

REFERENCE TITLE: tax laws; interpretation; application; hearing

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

# **SB 1221**

Introduced by  
Senator Mesnard

AN ACT

AMENDING SECTION 42-2078, ARIZONA REVISED STATUTES; RELATING TO TAXPAYER PROTECTION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-2078, Arizona Revised Statutes, is amended to  
3 read:

4 42-2078. New interpretation or application of law; notice;  
5 hearing; affirmative defense; definition

6 A. Unless expressly authorized by law, the department shall not  
7 apply any newly enacted law retroactively or in a manner that will  
8 penalize a taxpayer for complying with prior law.

9 B. IF A PROPOSED NEW INTERPRETATION OR APPLICATION OF ANY PROVISION  
10 OF THIS TITLE OR TITLE 43 WILL ADVERSELY AFFECT TAXPAYERS PROSPECTIVELY,  
11 THE DEPARTMENT SHALL, OR AN AFFECTED TAXPAYER MAY, NOTIFY THE CHAIRPERSONS  
12 OF THE SENATE FINANCE COMMITTEE AND THE HOUSE OF REPRESENTATIVES WAYS AND  
13 MEANS COMMITTEE, OR THEIR SUCCESSOR COMMITTEES, BEFORE THE NEW  
14 INTERPRETATION OR APPLICATION IS ADOPTED. IF THE CHAIRPERSONS OF THE  
15 SENATE FINANCE COMMITTEE AND THE HOUSE OF REPRESENTATIVES WAYS AND MEANS  
16 COMMITTEE, OR THEIR SUCCESSOR COMMITTEES, HOLD A HEARING ON THE PROPOSED  
17 NEW INTERPRETATION'S OR APPLICATION'S IMPACT ON TAXPAYERS, THE DEPARTMENT  
18 SHALL PROVIDE TESTIMONY REGARDING THE REASONS THAT THE INTERPRETATION OR  
19 APPLICATION IS NECESSARY.

20 ~~B.~~ C. If the department adopts a new interpretation or application  
21 of any provision of this title or title 43 or determines that any of those  
22 provisions applies to a new or additional category or type of taxpayer,  
23 and the change in interpretation or application is not due to a change in  
24 the law:

25 1. The change in interpretation or application applies  
26 prospectively unless it is favorable to taxpayers.

27 2. The department shall not assess any tax, penalty or interest  
28 retroactively based on the change in interpretation or application.

29 3. The change is an affirmative defense in any administrative or  
30 judicial action for retroactive assessment of tax, interest and penalties  
31 to taxable periods before the new interpretation or application was  
32 adopted.

33 ~~C.~~ D. Tax liabilities, penalties and interest paid before a new  
34 interpretation or application of chapter 5 of this title by the department  
35 shall not be refunded unless the taxpayer requesting the refund provides  
36 evidence satisfactory to the department that the amounts will be refunded  
37 to the person who paid an added charge to cover the tax.

38 ~~D.~~ E. For the purposes of this section, "new interpretation or  
39 application" includes policies and procedures adopted by administrative  
40 rule, A tax ruling, A tax procedure or instructions to a tax return.