

REFERENCE TITLE: income tax; subtraction; adoption expenses

State of Arizona
House of Representatives
Fifty-seventh Legislature
First Regular Session
2025

HB 2155

Introduced by
Representative Keshel

AN ACT

AMENDING SECTION 43-1022, ARIZONA REVISED STATUTES; 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. Section 43-1022, Arizona Revised Statutes, is amended to
3 read:

4 43-1022. Subtractions from Arizona gross income

5 In computing Arizona adjusted gross income, the following amounts
6 shall be subtracted from Arizona gross income:

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

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

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

15 (b) The Arizona state retirement system, the corrections officer
16 retirement plan, the public safety personnel retirement system, the
17 elected officials' retirement plan, an optional retirement program
18 established by the Arizona board of regents under section 15-1628, an
19 optional retirement program established by a community college district
20 board under section 15-1451 or a retirement plan established for employees
21 of a county, city or town in this state.

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

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

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

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

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

37 8. The portion of any wages or salaries paid or incurred by the
38 taxpayer for the taxable year that is equal to the amount of the federal
39 work opportunity credit, the empowerment zone employment credit, the
40 credit for employer paid social security taxes on employee cash tips and
41 the Indian employment credit that the taxpayer received under sections
42 45A, 45B, 51(a) and 1396 of the internal revenue code.

43 9. The amount of exploration expenses that is determined pursuant
44 to section 617 of the internal revenue code, that has been deferred in a

1 taxable year ending before January 1, 1990 and for which a subtraction has
2 not previously been made. The subtraction shall be made on a ratable
3 basis as the units of produced ores or minerals discovered or explored as
4 a result of this exploration are sold.

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

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

13 12. The amount of unreimbursed medical and hospital costs, adoption
14 counseling, legal and agency fees and other nonrecurring costs of
15 adoption. THE SUBTRACTION UNDER THIS PARAGRAPH MAY BE TAKEN FOR THE COSTS
16 THAT ARE DESCRIBED IN THIS PARAGRAPH AND THAT ARE INCURRED IN PRIOR YEARS,
17 BUT THE SUBTRACTION MAY BE TAKEN ONLY IN THE YEAR DURING WHICH THE FINAL
18 ADOPTION ORDER IS GRANTED. THE AMOUNT SUBTRACTED MAY not ~~to~~ exceed:

19 (a) IN TAXABLE YEARS BEGINNING BEFORE DECEMBER 31, 2025, \$3,000. In
20 the case of a husband and wife who file separate returns, the subtraction
21 may be taken by either taxpayer or may be divided between them, but the
22 total subtractions allowed both husband and wife may not exceed \$3,000.
23 ~~The subtraction under this paragraph may be taken for the costs that are~~
24 ~~described in this paragraph and that are incurred in prior years, but the~~
25 ~~subtraction may be taken only in the year during which the final adoption~~
26 ~~order is granted.~~

27 (b) IN TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
28 \$5,000 FOR A SINGLE INDIVIDUAL OR HEAD OF HOUSEHOLD.

29 (c) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
30 \$10,000 FOR A MARRIED COUPLE FILING A JOINT RETURN. IN THE CASE OF A
31 HUSBAND AND WIFE WHO FILE SEPARATE RETURNS, THE SUBTRACTION MAY BE TAKEN
32 BY EITHER TAXPAYER OR MAY BE DIVIDED BETWEEN THEM, BUT THE TOTAL
33 SUBTRACTIONS ALLOWED BOTH HUSBAND AND WIFE MAY NOT EXCEED \$10,000.

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

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

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

1 code to the extent that the amount has not already reduced Arizona taxable
2 income in the current or prior taxable years.

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

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

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

15 20. The portion of the net operating loss carryforward that would
16 have been allowed as a deduction in the current year pursuant to section
17 172 of the internal revenue code if the election described in section
18 172(b)(1)(H) of the internal revenue code had not been made in the year of
19 the loss that exceeds the actual net operating loss carryforward that was
20 deducted in arriving at federal adjusted gross income. This subtraction
21 only applies to taxpayers who made an election under section 172(b)(1)(H)
22 of the internal revenue code as amended by section 1211 of the American
23 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
24 section 13 of the worker, homeownership, and business assistance act of
25 2009 (P.L. 111-92).

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

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

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

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

40 (c) For taxable years beginning from and after December 31, 2014,
41 twenty-five percent of the net long-term capital gain included in federal
42 adjusted gross income. For the purposes of this paragraph, a transferee
43 that receives an asset by gift or at the death of a transferor is
44 considered to have acquired the asset when the asset was acquired by the

1 transferor. If the date an asset is acquired cannot be verified, a
2 subtraction under this paragraph is not allowed.

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

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

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

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

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

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

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

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

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

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

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

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

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

1 business adjusted gross income on the Arizona small business income tax
2 return.

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

10 (a) "Airdrop" means the receipt of virtual currency through a means
11 of distribution of virtual currency to the distributed ledger addresses of
12 multiple taxpayers.

13 (b) "Non-fungible token" has the same meaning prescribed in section
14 43-1028.

15 (c) "Virtual currency" has the same meaning prescribed in section
16 43-1028.

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