

Senate Engrossed

income tax; subtraction; adoption fees

State of Arizona
Senate
Fifty-sixth Legislature
First Regular Session
2023

SENATE BILL 1156

AN ACT

AMENDING TITLE 8, CHAPTER 1, ARTICLE 2, ARIZONA REVISED STATUTES, BY
ADDING SECTION 8-146; AMENDING SECTION 43-1022, ARIZONA REVISED STATUTES;
APPROPRIATING MONIES; RELATING TO INDIVIDUAL INCOME TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Title 8, chapter 1, article 2, Arizona Revised Statutes,
3 is amended by adding section 8-146, to read:

4 8-146. Adoptive parent grant fund; application; rules;
5 exemption

6 A. THE ADOPTIVE PARENT GRANT FUND IS ESTABLISHED CONSISTING OF
7 LEGISLATIVE APPROPRIATIONS TO PROVIDE GRANTS TO ADOPTIVE PARENTS IN THIS
8 STATE FOR THE UNREIMBURSED COSTS OF AN ADOPTION. THE DEPARTMENT OF CHILD
9 SAFETY SHALL ADMINISTER THE FUND. MONIES IN THE FUND ARE CONTINUOUSLY
10 APPROPRIATED.

11 B. THE DIRECTOR MAY ACCEPT AND SPEND FEDERAL MONIES AND PRIVATE
12 GRANTS, GIFTS, CONTRIBUTIONS AND DEVICES FOR THE PURPOSES OF THIS
13 SECTION. MONIES IN THE FUND ARE EXEMPT FROM THE PROVISIONS OF SECTION
14 35-190 RELATING TO LAPSING OF APPROPRIATIONS.

15 C. FROM AND AFTER DECEMBER 31, 2024, AN ADOPTIVE PARENT IN THIS
16 STATE MAY APPLY FOR AN ADOPTIVE PARENT GRANT, ON A FORM PRESCRIBED BY THE
17 DEPARTMENT, TO RECEIVE MONIES FROM THE ADOPTIVE PARENT GRANT FUND.

18 D. EACH GRANT AWARDED PURSUANT TO THIS SECTION SHALL BE IN THE
19 AMOUNT OF \$1,000 PER ADOPTION AND AWARDED ON A FIRST-COME, FIRST-SERVED
20 BASIS.

21 E. THE DEPARTMENT SHALL ADOPT RULES AND PRESCRIBE FORMS AS
22 NECESSARY FOR THE PURPOSES OF THIS SECTION.

23 F. GRANTS AWARDED PURSUANT TO THIS SECTION ARE EXEMPT FROM THE
24 REQUIREMENTS OF TITLE 41, CHAPTER 24.

25 Sec. 2. Section 43-1022, Arizona Revised Statutes, is amended to
26 read:

27 43-1022. Subtractions from Arizona gross income

28 In computing Arizona adjusted gross income, the following amounts
29 shall 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 \$2,500 received from one or more of the following:

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

38 (b) The Arizona state retirement system, the corrections officer
39 retirement plan, the public safety personnel retirement system, the
40 elected officials' retirement plan, an optional retirement program
41 established by the Arizona board of regents under section 15-1628, an
42 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 the fiduciary adjustment to the extent
2 that the amount determined by section 43-1333 decreases the beneficiary's
3 Arizona gross income.

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

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

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

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

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

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

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

31 11. To the extent not already excluded from Arizona gross income
32 under the internal revenue code, compensation received for active service
33 as a member of the reserves, the national guard or the armed forces of the
34 United States, including compensation for service in a combat zone as
35 determined under section 112 of the internal revenue code.

36 12. The amount of unreimbursed medical and hospital costs, adoption
37 counseling, legal and agency fees and other nonrecurring costs of adoption
38 not to exceed ~~\$3,000~~ \$40,000 FOR THE TAXABLE YEAR BEGINNING FROM AND AFTER
39 DECEMBER 31, 2023 THROUGH DECEMBER 31, 2024 AND \$3,000 FOR TAXABLE YEARS
40 BEGINNING FROM AND AFTER DECEMBER 31, 2024. In the case of a husband and
41 wife who file separate returns, the subtraction may be taken by either
42 taxpayer or may be divided between them, but the total subtractions
43 allowed both husband and wife may not exceed ~~\$3,000~~ \$40,000 FOR THE
44 TAXABLE YEAR BEGINNING FROM AND AFTER DECEMBER 31, 2023 THROUGH DECEMBER

1 31, 2024 AND \$3,000 FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER
2 31, 2024. The subtraction under this paragraph may be taken for the costs
3 that are described in this paragraph and that are incurred in prior years,
4 but the subtraction may be taken only in the year during which the final
5 adoption order is granted.

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

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

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

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

21 17. For property placed in service:

22 (a) In taxable years beginning before December 31, 2012, an amount
23 equal to the depreciation allowable pursuant to section 167(a) of the
24 internal revenue code for the taxable year computed as if the election
25 described in section 168(k) of the internal revenue code had been made for
26 each applicable class of property in the year the property was placed in
27 service.

28 (b) In taxable years beginning from and after December 31, 2012
29 through December 31, 2013, an amount determined in the year the asset was
30 placed in service based on the calculation in subdivision (a) of this
31 paragraph. In the first taxable year beginning from and after
32 December 31, 2013, the taxpayer may elect to subtract the amount necessary
33 to make the depreciation claimed to date for the purposes of this title
34 the same as it would have been if subdivision (c) of this paragraph had
35 applied for the entire time the asset was in service. Subdivision (c) of
36 this paragraph applies for the remainder of the asset's life. If the
37 taxpayer does not make the election under this subdivision, subdivision
38 (a) of this paragraph applies for the remainder of the asset's life.

39 (c) In taxable years beginning from and after December 31, 2013
40 through December 31, 2015, an amount equal to the depreciation allowable
41 pursuant to section 167(a) of the internal revenue code for the taxable
42 year as computed as if the additional allowance for depreciation had been
43 ten percent of the amount allowed pursuant to section 168(k) of the
44 internal revenue code.

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

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

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

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

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

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

30 20. The portion of the net operating loss carryforward that would
31 have been allowed as a deduction in the current year pursuant to section
32 172 of the internal revenue code if the election described in section
33 172(b)(1)(H) of the internal revenue code had not been made in the year of
34 the loss that exceeds the actual net operating loss carryforward that was
35 deducted in arriving at federal adjusted gross income. This subtraction
36 only applies to taxpayers who made an election under section 172(b)(1)(H)
37 of the internal revenue code as amended by section 1211 of the American
38 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
39 section 13 of the worker, homeownership, and business assistance act of
40 2009 (P.L. 111-92).

41 21. For taxable years beginning from and after December 31, 2013,
42 the amount of any net capital gain included in federal adjusted gross
43 income for the taxable year derived from investment in a qualified small

1 business as determined by the Arizona commerce authority pursuant to
2 section 41-1518.

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

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

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

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

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

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

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

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

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

35 26. Benefits, annuities and pensions received as retired or
36 retainer pay of the uniformed services of the United States in amounts as
37 follows:

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

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

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

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

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

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

14 28. For taxable years beginning from and after December 31, 2020,
15 Arizona small business gross income but only if an individual taxpayer has
16 elected to separately report and pay tax on the taxpayer's Arizona small
17 business adjusted gross income on the Arizona small business income tax
18 return.

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

26 (a) "Airdrop" means the receipt of virtual currency through a means
27 of distribution of virtual currency to the distributed ledger addresses of
28 multiple taxpayers.

29 (b) "Non-fungible token" has the same meaning prescribed in section
30 43-1028.

31 (c) "Virtual currency" has the same meaning prescribed in section
32 43-1028.

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

36 Sec. 3. Exemption from rulemaking

37 Notwithstanding any other law, for the purposes of this act, the
38 department of child safety is exempt from the rulemaking requirements of
39 title 41, chapter 6, Arizona Revised Statutes, for one year after the
40 effective date of this act.

1 Sec. 4. Appropriation; adoptive parent grant fund; exemption

2 A. The sum of \$4,000,000 is appropriated from the state general
3 fund in fiscal year 2023-2024 to the adoptive parent grant fund
4 established by section 8-146, Arizona Revised Statutes, as added by this
5 act.

6 B. The appropriation made in subsection A of this section is exempt
7 from the provisions of section 35-190, Arizona Revised Statutes, relating
8 to lapsing of appropriations.