

Conference Engrossed

State of Arizona
House of Representatives
Forty-fifth Legislature
Second Regular Session
2002

CHAPTER 344

HOUSE BILL 2712

AN ACT

AMENDING SECTIONS 42-1001, 43-105, 43-206, 43-1021, 43-1022 AND 43-1121, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1122, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2002, CHAPTER 50, SECTION 3; 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. "Internal revenue code" means the United States internal revenue
13 code of 1986, as amended and in effect as of ~~January 1, 2001~~ MARCH 9, 2002,
14 including those provisions that became effective during ~~2000~~ 2001 with the
15 specific adoption of their retroactive effective dates but excluding all
16 changes to the code enacted after ~~January 1, 2001~~ MARCH 9, 2002.

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

18 43-105. Internal revenue code; definition; application

19 A. FOR PURPOSES OF COMPUTING INCOME TAX PURSUANT TO THIS TITLE, FOR
20 TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2001 THROUGH DECEMBER 31,
21 2002, "INTERNAL REVENUE CODE" MEANS THE UNITED STATES INTERNAL REVENUE CODE
22 OF 1986, AS AMENDED, IN EFFECT ON MARCH 9, 2002, INCLUDING THOSE PROVISIONS
23 THAT BECAME EFFECTIVE DURING 2001 WITH THE SPECIFIC ADOPTION OF ALL FEDERAL
24 RETROACTIVE EFFECTIVE DATES, BUT EXCLUDING ANY CHANGE TO THE CODE ENACTED
25 AFTER MARCH 9, 2002.

26 ~~A.~~ B. For purposes of computing income tax pursuant to this title,
27 for taxable years beginning from and after December 31, 2000 through December
28 31, 2001, "internal revenue code" means the United States internal revenue
29 code of 1986, as amended, in effect on January 1, 2001, including those
30 provisions that became effective during 2000 with the specific adoption of
31 all federal retroactive effective dates, ~~but excluding any change to the code~~
32 ~~enacted after January 1, 2001~~ AND INCLUDING THOSE PROVISIONS OF THE ECONOMIC
33 GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001 (P.L. 107-16) AND THE JOB
34 CREATION AND WORKER ASSISTANCE ACT OF 2002 (P.L. 107-147) THAT ARE
35 RETROACTIVELY EFFECTIVE DURING TAXABLE YEARS BEGINNING FROM AND AFTER
36 DECEMBER 31, 2000 THROUGH DECEMBER 31, 2001.

37 ~~B.~~ C. For purposes of computing income tax pursuant to this title,
38 for taxable years beginning from and after December 31, 1999 through December
39 31, 2000, "internal revenue code" means the United States internal revenue
40 code of 1986, as amended, in effect on January 1, 2000, including those
41 provisions that became effective during 1999 with the specific adoption of
42 all federal retroactive effective dates and including those provisions of the
43 community renewal tax relief act of 2000 (P.L. 106-554), and the installment
44 tax correction act of 2000 (P.L. 106-573), FSC repeal and extraterritorial
45 income EXCLUSION act of 2000 (P.L. 106-519), and the trade and development

1 act of 2000 (P.L. 106-200), THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION
2 ACT OF 2001 (P.L. 107-16) AND THE JOB CREATION AND WORKER ASSISTANCE ACT OF
3 2002 (P.L. 107-147) that are retroactively effective during taxable years
4 beginning from and after December 31, 1999 through December 31, 2000.

5 ~~C.~~ D. For purposes of computing income tax pursuant to this title,
6 for taxable years beginning from and after December 31, 1998 through December
7 31, 1999, "internal revenue code" means the United States internal revenue
8 code of 1986, as amended, in effect on January 1, 1999, including those
9 provisions that became effective during 1998 with the specific adoption of
10 all federal retroactive effective dates and including those provisions of the
11 miscellaneous trade and technical corrections act of 1999 (P.L. 106-36), the
12 ticket to work and work incentives improvement act of 1999 (P.L. 106-170),
13 the community renewal tax relief act of 2000 (P.L. 106-554) and the
14 installment tax correction act of 2000 (P.L. 106-573) that are retroactively
15 effective during taxable years beginning from and after December 31, 1998
16 through December 31, 1999.

17 ~~D.~~ E. For purposes of computing income tax pursuant to this title,
18 for taxable years beginning from and after December 31, 1997 through December
19 31, 1998, "internal revenue code" means the United States internal revenue
20 code of 1986, as amended, in effect on January 1, 1998, including those
21 provisions that became effective during 1997 with the specific adoption of
22 all federal retroactive effective dates and including those provisions of the
23 IRS restructuring and reform act of 1998 (P.L. 105-206), the tax and trade
24 relief extension act of 1998 (P.L. 105-277), the surface transportation
25 revenue act of 1998 (P.L. 105-178) and the miscellaneous trade and technical
26 corrections act of 1999 (P.L. 106-36) that are retroactively effective during
27 the taxable years beginning from and after December 31, 1997 through December
28 31, 1998.

29 ~~E.~~ F. For purposes of computing income tax pursuant to this title,
30 for taxable years beginning from and after December 31, 1996 through December
31 31, 1997, "internal revenue code" means the United States internal revenue
32 code of 1986, as amended, in effect on January 1, 1997, including those
33 provisions that became effective during 1996 with the specific adoption of
34 all federal retroactive effective dates and including the provisions of the
35 taxpayer relief act of 1997 (P.L. 105-34), the IRS restructuring and reform
36 act of 1998 (P.L. 105-206) and the tax and trade relief extension act of 1998
37 (P.L. 105-277) that are retroactively effective during taxable years
38 beginning from and after December 31, 1996 through December 31, 1997.

39 ~~F.~~ G. For purposes of computing income tax pursuant to this title,
40 for taxable years beginning from and after December 31, 1995 through December
41 31, 1996, "internal revenue code" means the United States internal revenue
42 code of 1986, as amended, in effect on January 1, 1996, including those
43 provisions that became effective during 1995 with the specific adoption of
44 their retroactive effective date and including those provisions of the small
45 business job protection act of 1996 (P.L. 104-188; 110 Stat. 1755), the

1 health insurance portability and accountability act of 1996 (P.L. 104-191;
2 110 Stat. 1936), the personal responsibility and work opportunity
3 reconciliation act of 1996 (P.L. 104-193; 110 Stat. 2105), the taxpayer
4 relief act of 1997 (P.L. 105-34), the IRS restructuring and reform act of
5 1998 (P.L. 105-206) and the tax and trade relief extension act of 1998
6 (P.L. 105-277) that are retroactively effective during taxable years
7 beginning from and after December 31, 1995 through December 31, 1996.

8 ~~G.~~ H. For purposes of computing income tax pursuant to this title,
9 for taxable years beginning from and after December 31, 1994 through December
10 31, 1995, "internal revenue code" means the United States internal revenue
11 code of 1986, as amended, in effect on January 1, 1995, including those
12 provisions that became effective during 1994 with the specific adoption of
13 their retroactive effective date and including those provisions of the small
14 business job protection act of 1996 (P.L. 104-188; 110 Stat. 1755), the
15 health insurance portability and accountability act of 1996 (P.L. 104-191;
16 110 Stat. 1936), the personal responsibility and work opportunity
17 reconciliation act of 1996 (P.L. 104-193; 110 Stat. 2105), the taxpayer
18 relief act of 1997 (P.L. 105-34), the IRS restructuring and reform act of
19 1998 (P.L. 105-206) and the tax and trade relief extension act of 1998 (P.L.
20 105-277) that are retroactively effective during taxable years beginning from
21 and after December 31, 1994 through December 31, 1995.

22 ~~H.~~ I. For purposes of computing income tax pursuant to this title,
23 for taxable years beginning from and after December 31, 1993 through December
24 31, 1994, "internal revenue code" means the United States internal revenue
25 code of 1986, as amended, in effect on January 1, 1994, including those
26 provisions that became effective during 1993 with the specific adoption of
27 their retroactive effective date and including those provisions of the small
28 business job protection act of 1996 (P.L. 104-188; 110 Stat. 1755), the
29 health insurance portability and accountability act of 1996 (P.L. 104-191;
30 110 Stat. 1936), the personal responsibility and work opportunity
31 reconciliation act of 1996 (P.L. 104-193; 110 Stat. 2105), the taxpayer
32 relief act of 1997 (P.L. 105-34), the IRS restructuring and reform act of
33 1998 (P.L. 105-206) and the tax and trade relief extension act of 1998 (P.L.
34 105-277) that are retroactively effective during taxable years beginning from
35 and after December 31, 1993 through December 31, 1994.

36 ~~I.~~ J. Except as provided in section 43-106, for purposes of computing
37 income tax pursuant to this title for taxable years beginning from and after
38 December 31, 1992 through December 31, 1993, "internal revenue code" means
39 the United States internal revenue code of 1986, as amended, in effect on
40 January 1, 1993, including those provisions that became effective during 1992
41 with the specific adoption of their retroactive effective date and including
42 those provisions of the small business job protection act of 1996 (P.L.
43 104-188; 110 Stat. 1755), the health insurance portability and accountability
44 act of 1996 (P.L. 104-191; 110 Stat. 1936), the personal responsibility and
45 work opportunity reconciliation act of 1996 (P.L. 104-193; 110 Stat. 2105),

1 the taxpayer relief act of 1997 (P.L. 105-34), the IRS restructuring and
 2 reform act of 1998 (P.L. 105-206) and the tax and trade relief extension act
 3 of 1998 (P.L. 105-277) that are retroactively effective during taxable years
 4 beginning from and after December 31, 1992 through December 31, 1993.

5 ~~3. K.~~ For purposes of computing income tax pursuant to this title,
 6 for taxable years beginning from and after December 31, 1991 through December
 7 31, 1992, "internal revenue code" means the United States internal revenue
 8 code of 1986, as amended, in effect on January 1, 1992, including those
 9 provisions that became effective during 1991 with the specific adoption of
 10 their retroactive effective date and including those provisions of the small
 11 business job protection act of 1996 (P.L. 104-188; 110 Stat. 1755), the
 12 health insurance portability and accountability act of 1996 (P.L. 104-191;
 13 110 Stat. 1936), the personal responsibility and work opportunity
 14 reconciliation act of 1996 (P.L. 104-193; 110 Stat. 2105) and the tax and
 15 trade relief extension act of 1998 (P.L. 105-277) that are retroactively
 16 effective during taxable years beginning from and after December 31, 1991
 17 through December 31, 1992.

18 ~~K.~~ For purposes of computing income tax pursuant to this title, for
 19 taxable years beginning from and after December 31, 1990 through December 31,
 20 1991, "internal revenue code" means the United States internal revenue code
 21 of 1986, as amended, in effect on January 1, 1991, including those provisions
 22 that became effective during 1990 with the specific adoption of their
 23 retroactive effective date and including those provisions of the small
 24 business job protection act of 1996 (P.L. 104-188; 110 Stat. 1755), the
 25 health insurance portability and accountability act of 1996 (P.L. 104-191;
 26 110 Stat. 1936), the personal responsibility and work opportunity
 27 reconciliation act of 1996 (P.L. 104-193; 110 Stat. 2105) and the tax and
 28 trade relief extension act of 1998 (P.L. 105-277) that are retroactively
 29 effective during taxable years beginning from and after December 31, 1990
 30 through December 31, 1991.

31 Sec. 3. Section 43-206, Arizona Revised Statutes, is amended to read:

32 43-206. Urban revenue sharing fund; allocation; distribution

33 A. There is established an urban revenue sharing fund, which shall;
 34 each fiscal year through fiscal year 1998-1999, consist of an amount
 35 equivalent to fifteen per cent of the net proceeds of the state income taxes
 36 for the fiscal year two years prior to the current fiscal year. For fiscal
 37 year 1999-2000 the urban revenue sharing fund shall consist of an amount
 38 equivalent to fifteen and eight-tenths per cent of the net proceeds of the
 39 state income taxes for the fiscal year two years prior to the current fiscal
 40 year. For fiscal year 2000-2001 and each fiscal year thereafter 2001-2002,
 41 the urban revenue sharing fund shall consist of an amount equal to fifteen
 42 per cent of the net proceeds of the state income taxes for the fiscal year
 43 two years preceding the current fiscal year 1998-1999 AND 1999-2000,
 44 RESPECTIVELY. FOR FISCAL YEARS 2002-2003 AND 2003-2004, THE FUND SHALL
 45 CONSIST OF AN AMOUNT EQUAL TO FIFTEEN PER CENT OF THE AMOUNT OF MONIES

1 TRANSFERRED PURSUANT TO LAW IN FISCAL YEAR 2000-2001 AND 2001-2002,
2 RESPECTIVELY, FROM THE BUDGET STABILIZATION FUND TO THE TAX REFUND ACCOUNT
3 OF THE STATE GENERAL FUND PLUS FOURTEEN AND EIGHT-TENTHS PER CENT OF THE NET
4 PROCEEDS OF THE STATE INCOME TAXES, NOT INCLUDING ANY AMOUNTS TRANSFERRED
5 FROM THE BUDGET STABILIZATION FUND TO THE TAX REFUND ACCOUNT, FOR FISCAL YEAR
6 2000-2001 AND 2001-2002, RESPECTIVELY. FOR FISCAL YEAR 2004-2005 AND EACH
7 FISCAL YEAR THEREAFTER, THE FUND SHALL CONSIST OF AN AMOUNT EQUAL TO FIFTEEN
8 PER CENT OF THE NET PROCEEDS OF THE STATE INCOME TAXES FOR THE FISCAL YEAR
9 TWO YEARS PRECEDING THE CURRENT FISCAL YEAR. The fund shall be distributed
10 to incorporated cities and towns as provided in this section. The transfer
11 of net proceeds prescribed by section 49-282, subsection B does not affect
12 the calculation of net proceeds prescribed by this subsection.

13 B. Each city or town shall share in the urban revenue sharing fund in
14 the proportion that the population of each bears to the population of all as
15 determined by the United States bureau of the census in the last decennial
16 census or special census pursuant to section 42-5033.

17 C. The treasurer, upon instruction from the department, shall
18 transmit, no later than the tenth day of each month, to each city or town an
19 amount equal to one-twelfth of that city's or town's total entitlement for
20 the current fiscal year from the urban revenue sharing fund as determined by
21 the department.

22 D. A newly incorporated city or town shall share in the urban revenue
23 sharing fund beginning the first month of the first full fiscal year
24 following incorporation.

25 E. On receipt of a certificate of default from the greater Arizona
26 development authority pursuant to section 41-1554.06 or 41-1554.07, the state
27 treasurer, to the extent not otherwise expressly prohibited by law, shall
28 withhold from the next succeeding distribution of monies pursuant to this
29 section due to the city or town the amount specified in the certificate of
30 default and immediately deposit the amount withheld in the greater Arizona
31 development authority revolving fund. The state treasurer shall continue to
32 withhold and deposit the monies until the authority certifies to the state
33 treasurer that the default has been cured. In no event shall the state
34 treasurer withhold any amount that is necessary, as certified by the
35 defaulting political subdivision to the state treasurer and the authority,
36 to make any required deposits then due for the payment of principal and
37 interest on bonds of the political subdivision that were issued prior to the
38 date of the loan repayment agreement or bonds and that have been secured by
39 a pledge of distributions made pursuant to this section.

40 Sec. 4. Section 43-1021, Arizona Revised Statutes, is amended to read:
41 43-1021. Additions to Arizona gross income

42 In computing Arizona adjusted gross income, the following amounts shall
43 be added to Arizona gross income:

44 1. A beneficiary's share of trust or estate income includible under
45 section 43-1344.

1 2. A beneficiary's share of trust or estate deductions allowable under
2 the internal revenue code.

3 3. An amount equal to the "ordinary income portion" of a lump sum
4 distribution that was excluded from federal adjusted gross income pursuant
5 to section 402(d) of the internal revenue code.

6 4. The amount of interest income received on obligations of any state,
7 territory or possession of the United States, or any political subdivision
8 thereof, located outside the state of Arizona, reduced, for tax years
9 beginning from and after December 31, 1996, by the amount of any interest on
10 indebtedness and other related expenses that were incurred or continued to
11 purchase or carry those obligations and that are not otherwise deducted or
12 subtracted in arriving at Arizona gross income.

13 5. Annuity income received during the taxable year to the extent that
14 the sum of the proceeds received from such annuity in all taxable years prior
15 to and including the current taxable year exceeds the total consideration and
16 premiums paid by the taxpayer. This paragraph applies only to those
17 annuities with respect to which the first payment was received prior to
18 December 31, 1978.

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

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

26 8. The amount by which the adjusted basis of property described in
27 this paragraph and computed pursuant to the internal revenue code exceeds the
28 adjusted basis of such property computed pursuant to this title and the
29 income tax act of 1954, as amended. This paragraph shall apply to all
30 property which is held for the production of income and which is sold or
31 otherwise disposed of during the taxable year, except depreciable property
32 used in a trade or business.

33 9. The amount of depreciation or amortization of costs of any capital
34 investment that is deducted pursuant to section 167 or 179 of the internal
35 revenue code by a qualified defense contractor with respect to which an
36 election is made to amortize pursuant to section 43-1024.

37 10. The amount of gain from the sale or other disposition of a capital
38 investment which a qualified defense contractor has elected to amortize
39 pursuant to section 43-1024.

40 11. The amount of depreciation or amortization of costs of child care
41 facilities deducted pursuant to section 167 or 188 of the internal revenue
42 code for which a credit is taken under section 43-1075, subsection A,
43 paragraph 1.

44 12. Amounts withdrawn from the Arizona state retirement system, the
45 corrections officer retirement plan, the public safety personnel retirement

- 1 system, the elected officials' retirement plan or a county or city retirement
2 plan by an employee upon termination of employment before retirement to the
3 extent they were deducted in arriving at Arizona taxable income in any year.
- 4 13. That portion of the net operating loss included in federal adjusted
5 gross income which has already been taken as a net operating loss for Arizona
6 purposes or which is separately taken as a subtraction under the special net
7 operating loss transition rule.
- 8 14. Any nonitemized amount deducted pursuant to section 170 of the
9 internal revenue code representing contributions to an educational
10 institution which denies admission, enrollment or board and room
11 accommodations on the basis of race, color or ethnic background except those
12 institutions primarily established for the education of American Indians.
- 13 15. The amount of depreciation or amortization of costs of recycling
14 equipment deducted pursuant to the internal revenue code for which an
15 election is made pursuant to section 43-1076.
- 16 16. The amount paid as taxes on property in this state with respect to
17 which a credit is claimed under section 43-1078.
- 18 17. Amounts withdrawn from a medical savings account by the individual
19 during the taxable year computed pursuant to section 220(f) of the internal
20 revenue code and not included in federal adjusted gross income.
- 21 18. Any amount of agricultural water conservation expenses that were
22 deducted pursuant to the internal revenue code for which a credit is claimed
23 under section 43-1084.
- 24 19. The amount by which the depreciation or amortization computed under
25 the internal revenue code with respect to property for which a credit was
26 taken under section 43-1080 exceeds the amount of depreciation or
27 amortization computed pursuant to the internal revenue code on the Arizona
28 adjusted basis of the property.
- 29 20. The amount by which the adjusted basis computed under the internal
30 revenue code with respect to property for which a credit was claimed under
31 section 43-1080 and which is sold or otherwise disposed of during the taxable
32 year exceeds the adjusted basis of the property computed under section
33 43-1080.
- 34 21. The amount by which the depreciation or amortization computed under
35 the internal revenue code with respect to property for which a credit was
36 taken under either section 43-1081 or 43-1081.01 exceeds the amount of
37 depreciation or amortization computed pursuant to the internal revenue code
38 on the Arizona adjusted basis of the property.
- 39 22. The amount by which the adjusted basis computed under the internal
40 revenue code with respect to property for which a credit was claimed under
41 either section 43-1081 or 43-1081.01 and which is sold or otherwise disposed
42 of during the taxable year exceeds the adjusted basis of the property
43 computed under section 43-1081 or 43-1081.01, as applicable.

1 23. The deduction referred to in section 1341(a)(4) of the internal
2 revenue code for restoration of a substantial amount held under a claim of
3 right.

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

8 25. Any amount deducted pursuant to section 170 of the internal revenue
9 code representing contributions to a school tuition organization or a public
10 school for which a credit is claimed under section 43-1089 or 43-1089.01.

11 26. Any amount deducted in computing Arizona gross income as expenses
12 for installing solar stub outs or electric vehicle recharge outlets in this
13 state with respect to which a credit is claimed pursuant to section 43-1090.

14 27. Any wage expenses deducted pursuant to the internal revenue code
15 for which a credit is claimed under section 43-1087 and representing net
16 increases in qualified employment positions for employment of temporary
17 assistance for needy families recipients.

18 28. Any amount deducted pursuant to section 170 of the internal revenue
19 code representing the contribution of a motor vehicle for which a credit is
20 claimed pursuant to section 43-1090.01.

21 29. Any amount deducted for conveying ownership or development rights
22 of property to an agricultural preservation district under section 48-5702
23 for which a credit is claimed under section 43-1081.02.

24 30. THE AMOUNT OF ANY SPECIAL DEPRECIATION ALLOWANCE ALLOWED PURSUANT
25 TO SECTION 168(k) OF THE INTERNAL REVENUE CODE.

26 Sec. 5. Section 43-1022, Arizona Revised Statutes, is amended to read:
27 43-1022. Subtractions from Arizona gross income

28 In computing Arizona adjusted gross income, the following amounts shall
29 be subtracted from Arizona gross income:

- 30 1. The amount of exemptions allowed by section 43-1023.
31 2. Benefits, annuities and pensions in an amount totaling not more
32 than two thousand five hundred dollars received from one or more of the
33 following:

34 (a) The United States government service retirement and disability
35 fund, retired or retainer pay of the uniformed services of the United States,
36 the United States foreign service retirement and disability system and any
37 other retirement system or plan established by federal law.

38 (b) The state retirement system, the state retirement plan, the
39 corrections officer retirement plan, the public safety personnel retirement
40 system, the elected officials' retirement plan, an optional retirement
41 program established by the Arizona board of regents under section 15-1628,
42 an optional retirement program established by a community college district
43 board under section 15-1451, or a retirement plan established for employees
44 of a county, city or town in this state.

1 3. A beneficiary's share of trust or estate income recognized pursuant
2 to the internal revenue code.

3 4. The amount of any distributions from an individual retirement
4 account as provided for in section 408 of the internal revenue code or from
5 a qualified retirement plan of a self-employed individual as provided for in
6 section 401 of the internal revenue code to the extent that total adjustments
7 made pursuant to this paragraph in all tax years do not exceed the total of
8 all contributions made by the taxpayer to such plans prior to December 31,
9 1975, which were included in computing Arizona taxable income.

10 5. The amount of income on an installment receivable which is
11 recognized pursuant to the internal revenue code and which has already been
12 recognized on the death of the taxpayer for purposes of this title for tax
13 years ending before January 1, 1990.

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

18 7. The amount of any income tax refunds which were received from
19 states other than Arizona and which were included as income in computing
20 federal adjusted gross income.

21 8. Annuity income included in federal adjusted gross income pursuant
22 to section 72 of the internal revenue code if the first payment with respect
23 to such annuity was received prior to December 31, 1978.

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

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

30 11. The amount by which the adjusted basis of property described in
31 this paragraph and computed pursuant to this title and the income tax act of
32 1954, as amended, exceeds the adjusted basis of such property computed
33 pursuant to the internal revenue code. This paragraph shall apply to all
34 property which is held for the production of income and which is sold or
35 otherwise disposed of during the taxable year other than depreciable property
36 used in a trade or business.

37 12. The amount allowed by section 43-1024 for amortization, by a
38 qualified defense contractor certified by the department of commerce under
39 section 41-1508, of a capital investment for private commercial activities.

40 13. The amount of gain included in federal adjusted gross income on the
41 sale or other disposition of a capital investment that a qualified defense
42 contractor has elected to amortize pursuant to section 43-1024.

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

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

7 16. The amount of prizes or winnings less than five thousand dollars
8 in a single taxable year from any of the state lotteries established and
9 operated pursuant to title 5, chapter 5, article 1, except that all such
10 winnings before March 22, 1983, including periodic distributions from such
11 winnings made after March 22, 1983, may be subtracted.

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

18 18. The amount included in federal adjusted gross income pursuant to
19 section 86 of the internal revenue code, relating to taxation of social
20 security and railroad retirement benefits.

21 19. To the extent not already excluded from Arizona gross income under
22 section 112 of the internal revenue code, compensation received for active
23 service as a member of the armed forces of the United States for any month
24 during any part of which the member served in a combat zone as determined
25 under section 112 of the internal revenue code or in an area given the same
26 treatment as a combat zone for purposes of section 112 of the internal
27 revenue code.

28 20. The amount of unreimbursed medical and hospital costs, adoption
29 counseling, legal and agency fees and other nonrecurring costs of adoption
30 not to exceed three thousand dollars. In the case of a husband and wife who
31 file separate returns, the subtraction may be taken by either taxpayer or may
32 be divided between them, but the total subtractions allowed both husband and
33 wife shall not exceed three thousand dollars. The subtraction under this
34 paragraph may be taken for the costs that are described in this paragraph and
35 that are incurred in prior years, but the subtraction may be taken only in
36 the year during which the final adoption order is granted.

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

39 22. With respect to a medical savings account established pursuant to
40 section 43-1028:

41 (a) An eligible individual may subtract:

42 (i) The amount of contributions made by the individual's employer
43 during the taxable year to the individual's medical savings account pursuant
44 to section 43-1028 to the extent that the employer contributions are included
45 in the individual's federal adjusted gross income.

1 (ii) The amount deposited by the individual in the account during the
2 taxable year to the extent that the individual's contributions are included
3 in the individual's federal adjusted gross income.

4 (b) The individual's employer may subtract the amount of contributions
5 made by the employer to a medical savings account established on the
6 individual's behalf to the extent that the contributions are not deductible
7 under the internal revenue code.

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

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

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

19 26. The amount authorized by section 43-1030 relating to holocaust
20 survivors.

21 27. The amount authorized by section 43-1031 for constructing an energy
22 efficient residence.

23 28. WITH RESPECT TO PROPERTY FOR WHICH THE DEPRECIATION ALLOWANCE
24 PURSUANT TO SECTION 168(k) OF THE INTERNAL REVENUE CODE WAS ADDED UNDER
25 SECTION 43-1021, PARAGRAPH 30, AN AMOUNT EQUAL TO THREE-SEVENTHS OF THE
26 AMOUNT OF DEPRECIATION ALLOWED PURSUANT TO SECTION 167(a) OF THE INTERNAL
27 REVENUE CODE AS COMPUTED ON THE ADJUSTED BASIS PROVIDED PURSUANT TO SECTION
28 168(k)(1)(B) OF THE INTERNAL REVENUE CODE.

29 29. WITH RESPECT TO PROPERTY THAT IS SOLD OR OTHERWISE DISPOSED OF
30 DURING THE TAXABLE YEAR BY A TAXPAYER THAT COMPLIED WITH SECTION 43-1021,
31 PARAGRAPH 30 WITH RESPECT TO THAT PROPERTY, THE AMOUNT OF DEPRECIATION THAT
32 WOULD HAVE BEEN ALLOWED PURSUANT TO SECTION 167(a) OF THE INTERNAL REVENUE
33 CODE COMPUTED WITHOUT REGARD TO SECTION 168(k) OF THE INTERNAL REVENUE CODE
34 TO THE EXTENT THAT THE AMOUNT HAS NOT ALREADY REDUCED ARIZONA TAXABLE INCOME
35 IN THE CURRENT OR PRIOR TAXABLE YEARS.

36 Sec. 6. Section 43-1121, Arizona Revised Statutes, is amended to read:
37 43-1121. Additions to Arizona gross income; corporations

38 In computing Arizona taxable income for a corporation, the following
39 amounts shall be added to Arizona gross income:

40 1. The amounts computed pursuant to section 43-1021, paragraphs 4
41 through 10, and 14 AND 30.

42 2. The amount of dividend income received from corporations and
43 allowed as a deduction pursuant to sections 243, 244 and 245 of the internal
44 revenue code.

1 3. Taxes which are based on income paid to states, local governments
2 or foreign governments and which were deducted in computing federal taxable
3 income.

4 4. Expenses and interest relating to tax-exempt income on indebtedness
5 incurred or continued to purchase or carry obligations the interest on which
6 is wholly exempt from the tax imposed by this title. Financial institutions,
7 as defined in section 6-101, shall be governed by section 43-961, paragraph
8 2.

9 5. Commissions, rentals and other amounts paid or accrued to a
10 domestic international sales corporation controlled by the payor corporation
11 if the domestic international sales corporation is not required to report its
12 taxable income to this state because its income is not derived from or
13 attributable to sources within this state. If the domestic international
14 sales corporation is subject to article 4 of this chapter, the department
15 shall prescribe by rule the method of determining the portion of the
16 commissions, rentals and other amounts which are paid or accrued to the
17 controlled domestic international sales corporation and which shall be
18 deducted by the payor. "Control" for purposes of this paragraph means direct
19 or indirect ownership or control of fifty per cent or more of the voting
20 stock of the domestic international sales corporation by the payor
21 corporation.

22 6. Federal income tax refunds received during the taxable year to the
23 extent they were deducted in arriving at Arizona taxable income in a previous
24 year.

25 7. The amount of net operating loss taken pursuant to section 172 of
26 the internal revenue code.

27 8. The amount of exploration expenses determined pursuant to section
28 617 of the internal revenue code to the extent that they exceed seventy-five
29 thousand dollars and to the extent that the election is made to defer those
30 expenses not in excess of seventy-five thousand dollars.

31 9. Amortization of costs incurred to install pollution control devices
32 and deducted pursuant to the internal revenue code or the amount of deduction
33 for depreciation taken pursuant to the internal revenue code on pollution
34 control devices for which an election is made pursuant to section 43-1129.

35 10. The amount of depreciation or amortization of costs of child care
36 facilities deducted pursuant to section 167 or 188 of the internal revenue
37 code for which an election is made to amortize pursuant to section 43-1130.

38 11. Arizona state income tax refunds received, to the extent the amount
39 of the refunds is not already included in Arizona gross income, if a tax
40 benefit was derived by deduction of this amount in a prior year.

41 12. The amount paid as taxes on property in this state by a qualified
42 defense contractor with respect to which a credit is claimed under section
43 43-1166.

- 1 13. The loss of an insurance company that is exempt under section
2 43-1201 to the extent that it is included in computing Arizona gross income
3 on a consolidated return pursuant to section 43-947.
- 4 14. The amount by which the depreciation or amortization computed under
5 the internal revenue code with respect to property for which a credit was
6 taken under section 43-1169 exceeds the amount of depreciation or
7 amortization computed pursuant to the internal revenue code on the Arizona
8 adjusted basis of the property.
- 9 15. The amount by which the adjusted basis computed under the internal
10 revenue code with respect to property for which a credit was claimed under
11 section 43-1169 and which is sold or otherwise disposed of during the taxable
12 year exceeds the adjusted basis of the property computed under section
13 43-1169.
- 14 16. The amount by which the depreciation or amortization computed under
15 the internal revenue code with respect to property for which a credit was
16 taken under either section 43-1170 or 43-1170.01 exceeds the amount of
17 depreciation or amortization computed pursuant to the internal revenue code
18 on the Arizona adjusted basis of the property.
- 19 17. The amount by which the adjusted basis computed under the internal
20 revenue code with respect to property for which a credit was claimed under
21 either section 43-1170 or 43-1170.01 and which is sold or otherwise disposed
22 of during the taxable year exceeds the adjusted basis of the property
23 computed under section 43-1170 or 43-1170.01, as applicable.
- 24 18. The deduction referred to in section 1341(a)(4) of the internal
25 revenue code for restoration of a substantial amount held under a claim of
26 right.
- 27 19. The amount by which a capital loss carryover allowable pursuant to
28 section 1341(b)(5) of the internal revenue code exceeds the capital loss
29 carryover allowable pursuant to section 43-1130.01, subsection F.
- 30 20. Any amount deducted in computing Arizona taxable income as expenses
31 for installing solar stub outs or electric vehicle recharge outlets in this
32 state with respect to which a credit is claimed pursuant to section 43-1176.
- 33 21. Any wage expenses deducted pursuant to the internal revenue code
34 for which a credit is claimed under section 43-1175 and representing net
35 increases in qualified employment positions for employment of temporary
36 assistance for needy families recipients.
- 37 22. Any amount of expenses that were deducted pursuant to the internal
38 revenue code and for which a credit is claimed under section 43-1178.
- 39 23. Any amount deducted pursuant to section 170 of the internal revenue
40 code representing the contribution of a motor vehicle for which a credit is
41 claimed pursuant to section 43-1177.
- 42 24. Any amount deducted for conveying ownership or development rights
43 of property to an agricultural preservation district under section 48-5702
44 for which a credit is claimed under section 43-1180.

1 25. The amount of any deduction that is claimed in computing Arizona
2 gross income and that represents a donation of a school site for which a
3 credit is claimed under section 43-1181.

4 Sec. 7. Section 43-1122, Arizona Revised Statutes, as amended by Laws
5 2002, chapter 50, section 3, is amended to read:

6 43-1122. Subtractions from Arizona gross income; corporations

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

9 1. The amounts computed pursuant to section 43-1022, paragraphs 8
10 through 15, 28 AND 29. For purposes of this paragraph "federal adjusted
11 gross income" as used in section 43-1022 means "federal taxable income".

12 2. The amount of Arizona capital loss carryover as defined in section
13 43-1124 in an amount not to exceed one thousand dollars.

14 3. With respect to a financial institution as defined in section
15 6-101, expenses and interest relating to tax-exempt income disallowed
16 pursuant to section 265 of the internal revenue code.

17 4. Dividends received from another corporation owned or controlled
18 directly or indirectly by a recipient corporation. "Control" for purposes
19 of this paragraph means direct or indirect ownership or control of fifty per
20 cent or more of the voting stock of the payor corporation by the recipient
21 corporation. Dividends shall have the meaning provided in section 316 of the
22 internal revenue code. This subtraction shall apply without regard to the
23 provisions of section 43-961, paragraph 2 and article 4 of this chapter. A
24 corporation that has its commercial domicile, as defined in section 43-1131,
25 in this state may subtract the full amount of the dividends. A corporation
26 that does not have its commercial domicile in this state may subtract:

27 (a) For its taxable year beginning in 1990, an amount equal to
28 one-half of the dividends.

29 (b) For taxable years beginning in 1991 and thereafter, the full
30 amount of the dividends.

31 5. Interest income received on obligations of the United States.

32 6. The amount of dividend income from foreign corporations.

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

34 8. The amount of any state income tax refunds received which were
35 included as income in computing federal taxable income.

36 9. The amount of expense recapture included in income pursuant to
37 section 617 of the internal revenue code for mine exploration expenses.

38 10. The amount of deferred exploration expenses allowed by section
39 43-1127.

40 11. The amount of exploration expenses related to the exploration of
41 oil, gas or geothermal resources, computed in the same manner and on the same
42 basis as a deduction for mine exploration pursuant to section 617 of the
43 internal revenue code. This computation is subject to the adjustments
44 contained in section 43-1121, paragraph 8 and paragraphs 9 and 10 of this
45 section relating to exploration expenses.

- 1 12. The amortization of pollution control devices allowed by section
2 43-1129.
- 3 13. The amount of amortization of the cost of child care facilities
4 pursuant to section 43-1130.
- 5 14. The amount of income from a domestic international sales
6 corporation required to be included in the income of its shareholders
7 pursuant to section 995 of the internal revenue code.
- 8 15. The income of an insurance company that is exempt under section
9 43-1201 to the extent that it is included in computing Arizona gross income
10 on a consolidated return pursuant to section 43-947.
- 11 16. The amount of contributions by the taxpayer during the taxable year
12 to medical savings accounts established on behalf of the taxpayer's employees
13 as provided by section 43-1028, to the extent that the contributions are not
14 deductible under the internal revenue code.
- 15 17. The amount by which a capital loss carryover allowable pursuant to
16 section 43-1130.01, subsection F exceeds the capital loss carryover allowable
17 pursuant to section 1341(b)(5) of the internal revenue code.
- 18 Sec. 8. Retroactivity
- 19 Sections 43-1021, 43-1022, 43-1121 and 43-1122, Arizona Revised
20 Statutes, as amended by this act, apply retroactively to taxable years
21 beginning from and after December 31, 1999.

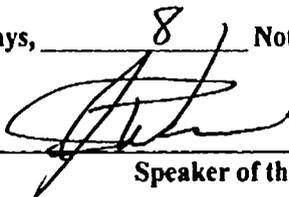
APPROVED BY THE GOVERNOR JUNE 4, 2002.

FILED IN THE OFFICE OF THE SECRETARY OF STATE JUNE 4, 2002.

HOUSE FINAL PASSAGE
as per Joint Conference

Passed the House May 23, 2002,

by the following vote: 49 Ayes,
3 Nays, 8 Not Voting

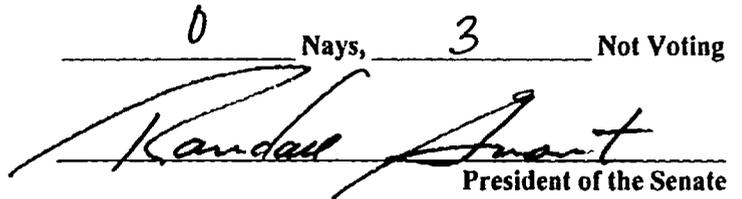

Speaker of the House

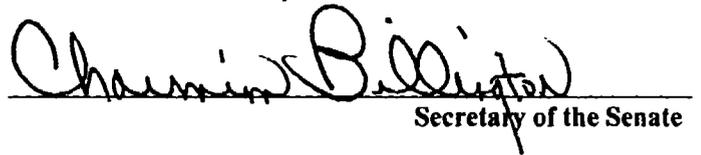

Chief Clerk of the House

SENATE FINAL PASSAGE
as per Joint Conference

Passed the Senate May 23, 2002,

by the following vote: 27 Ayes,
0 Nays, 3 Not Voting


President of the Senate

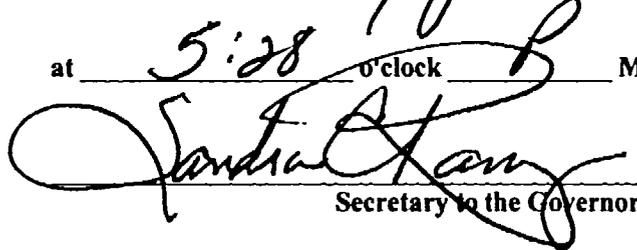

Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill was received by the Governor

this 23 day of May, 2002

at 5:28 o'clock P. M.


Secretary to the Governor

Approved this 4th day of
June, 2002,

at 10:25 o'clock A M.

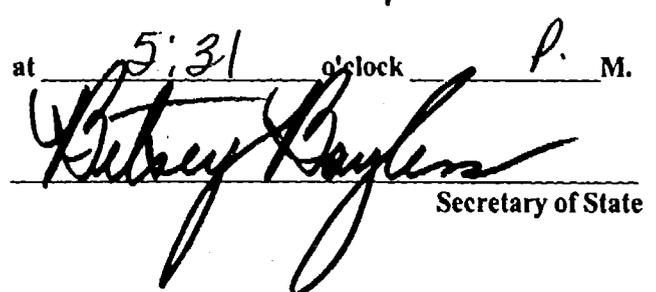

Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill was received by the Secretary of State

this 4 day of June, 2002

at 5:31 o'clock P. M.


Secretary of State

H.B. 2712

Passed the House May 9, 2002,

by the following vote: 46 Ayes,

10 Nays, 4 Not Voting

[Signature]
Speaker of the House

Cheryl Laube
Assistant Chief Clerk of the House

Passed the Senate May 22, 2002

by the following vote: 27 Ayes,

0 Nays, 3 Not Voting

[Signature]
President of the Senate

Chermin Bellington
Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill was received by the Governor this
_____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary to the Governor

Approved this _____ day of
_____, 20____,

at _____ o'clock _____ M.

Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill was received by the Secretary of State
this _____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary of State

H.B. 2712