CODE.

34 Sec. 7. Section 43-1041, Arizona Revised Statutes, is amended to
35 read:

36 43-1041. Optional standard deduction

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

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

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

1 ~~3. In the case of a married couple filing a joint return, the~~
2 ~~standard deduction is \$24,400, subject to subsection H of this section.~~
3 THE AMOUNT OF THE STANDARD DEDUCTION IS THE AMOUNT OF THE FEDERAL BASIC
4 STANDARD DEDUCTION DETERMINED PURSUANT TO SECTION 63 OF THE INTERNAL
5 REVENUE CODE FOR THE TAXPAYER'S FILING STATUS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 8. Section 43-1042, Arizona Revised Statutes, is amended to read:

43-1042. Itemized deductions

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

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

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

6 D. IN LIEU OF THE AMOUNT OF THE FEDERAL ITEMIZED DEDUCTION FOR
7 STATE AND LOCAL TAXES ALLOWED UNDER SECTION 164(b)(7) OF THE INTERNAL
8 REVENUE CODE, THE TAXPAYER MAY DEDUCT UP TO \$10,000 OF THAT AMOUNT FOR
9 SUCH STATE AND LOCAL TAXES.

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

14 Sec. 9. Section 43-1073.01, Arizona Revised Statutes, is amended to
15 read:

16 43-1073.01. Dependent tax credit

17 A. A credit is allowed against the taxes imposed by this title for
18 a taxable year for each dependent of a taxpayer as provided by this
19 section.

20 B. For taxpayers whose federal adjusted gross income is less than
21 \$200,000 for a taxpayer who is a single person, a married person filing
22 separately or a head of household or is less than \$400,000 for a married
23 couple filing a joint return, the amount of the credit is:

24 1. ~~\$100~~ \$125 for each dependent who is under seventeen years of age
25 at the end of the taxable year.

26 2. \$25 for each dependent who is at least seventeen years of age at
27 the end of the taxable year.

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

32 1. ~~\$100~~ \$125 minus five percent for each \$1,000, or fraction
33 thereof, by which the taxpayer's federal adjusted gross income exceeds the
34 applicable threshold provided in this subsection for each dependent who is
35 under seventeen years of age at the end of the taxable year.

36 2. \$25 minus five percent for each \$1,000, or fraction thereof, by
37 which the taxpayer's federal adjusted gross income exceeds the applicable
38 threshold provided in this subsection for each dependent who is at least
39 seventeen years of age at the end of the taxable year.

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

1 Sec. 10. Title 43, Arizona Revised Statutes, is amended by adding
2 chapter 18, to read:

3 CHAPTER 18
4 SCHOLARSHIP GRANTING ORGANIZATIONS
5 ARTICLE 1. GENERAL PROVISIONS

6 43-1801. State election to participate; federal tax credit
7 for individual contributions to scholarship
8 granting organizations

9 A. THIS STATE ELECTS TO PARTICIPATE IN THE FEDERAL TAX CREDIT
10 ESTABLISHED BY SECTION 25F OF THE INTERNAL REVENUE CODE FOR INDIVIDUALS
11 WHO MAKE QUALIFIED CONTRIBUTIONS TO SCHOLARSHIP GRANTING ORGANIZATIONS.

12 B. THE DEPARTMENT SHALL COMPLY WITH ALL FEDERAL LAWS AND
13 REGULATIONS TO ADMINISTER THE FEDERAL TAX CREDIT ESTABLISHED BY SECTION
14 25F OF THE INTERNAL REVENUE CODE TO ENSURE THIS STATE IS ELIGIBLE TO
15 PARTICIPATE IN TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2026
16 AND ANNUALLY SUBMIT ALL OF THE REQUIRED INFORMATION TO THE UNITED STATES
17 SECRETARY OF THE TREASURY FOR PARTICIPATION.

18 43-1802. Scholarship granting organizations: certification:
19 list; rules

20 A. A NONPROFIT ORGANIZATION IN THIS STATE THAT IS EXEMPT OR THAT
21 HAS APPLIED FOR EXEMPTION FROM FEDERAL TAXATION UNDER SECTION 501(c)(3) OF
22 THE INTERNAL REVENUE CODE MAY APPLY TO THE DEPARTMENT FOR CERTIFICATION AS
23 A SCHOLARSHIP GRANTING ORGANIZATION, AND THE DEPARTMENT SHALL CERTIFY THAT
24 THE SCHOLARSHIP GRANTING ORGANIZATION MEETS THE REQUIREMENTS OF SECTION
25 25F OF THE INTERNAL REVENUE CODE AND THE APPLICABLE REGULATIONS OR
26 GUIDANCE ISSUED BY THE UNITED STATES SECRETARY OF THE TREASURY.

27 B. ON OR BEFORE JANUARY 1 OF EACH YEAR, THE DEPARTMENT SHALL:

28 1. SUBMIT TO THE UNITED STATES SECRETARY OF THE TREASURY A LIST OF
29 THE SCHOLARSHIP GRANTING ORGANIZATIONS THAT ARE CERTIFIED PURSUANT TO THIS
30 SECTION AND THAT ARE LOCATED IN THIS STATE.

31 2. POST THE LIST SUBMITTED PURSUANT TO PARAGRAPH 1 OF THIS
32 SUBSECTION ON THE DEPARTMENT'S OFFICIAL WEBSITE.

33 C. THE DEPARTMENT SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS
34 AND PROCEDURES NECESSARY TO ADMINISTER THIS SECTION.

35 43-1803. Scholarships

36 FROM AND AFTER DECEMBER 31, 2026, A SCHOLARSHIP GRANTING
37 ORGANIZATION THAT IS CERTIFIED BY THE DEPARTMENT AND ON THE LIST SUBMITTED
38 PURSUANT TO SECTION 43-1802, SUBSECTION B, PARAGRAPH 1 MAY PROVIDE
39 SCHOLARSHIPS TO ELIGIBLE STUDENTS FOR ANY QUALIFIED ELEMENTARY OR
40 SECONDARY EDUCATION EXPENSES TO THE EXTENT ALLOWED UNDER FEDERAL LAW.

41 Sec. 11. Retroactivity

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