

Senate Engrossed

conformity; internal revenue code; deductions.

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

# SENATE BILL 1638

AN ACT

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

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

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

4 42-1001. Definitions

5 In this title, unless the context otherwise requires:

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

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

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

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

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

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

17 7. "Email" means:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

33 43-301. Individual returns; definition

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

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

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

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

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

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

14 43-323. Place and form of filing returns

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

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

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

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

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

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

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

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

35 2. Are residents for the full taxable year.

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

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

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

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

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

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

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

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

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

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

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

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

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

40 43-1022. Subtractions from Arizona gross income

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

- 43 1. The amount of exemptions allowed by section 43-1023.
- 44 2. Benefits, annuities and pensions in an amount totaling not more  
45 than \$2,500 received from one or more of the following:

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

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

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

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

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

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

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

28 8. The portion of any wages or salaries paid or incurred by the  
29 taxpayer for the taxable year that is equal to the amount of the federal  
30 work opportunity credit, the empowerment zone employment credit, the  
31 credit for employer paid social security taxes on employee cash tips and  
32 the Indian employment credit that the taxpayer received under sections  
33 45A, 45B, 51(a) and 1396 of the internal revenue code.

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

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

43 11. To the extent not already excluded from Arizona gross income  
44 under the internal revenue code, compensation received for active service  
45 as a member of the reserves, the national guard or the armed forces of the

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

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

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

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

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

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

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

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

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

35 17. For property placed in service:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 43-1041. Optional standard deduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 ~~H. For each taxable year beginning from and after December 31,~~  
24 ~~2019, the department shall adjust the dollar amounts prescribed by~~  
25 ~~subsection A, paragraphs 1, 2 and 3 of this section for inflation in the~~  
26 ~~same manner in which the federal basic standard deduction is adjusted for~~  
27 ~~inflation pursuant to section 63 of the internal revenue code.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 Sec. 8. Retroactivity

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