

State of Arizona  
House of Representatives  
Forty-second Legislature  
Second Regular Session  
1996

**FILED**

Jane Dee Hull  
Secretary of State

CHAPTER 199

**HOUSE BILL 2020**

AN ACT

AMENDING SECTION 42-101, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 1995, CHAPTER 7, SECTION 1 AND CHAPTER 249, SECTION 1; REPEALING SECTION 42-101, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 1995, CHAPTER 241, SECTION 24; AMENDING SECTIONS 43-105 AND 43-1201, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

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

Section 1. Section 42-101, Arizona Revised Statutes, as amended by Laws 1995, chapter 7, section 1 and chapter 249, section 1, is amended to read:

42-101. Definitions

In this title, unless the context otherwise requires:

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

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

3. "Department" means the department of revenue.

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

5. "Internal revenue code" means the United States internal revenue code of 1986, as amended and in effect as of January 1, ~~1995~~ 1996, including those provisions that became effective during ~~1994~~ 1995 with the specific adoption of their retroactive effective dates but excluding all changes to such code enacted after January 1, ~~1995~~ 1996.

Sec. 2. Repeal

Section 42-101, Arizona Revised Statutes, as amended by Laws 1995, chapter 241, section 24, is repealed.

1           Sec. 3. Section 43-105, Arizona Revised Statutes, is amended to read:  
2           43-105. Internal revenue code; definition; application

3           A. FOR PURPOSES OF COMPUTING INCOME TAX PURSUANT TO THIS TITLE, FOR  
4 TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 1995 THROUGH DECEMBER 31,  
5 1996, "INTERNAL REVENUE CODE" MEANS THE UNITED STATES INTERNAL REVENUE CODE  
6 OF 1986, AS AMENDED, IN EFFECT ON JANUARY 1, 1996, INCLUDING THOSE PROVISIONS  
7 THAT BECAME EFFECTIVE DURING 1995 WITH THE SPECIFIC ADOPTION OF THEIR  
8 RETROACTIVE EFFECTIVE DATE, BUT EXCLUDING ANY CHANGE TO SUCH CODE ENACTED  
9 AFTER JANUARY 1, 1996.

10           ~~A-~~ B. For purposes of computing income tax pursuant to this title,  
11 for taxable years beginning from and after December 31, 1994 through December  
12 31, 1995, "internal revenue code" means the United States internal revenue  
13 code of 1986, as amended, in effect on January 1, 1995, including those  
14 provisions that became effective during 1994 with the specific adoption of  
15 their retroactive effective date, but excluding any change to such code  
16 enacted after January 1, 1995.

17           ~~B-~~ C. For purposes of computing income tax pursuant to this title,  
18 for taxable years beginning from and after December 31, 1993 through December  
19 31, 1994, "internal revenue code" means the United States internal revenue  
20 code of 1986, as amended, in effect on January 1, 1994, including those  
21 provisions that became effective during 1993 with the specific adoption of  
22 their retroactive effective date, but excluding any change to such code  
23 enacted after January 1, 1994.

24           ~~C-~~ D. Except as provided in section 43-106, for purposes of computing  
25 income tax pursuant to this title for taxable years beginning from and after  
26 December 31, 1992 through December 31, 1993, "internal revenue code" means  
27 the United States internal revenue code of 1986, as amended, in effect on  
28 January 1, 1993, including those provisions that became effective during 1992  
29 with the specific adoption of their retroactive effective date, but excluding  
30 any change to such code enacted after January 1, 1993.

31           ~~D-~~ E. For purposes of computing income tax pursuant to this title,  
32 for taxable years beginning from and after December 31, 1991 through December  
33 31, 1992, "internal revenue code" means the United States internal revenue  
34 code of 1986, as amended, in effect on January 1, 1992, including those  
35 provisions that became effective during 1991 with the specific adoption of  
36 their retroactive effective date, but excluding any change to such code  
37 enacted after January 1, 1992.

38           ~~E-~~ F. For purposes of computing income tax pursuant to this title,  
39 for taxable years beginning from and after December 31, 1990 through December  
40 31, 1991, "internal revenue code" means the United States internal revenue  
41 code of 1986, as amended, in effect on January 1, 1991, including those  
42 provisions that became effective during 1990 with the specific adoption of  
43 their retroactive effective date, but excluding any change to such code  
44 enacted after January 1, 1991.

1           Sec. 4. Section 43-1201, Arizona Revised Statutes, is amended to read:  
2           43-1201. Organizations exempt from tax

3           ORGANIZATIONS THAT ARE EXEMPT FROM FEDERAL INCOME TAX UNDER SECTION 501  
4           OF THE INTERNAL REVENUE CODE ARE EXEMPT FROM THE TAX IMPOSED UNDER THIS  
5           TITLE. IN ADDITION, the following organizations are exempt from the taxes  
6           imposed under this title, except as otherwise provided in this chapter:

7           1. Labor, agricultural or horticultural organizations, other than  
8           cooperative organizations.

9           2. Fraternal beneficiary societies, orders or organizations both:

10           (a) Operating under the lodge system or for the exclusive benefit of  
11           the members of a fraternity itself operating under the lodge system.

12           (b) Providing for the payment of life, sick, accident or other  
13           benefits to the members of such society, order or organization or their  
14           dependents.

15           3. Cemetery companies owned and operated exclusively for the benefit  
16           of their members or which are not operated for profit or any corporation  
17           chartered for burial purposes and not permitted by its charter to engage in  
18           any business not necessarily related to that purpose, no part of the net  
19           earnings of which inures to the benefit of any private shareholder or  
20           individual member thereof.

21           4. Corporations organized and operated exclusively for religious,  
22           charitable, scientific, literary or educational purposes or for the  
23           prevention of cruelty to children or animals, no part of the net earnings of  
24           which inures to the benefit of any private shareholder or individual, and no  
25           substantial part of the activities of which is carrying on propaganda or  
26           otherwise attempting to influence legislation.

27           5. Business leagues, chambers of commerce, real estate boards or  
28           boards of trade, not organized for profit, no part of the net earnings of  
29           which inures to the benefit of any private shareholder or individual.

30           6. Civic leagues or organizations not organized for profit but  
31           operated exclusively for the promotion of social welfare or local  
32           organizations of employees, the membership of which is limited to the  
33           employees of a designated person or persons in a particular municipality, the  
34           net earnings of which are devoted exclusively to charitable, educational or  
35           recreational purposes.

36           7. Clubs organized and operated exclusively for pleasure, recreation  
37           and other non-profitable purposes, no part of the net earnings of which  
38           inures to the benefit of any private shareholder.

39           8. Corporations organized for the exclusive purpose of holding title  
40           to property, collecting income therefrom and turning over the entire amount  
41           of such income, less expenses, to an organization which itself is exempt from  
42           the tax imposed by this title.

1           9. Voluntary employees' beneficiary organizations providing for the  
2 payment of life, sick, accident or other benefits to the members of such  
3 organizations or their dependents, if both of the following apply:

4           (a) No part of their net earnings inures, other than through such  
5 payments, to the benefit of any private shareholder or individual.

6           (b) Eighty-five per cent or more of the income consists of amounts  
7 collected from members and amounts contributed to the organization by the  
8 employer of the members for the sole purpose of making such payments and  
9 meeting expenses.

10          10. Teachers' or public employees' retirement fund organizations of a  
11 purely local character, if both of the following apply:

12          (a) No part of their net earnings inures to the benefit of any private  
13 shareholder or individual, other than through payment of retirement benefits.

14          (b) The income consists solely of amounts received from public  
15 taxation, amounts received from assessments upon the salaries of members and  
16 income in respect of investments. For the purposes of this paragraph,  
17 "public employees" means employees of the state and its political  
18 subdivisions.

19          11. Religious or apostolic organizations or corporations, if such  
20 organizations or corporations have a common treasury or community treasury,  
21 even if such corporations or organizations engage in business for the common  
22 benefit of the members, but only if the members thereof include, at the time  
23 of filing their returns, in their Arizona gross income their pro rata shares,  
24 whether distributed or not, of the net income of the organizations or  
25 corporations for such year. Any amount so included in the Arizona gross  
26 income of a member shall be treated as a dividend received.

27          12. Voluntary employees' beneficiary organizations providing for the  
28 payment of life, sick, accident or other benefits to the members of such  
29 organization, their dependents or their designated beneficiaries, if both of  
30 the following apply:

31          (a) Admission to membership in such organization is limited to  
32 individuals who are officers or employees of the United States government.

33          (b) No part of the net earnings of such organization inures, other  
34 than through such payments, to the benefit of any private shareholder or  
35 individual.

36          13. Corporations classified as diversified management companies under  
37 section 5 of the federal investment company act of 1940 and registered as  
38 provided in that act.

39          14. Insurance companies paying to the state tax upon premium income  
40 derived from sources within this state.

41          15. Mutual ditch, irrigation or water companies or similar nonprofit  
42 organizations if eighty-five per cent or more of the income consists of  
43 amounts collected from members for the sole purpose of meeting losses and  
44 expenses.

- 1           Sec. 5. Retroactive application
- 2           A. Section 1 of this act applies retroactively to taxable periods
- 3 beginning from and after December 31, 1995 through December 31, 1996.
- 4           B. Section 4 of this act applies retroactively to taxable periods
- 5 beginning from and after December 31, 1978.

APPROVED BY THE GOVERNOR APRIL 18, 1996

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 19, 1996