

House Engrossed  
taxation; 2023-2024

State of Arizona  
House of Representatives  
Fifty-sixth Legislature  
First Regular Session  
2023

# HOUSE BILL 2824

AN ACT

AMENDING SECTION 43-1014, 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 43-1014, Arizona Revised Statutes, is amended to  
3 read:  
4 43-1014. Entity-level tax election; partnerships;  
5 S corporations; rules  
6 A. For taxable years beginning from and after December 31, 2021,  
7 the partners or shareholders of a business that is treated as a  
8 partnership or S corporation for federal income tax purposes may consent  
9 to be taxed at the entity level at a tax rate that is the same as the tax  
10 rate prescribed by section 43-1011 applicable to the entire portion of its  
11 taxable income that is attributable to its resident partners or  
12 shareholders and the portion of its taxable income derived from sources  
13 within this state that is attributable to its nonresident partners or  
14 shareholders for that taxable year. The election under this subsection  
15 must be made on or before the due date or extended due date of the  
16 business's return under this title.  
17 B. If the election is made under subsection A of this section, all  
18 of the following apply:  
19 1. The taxable income of the partnership or S corporation is as  
20 follows:  
21 (a) For a partnership:  
22 (i) FOR TAXABLE YEARS THROUGH DECEMBER 31, 2022, the Arizona  
23 taxable income determined under chapter 14 of this title.  
24 (ii) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2022,  
25 THE ARIZONA TAXABLE INCOME DETERMINED UNDER CHAPTER 14 OF THIS TITLE,  
26 INCLUDING THE ITEMS THAT REQUIRE SEPARATE COMPUTATION UNDER SECTION  
27 43-1412, PARAGRAPHS 1 THROUGH 16.  
28 (b) For an S corporation, the total of all distributive income  
29 passed through to the shareholders under section 43-1126, subsection B.  
30 2. If the partnership or S corporation does not pay the amount owed  
31 to the department as a result of the election under this section, the  
32 department may collect the amount from the partners or shareholders based  
33 on the proportionate share of income that is attributable to each partner  
34 or shareholder for Arizona tax purposes.  
35 3. The partnership or S corporation shall pay estimated tax  
36 pursuant to section 43-581 as necessary.  
37 C. The election under subsection A of this section does not apply  
38 to the following:  
39 1. Partners or shareholders that are not individuals, estates or  
40 trusts. The portion of the taxable income attributable to a partner or  
41 shareholder that is not an individual, estate or trust is not included in  
42 the entity-level tax under subsection A of this section.

1           2. Partners or shareholders who are individuals, estates or trusts  
2 and who opt out of the election pursuant to subsection D of this section.  
3 The portion of the taxable income attributable to a partner or shareholder  
4 who is an individual, estate or trust and who opts out of the election  
5 pursuant to subsection D of this section is not included in the  
6 entity-level tax under subsection A of this section.

7           D. A partnership or S corporation that intends to make the election  
8 under subsection A of this section shall notify all partners or  
9 shareholders who are individuals, estates or trusts of the intent to make  
10 the election and that each partner or shareholder who is an individual,  
11 estate or trust has the right to opt out of the election. The notice  
12 shall allow each partner or shareholder who is an individual, estate or  
13 trust at least sixty days after receiving the notice to notify the  
14 partnership or S corporation that the partner or shareholder who is an  
15 individual, estate or trust is exercising the partner's or shareholder's  
16 right to opt out of the election. If the partner or shareholder who is an  
17 individual, estate or trust does not respond within the sixty-day period  
18 or waives the right to opt out, the partner or shareholder will be  
19 included in the election.

20           E. The department shall adopt rules and prescribe forms and  
21 procedures as necessary to administer this section.

22           Sec. 2. Individual income tax subtraction; adoption expenses;  
23                           taxable years 2023, 2024 and 2025; amount;  
24                           retroactivity; delayed repeal

25           A. Notwithstanding any other law, for taxable years beginning from  
26 and after December 31, 2022 through December 31, 2025, the subtraction  
27 amount allowed under section 43-1022, paragraph 12, Arizona Revised  
28 Statutes, is the amount of unreimbursed medical and hospital costs,  
29 adoption counseling, legal and agency fees and other nonrecurring costs of  
30 adoption not to exceed \$40,000. For a married couple filing separate  
31 returns, the subtraction may be taken by either taxpayer or may be divided  
32 between them, but the total subtractions allowed to each spouse may not  
33 exceed \$40,000. The subtraction may be taken for the costs that are  
34 described in this subsection and that are incurred in prior years, but the  
35 subtraction may be taken only in the year during which the final adoption  
36 order is granted.

37           B. This section applies retroactively to taxable years beginning  
38 from and after December 31, 2022.

39           C. This section is repealed from and after December 31, 2029.

40           Sec. 3. Individual income tax general welfare rebate;  
41                           eligibility; claim application; subtraction from  
42                           Arizona gross income; appeal; report; legislative  
43                           findings; delayed repeal; definitions

44           A. The department of revenue shall issue a onetime individual  
45 income tax general welfare rebate, known as the Arizona families tax

1 rebate, to an Arizona taxpayer who filed a full-year resident tax return  
2 for taxable year 2021, claimed a dependent tax credit under section  
3 43-1073.01, Arizona Revised Statutes, on the return and who meets one of  
4 the following qualifications:

5 1. Had a tax liability of at least \$1 on the filed full-year  
6 resident tax return for taxable year 2021.

7 2. If the taxpayer does not meet the tax liability requirement for  
8 taxable year 2021, filed a full-year resident tax return for taxable year  
9 2020 under the identical filing status used on the taxpayer's taxable year  
10 2021 full-year resident tax return and had a tax liability of at least \$1  
11 on the full-year resident tax return for taxable year 2020.

12 3. If the taxpayer does not meet the tax liability requirement for  
13 taxable years 2021 or 2020, filed a full-year resident tax return for  
14 taxable year 2019 under the identical filing status used on the taxpayer's  
15 full-year resident tax returns for taxable years 2020 and 2021 and had a  
16 tax liability of at least \$1 on the full-year resident tax return for  
17 taxable year 2019.

18 B. If the taxpayer does not meet any of the requirements in  
19 subsection A of this section, the department of revenue shall conclude  
20 that the taxpayer does not meet the criteria to be issued a rebate under  
21 this section.

22 C. One rebate will be issued for each full-year resident tax return  
23 for taxable year 2021 that qualifies under subsection A of this section.  
24 The primary taxpayer's taxpayer identification number as reported on the  
25 taxpayer's full-year resident tax return for taxable year 2021 shall be  
26 used as needed in subsection A of this section for matching and  
27 verification purposes.

28 D. The department of revenue shall issue to a qualifying taxpayer a  
29 rebate of \$250 for each dependent tax credit claimed on the taxpayer's  
30 full-year resident tax return for taxable year 2021 who was under  
31 seventeen years of age at the end of taxable year 2021 and \$100 for each  
32 dependent who was at least seventeen years of age at the end of taxable  
33 year 2021.

34 E. The department of revenue shall issue a rebate for a maximum of  
35 three dependents for a qualifying taxpayer under this section. For a  
36 taxpayer who claimed more than three dependents on the taxpayer's  
37 full-year resident tax return for taxable year 2021, the rebate will be  
38 calculated by first counting the dependents who were under seventeen years  
39 of age at the end of taxable year 2021 and then, if additional dependents  
40 may be claimed to meet the maximum number, the dependents who were at  
41 least seventeen years of age at the end of taxable year 2021.

42 F. If a qualifying taxpayer is deceased, the taxpayer's surviving  
43 spouse, personal representative or executor or another official  
44 representative of the estate designated pursuant to applicable state law  
45 may receive the rebate for the deceased taxpayer.

1           G. The department of revenue shall pay all rebates issued pursuant  
2 to this section on or before November 15, 2023, but not earlier than  
3 October 15, 2023. The department shall attempt to pay a qualifying  
4 taxpayer's rebate by electronic funds transfer using the routing and  
5 account information provided by the taxpayer on the taxpayer's full-year  
6 resident tax return for taxable year 2021 or more recent routing and  
7 account information provided by the taxpayer. If such attempt fails, or if  
8 the taxpayer did not provide such routing and account information, the  
9 department shall issue the rebate check by mail to the most recent home  
10 address provided by the taxpayer. Any notification from the department  
11 that relates to the rebate issued under this section shall state the  
12 following: "This rebate is being issued pursuant to Senate Bill 1734, as  
13 passed by the fifty-sixth legislature, first regular session, and signed  
14 into law by the governor." No letter relating to the Arizona families tax  
15 rebate issued under this section shall be sent from the governor's office,  
16 be sent on the governor's letterhead or reference the governor's office.

17           H. A taxpayer who does not receive the rebate issued pursuant to  
18 this section on or before November 15, 2024 may claim the rebate by filing  
19 a claim application online in the form and manner prescribed by the  
20 department of revenue. The claim application must include the claimant's  
21 name, address, taxpayer identification number and individual income tax  
22 filing status. The department shall review each claim application and  
23 verify the information provided. The department may request that a  
24 claimant provide evidence to verify the claimant's eligibility for the  
25 rebate.

26           I. In computing Arizona adjusted gross income, any rebate received  
27 by a taxpayer pursuant to this section and required to be included in  
28 Arizona gross income under the internal revenue code shall be subtracted  
29 from the taxpayer's Arizona gross income.

30           J. Notwithstanding any other administrative proceedings established  
31 by law or by rule, all appealable agency actions as defined in section  
32 41-1092, Arizona Revised Statutes, and contested cases as defined in  
33 section 41-1001, Arizona Revised Statutes, relating to a rebate issued  
34 pursuant to this section are governed by title 41, chapter 6, article 10,  
35 Arizona Revised Statutes.

36           K. On or before February 15, 2025, the director of the department  
37 of revenue shall report the following information to the president of the  
38 senate, the speaker of the house of representatives and the director of  
39 the joint legislative budget committee:

- 40           1. The total dollar amount of rebates paid under this section.
- 41           2. The administrative costs associated with the department's  
42 program for issuing the rebates under this section.
- 43           3. The total number of tax rebates issued.

1 L. The legislature finds that:

2 1. Inflation is at a forty-year high, putting gas, groceries and  
3 other necessities out of reach for many Arizonans.

4 2. Responsible budgeting has allowed this state to take action to  
5 mitigate the harmful impacts of inflation by returning a portion of the  
6 surplus to this state's taxpayers with dependents.

7 M. This section is repealed from and after December 31, 2029.

8 N. For the purposes of this section:

9 1. "Arizona small business taxable income" has the same meaning  
10 prescribed in section 43-1701, Arizona Revised Statutes.

11 2. "Arizona small business tax liability" means an Arizona small  
12 business taxpayer's Arizona small business taxable income multiplied by  
13 the Arizona small business' applicable tax rate as prescribed by section  
14 43-1711, Arizona Revised Statutes, plus any amount of recaptured Arizona  
15 small business income tax credits, minus any nonrefundable and refundable  
16 Arizona small business income tax credits claimed by the Arizona small  
17 business taxpayer under title 43, chapter 17, article 5, Arizona Revised  
18 Statutes.

19 3. "Taxable income" has the same meaning prescribed in section  
20 43-1001, Arizona Revised Statutes.

21 4. "Tax liability" means the taxpayer's taxable income multiplied  
22 by the taxpayer's applicable tax rate as prescribed in section 43-1011,  
23 Arizona Revised Statutes, plus any amount of recaptured income tax credits  
24 and the taxpayer's Arizona small business tax liability, if any, minus the  
25 sum of nonrefundable and refundable income tax credits claimed by the  
26 taxpayer under title 43, chapter 10, article 5, Arizona Revised Statutes.

27 Sec. 4. Legislative intent

28 The legislature intends:

29 1. That in fiscal year 2023-2024 the fee prescribed in section  
30 42-5041, subsection B, Arizona Revised Statutes, be assessed and collected  
31 pursuant to the following guidelines:

32 (a) The total amount of fees for all counties, cities, towns,  
33 councils of governments and regional transportation authorities may not  
34 exceed \$6,597,200 in fiscal year 2023-2024.

35 (b) The share of fees assessed to all counties pursuant to  
36 subdivision (a) of this paragraph shall be in proportion to the aggregate  
37 amount of monies distributed to counties for the fiscal year two years  
38 preceding the current fiscal year pursuant to sections 42-5029, 42-6103,  
39 42-6107, 42-6108, 42-6108.01, 42-6109, 42-6109.01, 42-6110, 42-6111 and  
40 42-6112, Arizona Revised Statutes, as a percentage of aggregate  
41 distributions to all counties, cities, towns, councils of governments and  
42 regional transportation authorities located in a county with a population  
43 of more than eight hundred thousand persons for the fiscal year two years  
44 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,  
45 42-6103, 42-6105, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109,

1 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised  
2 Statutes.

3 (c) The share of fees assessed to all cities and towns pursuant to  
4 subdivision (a) of this paragraph shall be in proportion to the aggregate  
5 amount of monies distributed to cities and towns for the fiscal year two  
6 years preceding the current fiscal year pursuant to sections 42-5029,  
7 42-6001 and 43-206, Arizona Revised Statutes, as a percentage of aggregate  
8 distributions to all counties, cities, towns, councils of governments and  
9 regional transportation authorities located in a county with a population  
10 of more than eight hundred thousand persons for the fiscal year two years  
11 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,  
12 42-6103, 42-6105, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109,  
13 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised  
14 Statutes.

15 (d) The share of fees assessed to all councils of governments  
16 pursuant to subdivision (a) of this paragraph shall be in proportion to  
17 the aggregate amount of monies distributed to all councils of governments  
18 for the fiscal year two years preceding the current fiscal year pursuant  
19 to section 42-6105, Arizona Revised Statutes, as a percentage of aggregate  
20 distributions to all counties, cities, towns, councils of governments and  
21 regional transportation authorities located in a county with a population  
22 of more than eight hundred thousand persons for the fiscal year two years  
23 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,  
24 42-6103, 42-6105, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109,  
25 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised  
26 Statutes.

27 (e) The share of fees assessed to all regional transportation  
28 authorities located in a county with a population of more than eight  
29 hundred thousand persons pursuant to subdivision (a) of this paragraph  
30 shall be in proportion to the aggregate amount of monies distributed to  
31 all regional transportation authorities located in a county with a  
32 population of more than eight hundred thousand persons for the fiscal year  
33 two years preceding the current fiscal year pursuant to section 42-6106,  
34 Arizona Revised Statutes, as a percentage of aggregate distributions to  
35 all counties, cities, towns, councils of governments and regional  
36 transportation authorities located in a county with a population of more  
37 than eight hundred thousand persons for the fiscal year two years  
38 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,  
39 42-6103, 42-6105, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109,  
40 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised  
41 Statutes.

42 (f) Except as provided by sections 42-5033 and 42-5033.01, Arizona  
43 Revised Statutes, the population of a county as determined by the most  
44 recent United States decennial census plus any revision to the decennial  
45 census certified by the United States census bureau shall be used as the

1 basis for apportioning monies pursuant to subdivision (b) of this  
2 paragraph.

3 (g) Except as provided by sections 42-5033 and 42-5033.01, Arizona  
4 Revised Statutes, the population of a city or town as determined by the  
5 most recent United States decennial census plus any revision to the  
6 decennial census certified by the United States census bureau shall be  
7 used as the basis for apportioning monies pursuant to subdivision (c) of  
8 this paragraph.

9 2. That in fiscal year 2023-2024 the transfer prescribed in section  
10 42-5041, subsection E, Arizona Revised Statutes, not exceed \$800,000.

11 3. That in fiscal year 2023-2024 the transfer prescribed in section  
12 42-5041, subsection F, Arizona Revised Statutes, not exceed \$178,100.