

REFERENCE TITLE: **businesses; fees; income tax reduction**

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

SB 1559

Introduced by
Senator Kaiser

AN ACT

**AMENDING TITLE 41, CHAPTER 4, ARTICLE 1, ARIZONA REVISED STATUTES, BY
ADDING SECTION 41-710.02; AMENDING SECTIONS 43-1022 AND 43-1122, ARIZONA
REVISED STATUTES; RELATING TO BUSINESS INCENTIVES.**

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Title 41, chapter 4, article 1, Arizona Revised
3 Statutes, is amended by adding section 41-710.02, to read:

4 41-710.02. New businesses; state contracts; fee waivers

5 BEGINNING JANUARY 1, 2024, THE DEPARTMENT SHALL DO BOTH OF THE
6 FOLLOWING:

7 1. AWARD FIVE PERCENT OF THE TOTAL NUMBER OF STATE CONTRACTS
8 ENTERED INTO EACH YEAR TO NEW BUSINESSES. FOR THE PURPOSES OF THIS
9 PARAGRAPH, "NEW BUSINESS" MEANS A BUSINESS THAT HAS BEEN IN OPERATION FOR
10 LESS THAN FIVE YEARS AND WHOSE PRINCIPAL PLACE OF BUSINESS IS IN THIS
11 STATE.

12 2. WAIVE ALL APPLICABLE LICENSING AND REGISTRATION FEES FOR A NEW
13 BUSINESS IN ITS FIRST YEAR OF OPERATION OR FOR A PERSON WHO IS
14 ESTABLISHING A NEW BUSINESS, INCLUDING HOME BASED BUSINESSES, IF THE NEW
15 BUSINESS' PRINCIPAL PLACE OF BUSINESS IS IN THIS STATE.

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

18 43-1022. Subtractions from Arizona gross income

19 In computing Arizona adjusted gross income, the following amounts
20 shall be subtracted from Arizona gross income:

21 1. The amount of exemptions allowed by section 43-1023.

22 2. Benefits, annuities and pensions in an amount totaling not more
23 than \$2,500 received from one or more of the following:

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

29 (b) The Arizona state retirement system, the corrections officer
30 retirement plan, the public safety personnel retirement system, the
31 elected officials' retirement plan, an optional retirement program
32 established by the Arizona board of regents under section 15-1628, an
33 optional retirement program established by a community college district
34 board under section 15-1451 or a retirement plan established for employees
35 of a county, city or town in this state.

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

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

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

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

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

6 8. The portion of any wages or salaries paid or incurred by the
7 taxpayer for the taxable year that is equal to the amount of the federal
8 work opportunity credit, the empowerment zone employment credit, the
9 credit for employer paid social security taxes on employee cash tips and
10 the Indian employment credit that the taxpayer received under sections
11 45A, 45B, 51(a) and 1396 of the internal revenue code.

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

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

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

26 12. The amount of unreimbursed medical and hospital costs, adoption
27 counseling, legal and agency fees and other nonrecurring costs of adoption
28 not to exceed \$3,000. In the case of a husband and wife who file separate
29 returns, the subtraction may be taken by either taxpayer or may be divided
30 between them, but the total subtractions allowed both husband and wife may
31 not exceed \$3,000. The subtraction under this paragraph may be taken for
32 the costs that are described in this paragraph and that are incurred in
33 prior years, but the subtraction may be taken only in the year during
34 which the final adoption order is granted.

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

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

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

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

5 17. For property placed in service:

6 (a) In taxable years beginning before December 31, 2012, an amount
7 equal to the depreciation allowable pursuant to section 167(a) of the
8 internal revenue code for the taxable year computed as if the election
9 described in section 168(k) of the internal revenue code had been made for
10 each applicable class of property in the year the property was placed in
11 service.

12 (b) In taxable years beginning from and after December 31, 2012
13 through December 31, 2013, an amount determined in the year the asset was
14 placed in service based on the calculation in subdivision (a) of this
15 paragraph. In the first taxable year beginning from and after
16 December 31, 2013, the taxpayer may elect to subtract the amount necessary
17 to make the depreciation claimed to date for the purposes of this title
18 the same as it would have been if subdivision (c) of this paragraph had
19 applied for the entire time the asset was in service. Subdivision (c) of
20 this paragraph applies for the remainder of the asset's life. If the
21 taxpayer does not make the election under this subdivision, subdivision
22 (a) of this paragraph applies for the remainder of the asset's life.

23 (c) In taxable years beginning from and after December 31, 2013
24 through December 31, 2015, an amount equal to the depreciation allowable
25 pursuant to section 167(a) of the internal revenue code for the taxable
26 year as computed as if the additional allowance for depreciation had been
27 ten percent of the amount allowed pursuant to section 168(k) of the
28 internal revenue code.

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

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

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

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

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

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

13 20. The portion of the net operating loss carryforward that would
14 have been allowed as a deduction in the current year pursuant to section
15 172 of the internal revenue code if the election described in section
16 172(b)(1)(H) of the internal revenue code had not been made in the year of
17 the loss that exceeds the actual net operating loss carryforward that was
18 deducted in arriving at federal adjusted gross income. This subtraction
19 only applies to taxpayers who made an election under section 172(b)(1)(H)
20 of the internal revenue code as amended by section 1211 of the American
21 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
22 section 13 of the worker, homeownership, and business assistance act of
23 2009 (P.L. 111-92).

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

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

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

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

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

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

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

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

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

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

17 26. Benefits, annuities and pensions received as retired or
18 retainer pay of the uniformed services of the United States in amounts as
19 follows:

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

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

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

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

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

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

39 28. For taxable years beginning from and after December 31, 2020,
40 Arizona small business gross income but only if an individual taxpayer has
41 elected to separately report and pay tax on the taxpayer's Arizona small
42 business adjusted gross income on the Arizona small business income tax
43 return.

44 29. To the extent not already excluded from Arizona gross income
45 under the internal revenue code, the value of virtual currency and

1 non-fungible tokens the taxpayer received pursuant to an airdrop at the
2 time of the airdrop. This paragraph may not be interpreted as providing a
3 subtraction for any appreciation in value that occurs from holding the
4 virtual currency after the initial receipt of the airdrop. For the
5 purposes of this paragraph:

6 (a) "Airdrop" means the receipt of virtual currency through a means
7 of distribution of virtual currency to the distributed ledger addresses of
8 multiple taxpayers.

9 (b) "Non-fungible token" has the same meaning prescribed in section
10 43-1028.

11 (c) "Virtual currency" has the same meaning prescribed in section
12 43-1028.

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

16 31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2023,
17 FOR AN INDIVIDUAL WHO IS THE OWNER OF A BUSINESS, INCLUDING A PARTNER IN A
18 PARTNERSHIP, A MEMBER OF A LIMITED LIABILITY COMPANY OR A SHAREHOLDER OF
19 AN S CORPORATION AS DEFINED IN SECTION 1361 OF THE INTERNAL REVENUE CODE,
20 AND WHO RECEIVED INCOME FROM THE BUSINESS, THE AMOUNT DETERMINED AS
21 FOLLOWS:

22 (a) FOR THE BUSINESS' FIRST YEAR OF OPERATION, AN AMOUNT EQUAL TO
23 ONE HUNDRED PERCENT OF THE INCOME RECEIVED FROM THE BUSINESS.

24 (b) FOR THE BUSINESS' SECOND YEAR OF OPERATION, AN AMOUNT EQUAL TO
25 FIFTY PERCENT OF THE INCOME RECEIVED FROM THE BUSINESS.

26 (c) FOR THE BUSINESS' THIRD YEAR OF OPERATION, AN AMOUNT EQUAL TO
27 TWENTY-FIVE PERCENT OF THE INCOME RECEIVED FROM THE BUSINESS.

28 Sec. 3. Section 43-1122, Arizona Revised Statutes, is amended to
29 read:

30 43-1122. Subtractions from Arizona gross income; corporations

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

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

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

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

41 4. The portion of any wages or salaries paid or incurred by the
42 taxpayer for the taxable year that is equal to the amount of the federal
43 work opportunity credit, the empowerment zone employment credit, the
44 credit for employer paid social security taxes on employee cash tips and

1 the Indian employment credit that the taxpayer received under sections
2 45A, 45B, 51(a) and 1396 of the internal revenue code.

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

9 6. With respect to a financial institution as defined in section
10 6-101, expenses and interest relating to tax-exempt income disallowed
11 pursuant to section 265 of the internal revenue code.

12 7. Dividends received from another corporation owned or controlled
13 directly or indirectly by a recipient corporation. For the purposes of
14 this paragraph, "control" means direct or indirect ownership or control of
15 fifty percent or more of the voting stock of the payor corporation by the
16 recipient corporation. Dividends shall have the meaning provided in
17 section 316 of the internal revenue code. This subtraction shall apply
18 without regard to section 43-961, paragraph 2 and article 4 of this
19 chapter.

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

21 9. The amount of dividend income from foreign corporations. For
22 the purposes of this paragraph, gross up income as described in section 78
23 of the internal revenue code, global intangible low-taxed income as
24 defined in section 951A of the internal revenue code and subpart F income
25 as defined in section 952 of the internal revenue code shall be considered
26 foreign dividends.

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

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

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

32 13. The amount of deferred exploration expenses allowed by section
33 43-1127.

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

40 15. The amortization of pollution control devices allowed by
41 section 43-1129.

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

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

4 18. The income of an insurance company that is exempt under section
5 43-1201 to the extent that it is included in computing Arizona gross
6 income on a consolidated return pursuant to section 43-947.

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

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

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

19 22. For taxable years beginning from and after December 31, 2017,
20 the amount of any net capital gain included in Arizona gross income for
21 the taxable year that is derived from the exchange of one kind of legal
22 tender for another kind of legal tender. For the purposes of this
23 paragraph:

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

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

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

32 (a) "Contribution in aid of construction" means any amount of
33 monies or other property contributed to a public service corporation that
34 provides water or sewage disposal services to the extent that the purpose
35 of the contribution is to provide for expanding, improving or replacing
36 the public service corporation's water system or sewage disposal
37 facilities, including any amount of monies or other property contributed
38 to a public service corporation for a water system or sewage disposal
39 facility subject to a contingent obligation to repay the amount, in whole
40 or in part, to the contributor.

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

44 24. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2023,
45 THE AMOUNT DETERMINED AS FOLLOWS:

- 1 (a) FOR THE CORPORATION'S FIRST YEAR OF OPERATION, AN AMOUNT EQUAL
- 2 TO ONE HUNDRED PERCENT OF THE CORPORATION'S ARIZONA GROSS INCOME.
- 3 (b) FOR THE CORPORATION'S SECOND YEAR OF OPERATION, AN AMOUNT EQUAL
- 4 TO FIFTY PERCENT OF THE CORPORATION'S ARIZONA GROSS INCOME.
- 5 (c) FOR THE CORPORATION'S THIRD YEAR OF OPERATION, AN AMOUNT EQUAL
- 6 TO TWENTY-FIVE PERCENT OF THE CORPORATION'S ARIZONA GROSS INCOME.