

State of Arizona
Senate
Forty-fifth Legislature
First Regular Session
2001

SB 1256

Introduced by
Senator Cirillo

AN ACT

AMENDING SECTIONS 43-1011, 43-1021, 43-1022, 43-1024, 43-1025, 43-1027, 43-1028, 43-1030, 43-1031, 43-1041 AND 43-1042, ARIZONA REVISED STATUTES; RELATING TO INDIVIDUAL INCOME TAX RATES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
 2 Section 1. Section 43-1011, Arizona Revised Statutes, is amended to
 3 read:
 4 43-1011. Taxes and tax rates
 5 There shall be levied, collected and paid for each taxable year upon
 6 the entire taxable income of every resident of this state and upon the entire
 7 taxable income of every nonresident which is derived from sources within this
 8 state taxes determined in the following manner:
 9 1. For taxable years beginning from and after December 31, 1996
 10 through December 31, 1997:
 11 (a) In the case of a single person or a married person filing
 12 separately:
 13

| | |
|------------------------------|--------------------------------------------------|
| <u>If taxable income is:</u> | <u>The tax is:</u> |
| \$0 - \$10,000 | 2.90% of taxable income |
| \$10,001 - \$25,000 | \$290, plus 3.30% of the excess over \$10,000 |
| \$25,001 - \$50,000 | \$785, plus 3.90% of the excess over \$25,000 |
| \$50,001 - \$150,000 | \$1,760, plus 4.80% of the excess over \$50,000 |
| \$150,001 and over | \$6,560, plus 5.17% of the excess over \$150,000 |

 19 (b) In the case of a married couple filing a joint return or a single
 20 person who is a head of a household:
 21

| | |
|------------------------------|---------------------------------------------------|
| <u>If taxable income is:</u> | <u>The tax is:</u> |
| \$0 - \$20,000 | 2.90% of taxable income |
| \$20,001 - \$50,000 | \$580, plus 3.30% of the excess over \$20,000 |
| \$50,001 - \$100,000 | \$1,570, plus 3.90% of the excess over \$50,000 |
| \$100,001 - \$300,000 | \$3,520, plus 4.80% of the excess over \$100,000 |
| \$300,001 and over | \$13,120, plus 5.17% of the excess over \$300,000 |

 27 2. For taxable years beginning from and after December 31, 1997
 28 through December 31, 1998:
 29 (a) In the case of a single person or a married person filing
 30 separately:
 31

| | |
|------------------------------|--------------------------------------------------|
| <u>If taxable income is:</u> | <u>The tax is:</u> |
| \$0 - \$10,000 | 2.88% of taxable income |
| \$10,001 - \$25,000 | \$288, plus 3.24% of the excess over \$10,000 |
| \$25,001 - \$50,000 | \$774, plus 3.82% of the excess over \$25,000 |
| \$50,001 - \$150,000 | \$1,729, plus 4.74% of the excess over \$50,000 |
| \$150,001 and over | \$6,469, plus 5.10% of the excess over \$150,000 |

 37 (b) In the case of a married couple filing a joint return or a single
 38 person who is a head of a household:
 39

| | |
|------------------------------|---------------------------------------------------|
| <u>If taxable income is:</u> | <u>The tax is:</u> |
| \$0 - \$20,000 | 2.88% of taxable income |
| \$20,001 - \$50,000 | \$576, plus 3.24% of the excess over \$20,000 |
| \$50,001 - \$100,000 | \$1,548, plus 3.82% of the excess over \$50,000 |
| \$100,001 - \$300,000 | \$3,458, plus 4.74% of the excess over \$100,000 |
| \$300,001 and over | \$12,938, plus 5.10% of the excess over \$300,000 |

1 3. For taxable years beginning from and after December 31, 1998
 2 THROUGH DECEMBER 31, 2002:

3 (a) In the case of a single person or a married person filing
 4 separately:

| <u>If taxable income is:</u> | <u>The tax is:</u> |
|------------------------------|--------------------------------------------------|
| 5 \$0 - \$10,000 | 2.87% of taxable income |
| 6 \$10,001 - \$25,000 | \$287, plus 3.20% of the excess over \$10,000 |
| 7 \$25,001 - \$50,000 | \$767, plus 3.74% of the excess over \$25,000 |
| 8 \$50,001 - \$150,000 | \$1,702, plus 4.72% of the excess over \$50,000 |
| 9 \$150,001 and over | \$6,422, plus 5.04% of the excess over \$150,000 |

10
 11 (b) In the case of a married couple filing a joint return or a single
 12 person who is a head of a household:

| <u>If taxable income is:</u> | <u>The tax is:</u> |
|------------------------------|---------------------------------------------------|
| 13 \$0 - \$20,000 | 2.87% of taxable income |
| 14 \$20,001 - \$50,000 | \$574, plus 3.20% of the excess over \$20,000 |
| 15 \$50,001 - \$100,000 | \$1,534, plus 3.74% of the excess over \$50,000 |
| 16 \$100,001 - \$300,000 | \$3,404, plus 4.72% of the excess over \$100,000 |
| 17 \$300,001 and over | \$12,844, plus 5.04% of the excess over \$300,000 |

18
 19 4. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2002:

20 (a) IN THE CASE OF A SINGLE PERSON OR A MARRIED PERSON FILING
 21 SEPARATELY:

| <u>IF TAXABLE INCOME IS:</u> | <u>THE TAX IS:</u> |
|------------------------------|-----------------------------------------------|
| 22 \$0 - \$10,000 | -0- |
| 23 \$10,001 - \$50,000 | ____% OF THE EXCESS OVER \$10,000 |
| 24 \$50,001 AND OVER | \$____ PLUS ____% OF THE EXCESS OVER \$50,000 |

25
 26 (b) IN THE CASE OF A MARRIED COUPLE FILING A JOINT RETURN OR A SINGLE
 27 PERSON WHO IS A HEAD OF A HOUSEHOLD:

| <u>IF TAXABLE INCOME IS:</u> | <u>THE TAX IS:</u> |
|------------------------------|------------------------------------------------|
| 28 \$0 - \$20,000 | -0- |
| 29 \$20,001 - \$100,000 | ____% OF THE EXCESS OVER \$20,000 |
| 30 \$100,001 AND OVER | \$____ PLUS ____% OF THE EXCESS OVER \$100,000 |

31
 32 Sec. 2. Section 43-1021, Arizona Revised Statutes, is amended to read:
 33 43-1021. Additions to Arizona gross income

34 In computing Arizona adjusted gross income FOR TAXABLE YEARS ENDING
 35 BEFORE JANUARY 1, 2003, the following amounts shall be added to Arizona gross
 36 income:

- 37 1. A beneficiary's share of trust or estate income includible under
 38 section 43-1344.
- 39 2. A beneficiary's share of trust or estate deductions allowable under
 40 the internal revenue code.
- 41 3. An amount equal to the "ordinary income portion" of a lump sum
 42 distribution that was excluded from federal adjusted gross income pursuant to
 43 section 402(d) of the internal revenue code.
- 44 ~~4. The amount of interest income received on obligations of any state,
 45 territory or possession of the United States, or any political subdivision~~

1 ~~thereof, located outside the state of Arizona, reduced, for tax years~~
2 ~~beginning from and after December 31, 1996, by the amount of any interest on~~
3 ~~indebtedness and other related expenses that were incurred or continued to~~
4 ~~purchase or carry those obligations and that are not otherwise deducted or~~
5 ~~subtracted in arriving at Arizona gross income.~~

6 ~~5-~~ 4. Annuity income received during the taxable year to the extent
7 that the sum of the proceeds received from such annuity in all taxable years
8 prior to and including the current taxable year exceeds the total
9 consideration and premiums paid by the taxpayer. This paragraph applies only
10 to those annuities with respect to which the first payment was received prior
11 to December 31, 1978.

12 ~~6-~~ 5. The excess of a partner's share of partnership taxable income
13 required to be included under chapter 14, article 2 of this title over the
14 income required to be reported under section 702(a)(8) of the internal
15 revenue code.

16 ~~7-~~ 6. The excess of a partner's share of partnership losses
17 determined pursuant to section 702(a)(8) of the internal revenue code over
18 the losses allowable under chapter 14, article 2 of this title.

19 ~~8-~~ 7. The amount by which the adjusted basis of property described in
20 this paragraph and computed pursuant to the internal revenue code exceeds the
21 adjusted basis of such property computed pursuant to this title and the
22 income tax act of 1954, as amended. This paragraph shall apply to all
23 property which is held for the production of income and which is sold or
24 otherwise disposed of during the taxable year, except depreciable property
25 used in a trade or business.

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

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

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

37 ~~12-~~ 8. Amounts withdrawn from the Arizona state retirement system, the
38 corrections officer retirement plan, the public safety personnel retirement
39 system, the elected officials' retirement plan or a county or city retirement
40 plan by an employee upon termination of employment before retirement to the
41 extent they were deducted in arriving at Arizona taxable income in any year.

42 ~~13-~~ 9. That portion of the net operating loss included in federal
43 adjusted gross income which has already been taken as a net operating loss
44 for Arizona purposes or which is separately taken as a subtraction under the
45 special net operating loss transition rule.

1 ~~14. Any nonitemized amount deducted pursuant to section 170 of the~~
2 ~~internal revenue code representing contributions to an educational~~
3 ~~institution which denies admission, enrollment or board and room~~
4 ~~accommodations on the basis of race, color or ethnic background except those~~
5 ~~institutions primarily established for the education of American Indians.~~

6 ~~15. The amount of depreciation or amortization of costs of recycling~~
7 ~~equipment deducted pursuant to the internal revenue code for which an~~
8 ~~election is made pursuant to section 43-1076.~~

9 ~~16. The amount paid as taxes on property in this state with respect to~~
10 ~~which a credit is claimed under section 43-1078.~~

11 ~~17. Amounts withdrawn from a medical savings account by the individual~~
12 ~~during the taxable year computed pursuant to section 220(f) of the internal~~
13 ~~revenue code and not included in federal adjusted gross income.~~

14 ~~18. Any amount of agricultural water conservation expenses that were~~
15 ~~deducted pursuant to the internal revenue code for which a credit is claimed~~
16 ~~under section 43-1084.~~

17 ~~19. The amount by which the depreciation or amortization computed under~~
18 ~~the internal revenue code with respect to property for which a credit was~~
19 ~~taken under section 43-1080 exceeds the amount of depreciation or~~
20 ~~amortization computed pursuant to the internal revenue code on the Arizona~~
21 ~~adjusted basis of the property.~~

22 ~~20. The amount by which the adjusted basis computed under the internal~~
23 ~~revenue code with respect to property for which a credit was claimed under~~
24 ~~section 43-1080 and which is sold or otherwise disposed of during the taxable~~
25 ~~year exceeds the adjusted basis of the property computed under section~~
26 ~~43-1080.~~

27 ~~21. The amount by which the depreciation or amortization computed under~~
28 ~~the internal revenue code with respect to property for which a credit was~~
29 ~~taken under either section 43-1081 or 43-1081.01 exceeds the amount of~~
30 ~~depreciation or amortization computed pursuant to the internal revenue code~~
31 ~~on the Arizona adjusted basis of the property.~~

32 ~~22. The amount by which the adjusted basis computed under the internal~~
33 ~~revenue code with respect to property for which a credit was claimed under~~
34 ~~either section 43-1081 or 43-1081.01 and which is sold or otherwise disposed~~
35 ~~of during the taxable year exceeds the adjusted basis of the property~~
36 ~~computed under section 43-1081 or 43-1081.01, as applicable.~~

37 ~~23.~~ 10. The deduction referred to in section 1341(a)(4) of the
38 internal revenue code for restoration of a substantial amount held under a
39 claim of right.

40 ~~24.~~ 11. The amount by which a net operating loss carryover or capital
41 loss carryover allowable pursuant to section 1341(b)(5) of the internal
42 revenue code exceeds the net operating loss carryover or capital loss
43 carryover allowable pursuant to section 43-1029, subsection F.

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

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

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

11 ~~28. Any amount deducted pursuant to section 170 of the internal revenue~~
12 ~~code representing the contribution of a motor vehicle for which a credit is~~
13 ~~claimed pursuant to section 43-1090.01.~~

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

17 Sec. 3. Section 43-1022, Arizona Revised Statutes, is amended to read:

18 43-1022. Subtractions from Arizona gross income

19 In computing Arizona adjusted gross income **FOR TAXABLE YEARS ENDING**
20 **BEFORE JANUARY 1, 2003**, the following amounts shall be subtracted from
21 Arizona gross income:

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

23 2. Benefits, annuities and pensions in an amount totaling not more
24 than two thousand five hundred dollars received from one or more of the
25 following:

26 (a) The United States government service retirement and disability
27 fund, retired or retainer pay of the uniformed services of the United States,
28 the United States foreign service retirement and disability system and any
29 other retirement system or plan established by federal law.

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

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

39 4. The amount of any distributions from an individual retirement
40 account as provided for in section 408 of the internal revenue code or from a
41 qualified retirement plan of a self-employed individual as provided for in
42 section 401 of the internal revenue code to the extent that total adjustments
43 made pursuant to this paragraph in all tax years do not exceed the total of
44 all contributions made by the taxpayer to such plans prior to December 31,
45 1975, which were included in computing Arizona taxable income.

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

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

9 ~~7. The amount of any income tax refunds which were received from
10 states other than Arizona and which were included as income in computing
11 federal adjusted gross income.~~

12 ~~8.~~ 7. Annuity income included in federal adjusted gross income
13 pursuant to section 72 of the internal revenue code if the first payment with
14 respect to such annuity was received prior to December 31, 1978.

15 ~~9.~~ 8. The excess of a partner's share of income required to be
16 included under section 702(a)(8) of the internal revenue code over the income
17 required to be included under chapter 14, article 2 of this title.

18 ~~10.~~ 9. The excess of a partner's share of partnership losses
19 determined pursuant to chapter 14, article 2 of this title over the losses
20 allowable under section 702(a)(8) of the internal revenue code.

21 ~~11.~~ 10. The amount by which the adjusted basis of property described
22 in this paragraph and computed pursuant to this title and the income tax act
23 of 1954, as amended, exceeds the adjusted basis of such property computed
24 pursuant to the internal revenue code. This paragraph shall apply to all
25 property which is held for the production of income and which is sold or
26 otherwise disposed of during the taxable year other than depreciable property
27 used in a trade or business.

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

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

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

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

42 ~~16.~~ 11. The amount of prizes or winnings THAT ARE WON BEFORE JANUARY
43 1, 2002, INCLUDING ANY PERIODIC DISTRIBUTIONS FROM THE WINNINGS, AND THAT ARE
44 less than five thousand dollars in a single taxable year from any of the
45 state lotteries established and operated pursuant to title 5, chapter 5,

1 article 1, except that all such winnings before March 22, 1983, including
2 periodic distributions from such winnings made after March 22, 1983, may be
3 subtracted.

4 ~~17.~~ 12. The amount of exploration expenses that is determined pursuant
5 to section 617 of the internal revenue code, that has been deferred in a
6 taxable year ending before January 1, 1990 and for which a subtraction has
7 not previously been made. The subtraction shall be made on a ratable basis
8 as the units of produced ores or minerals discovered or explored as a result
9 of this exploration are sold.

10 ~~18.~~ 13. The amount included in federal adjusted gross income pursuant
11 to section 86 of the internal revenue code, relating to taxation of social
12 security and railroad retirement benefits.

13 ~~19. To the extent not already excluded from Arizona gross income under~~
14 ~~section 112 of the internal revenue code, compensation received for active~~
15 ~~service as a member of the armed forces of the United States for any month~~
16 ~~during any part of which the member served in a combat zone as determined~~
17 ~~under section 112 of the internal revenue code or in an area given the same~~
18 ~~treatment as a combat zone for purposes of section 112 of the internal~~
19 ~~revenue code.~~

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

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

31 ~~22. With respect to a medical savings account established pursuant to~~
32 ~~section 43-1028:~~

33 ~~(a) An eligible individual may subtract:~~

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

38 ~~(ii) The amount deposited by the individual in the account during the~~
39 ~~taxable year to the extent that the individual's contributions are included~~
40 ~~in the individual's federal adjusted gross income.~~

41 ~~(b) The individual's employer may subtract the amount of contributions~~
42 ~~made by the employer to a medical savings account established on the~~
43 ~~individual's behalf to the extent that the contributions are not deductible~~
44 ~~under the internal revenue code.~~

1 ~~23.~~ 14. The amount by which a net operating loss carryover or capital
2 loss carryover allowable pursuant to section 43-1029, subsection F exceeds
3 the net operating loss carryover or capital loss carryover allowable pursuant
4 to section 1341(b)(5) of the internal revenue code.

5 ~~24.~~ 15. Any amount of qualified educational expenses that is
6 distributed from a qualified state tuition program determined pursuant to
7 section 529 of the internal revenue code and that is included in income in
8 computing federal adjusted gross income.

9 ~~25.~~ 16. Any item of income resulting from an installment sale that has
10 been properly subjected to tax in another state in a previous taxable year
11 and that is included in Arizona gross income in the current taxable year.

12 ~~26.~~ 17. Any item of income resulting from an installment sale that has
13 been properly subjected to income tax in another state in a previous year and
14 that is included in Arizona gross income in the current taxable year.

15 ~~27. The amount authorized by section 43-1030 relating to holocaust~~
16 ~~survivors.~~

17 ~~28. The amount authorized by section 43-1031 for constructing an energy~~
18 ~~efficient residence.~~

19 Sec. 4. Section 43-1024, Arizona Revised Statutes, is amended to read:

20 ~~43-1024.~~ Amortization of private commercial capital investment
21 by qualified defense contractor

22 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2003, a qualified
23 defense contractor that is certified by the department of commerce under
24 section 41-1508 may elect pursuant to this section to amortize the cost of
25 any new device, machinery, equipment or other capital investment that is used
26 exclusively for private commercial activities in this state. The period of
27 amortization allowed by this section is equal to one-half of the time period
28 allowed pursuant to the internal revenue code for the same class of
29 property. In computing Arizona taxable income, the amortization is allowed
30 as a subtraction ratably over the period allowed by this section beginning
31 with the month in which the device, machinery, equipment or other capital
32 investment is placed in exclusively private commercial service in this state.

33 B. The taxpayer shall make the election under this section by an
34 appropriate statement in the income tax return for the initial taxable
35 year. The taxpayer may also elect to discontinue amortization with respect
36 to the remainder of the amortization period by an appropriate statement in
37 the income tax return for the taxable year in which the election to
38 discontinue is made.

39 C. In determining the adjusted basis for the purposes of subsection A
40 of this section, the device, machinery, equipment or other capital investment
41 shall include only an amount that is properly attributable to constructing,
42 installing or acquiring the device, machinery, equipment or other investment
43 as certified by the department of commerce. The taxpayer shall use the
44 adjusted basis determined pursuant to this section in determining the gain on

1 the sale or other disposition of a capital investment that is amortized under
2 this section.

3 D. The subtraction provided by this section is in lieu of any
4 allowance for exhaustion, ~~AND~~ wear and tear of the property allowed by
5 section 167 or 179 of the internal revenue code.

6 Sec. 5. Section 43-1025, Arizona Revised Statutes, is amended to read:
7 43-1025. Agricultural crops contributed to charitable
8 organizations; definitions

9 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2003, in computing
10 Arizona taxable income a subtraction is allowed for qualified crop
11 contributions during the taxable year to one or more charitable
12 organizations. It is not considered to be a double deduction to include both
13 costs of producing the crop and the subtraction in computing Arizona taxable
14 income.

15 B. The amount of the subtraction shall not exceed eighty per cent of
16 the wholesale market price or eighty per cent of the most recent sale price
17 for the contributed crop, whichever is greater.

18 C. The contribution qualifies for a subtraction under this section
19 only if all of the following apply:

20 1. The crop is harvested by or on behalf of the donee charitable
21 organization.

22 2. The use of the crop by the donee charitable organization is related
23 to the purpose or function constituting the basis of the organization's
24 tax-exempt status.

25 3. The crop is not transferred by the donee charitable organization in
26 exchange for money, other property or services or for use outside Arizona.

27 4. The donee charitable organization provides a written statement to
28 the taxpayer that its use and disposition of the crop will comply with the
29 requirements of this section.

30 5. Harvesting or processing the crop in the normal course of the
31 taxpayer's trade or business would not be economically feasible.

32 6. The crop would go to waste if it was not contributed to the donee
33 charitable organization.

34 D. For purposes of this section:

35 1. "Most recent sale price" means an amount equal to the price that
36 the taxpayer would have received for the contributed crop, determined as if
37 the crop had been sold by that taxpayer on the date of the most recent sale
38 of such a crop and at the same price per unit as the crop that was sold on
39 that date or at the price determined by an agricultural market service on the
40 date the crop is contributed.

41 2. "Qualified crop contribution" means any contribution of a crop or
42 portion of a crop grown in Arizona by a taxpayer engaged in the trade or
43 business of farming or processing agriculture crops to a charitable
44 organization located in Arizona that is exempt from tax under section
45 43-1201.

1 3. "Wholesale market price" means the average wholesale market price
2 for the contributed crop in the nearest regional market during the month in
3 which the contribution is made, determined without consideration of grade or
4 quality of the crop and as if the quantity of the contributed crop was
5 marketable.

6 Sec. 6. Section 43-1027, Arizona Revised Statutes, is amended to read:
7 43-1027. Subtraction for wood stoves, wood fireplace or gas
8 fired fireplaces; definitions

9 A. For taxable years beginning from and after December 31, 1993 **AND**
10 **ENDING BEFORE JANUARY 1, 2003**, in computing Arizona adjusted gross income, a
11 taxpayer may subtract from Arizona gross income an amount equal to the cost,
12 exclusive of taxes, interest and other finance charges, but not more than
13 five hundred dollars, for the conversion of an existing wood fireplace to a
14 qualified wood stove, wood fireplace or gas fired fireplace and nonoptional
15 equipment directly related to its operation on property that is located in
16 this state.

17 B. For the purposes of this section:

18 1. "Permanently installed" means that the burner pan and associated
19 equipment are affixed to the masonry or metal base of the fireplace.

20 2. "Qualified gas fired fireplace" means any of the following:

21 (a) Any device that burns natural or liquefied petroleum gas as its
22 fuel through a burner system that is permanently installed in the fireplace.

23 (b) The conversion of an existing wood burning fireplace to
24 noncombustible gas logs that are permanently installed in the fireplace.

25 3. "Qualified wood stove or wood fireplace" means any of the
26 following:

27 (a) A residential wood heater that meets the standards of performance
28 for new residential wood heaters manufactured on or after July 1, 1990 or
29 sold at retail on or after July 1, 1992 pursuant to 40 Code of Federal
30 Regulations part 60, subpart AAA.

31 (b) The conversion of an existing wood burning fireplace to a unit
32 defined in subdivision (a) of this paragraph.

33 Sec. 7. Section 43-1028, Arizona Revised Statutes, is amended to read:
34 43-1028. Medical savings accounts; reports

35 A. For taxable years beginning from and after December 31, 1996 **AND**
36 **ENDING BEFORE JANUARY 1, 2003**, in computing Arizona adjusted gross income:

37 1. An individual may subtract amounts contributed to a medical savings
38 account as provided by this section to the extent that the contributions are
39 included in the individual's federal adjusted gross income.

40 2. The individual's employer may subtract the amount of contributions
41 made by the employer to a medical savings account established on the
42 individual's behalf to the extent that the contributions are not deductible
43 under the internal revenue code.

1 B. For purposes of this section, the medical savings account shall be
2 established and maintained as provided by section 220 of the internal revenue
3 code, except that:

4 1. The limitations relating to the size of the employer under section
5 220(c)(1)(A)(iii) and 220(c)(4) do not apply.

6 2. The limitation relating to the number of taxpayers having medical
7 savings accounts under section 220(i) does not apply.

8 3. On the last business day of a calendar year an individual may
9 withdraw money from the individual's medical savings account for purposes
10 other than paying qualified medical expenses without incurring a withdrawal
11 penalty. If an individual makes any other withdrawal from a medical savings
12 account for purposes other than paying qualified medical expenses, as defined
13 in section 220(d)(2) of the internal revenue code, and is not subject to a
14 federal penalty for the withdrawal, the individual shall pay a penalty, equal
15 to ten per cent of the amount of the withdrawal, to the department at the
16 same time as the individual files the income tax return under this title for
17 the taxable year. The penalty does not apply after the account holder
18 reaches the age of fifty-nine and one-half years. Money withdrawn pursuant
19 to this paragraph is considered income for the purposes of computing Arizona
20 adjusted gross income. The department shall credit penalty monies to the
21 state general fund.

22 C. The trustee of a medical savings account shall make reports
23 regarding the account to the department and the individual with respect to
24 contributions, income earned during the taxable year, distributions and other
25 matters as the department may require by rule. The report shall be filed
26 with the department at the time and in the manner prescribed by the
27 department and furnished to the individual in the manner prescribed by the
28 department on or before January 31 of the calendar year following the
29 calendar year to which the report relates.

30 Sec. 8. Section 43-1030, Arizona Revised Statutes, is amended to read:

31 43-1030. Subtraction for World War II victims

32 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2003, in computing
33 Arizona adjusted gross income a taxpayer may subtract the following amounts:

34 1. To the extent included in federal adjusted gross income,
35 distributions made to the taxpayer for the taxpayer's persecution or for the
36 persecution of the taxpayer's ancestors by Nazi Germany or any other Axis
37 regime for racial, religious or political reasons.

38 2. To the extent included in federal adjusted gross income, items of
39 income that are attributable to, derived from or related to assets that were
40 stolen or hidden from or lost to a taxpayer who was persecuted by Nazi
41 Germany or any other Axis regime for racial, religious or political reasons
42 before, during or immediately after World War II.

43 B. This section applies only to a taxpayer who is the first recipient
44 of any distribution or recovered asset in subsection A.

1 C. Any income received by a taxpayer for the taxpayer's persecution or
2 for the persecution of the taxpayer's ancestors by Nazi Germany or any other
3 Axis regime for racial, religious or political reasons shall not be included
4 for the purposes of any state program that uses income as an eligibility
5 requirement.

6 Sec. 9. Section 43-1031, Arizona Revised Statutes, is amended to read:
7 43-1031. Subtraction for constructing an energy efficient
8 residence

9 A. For taxable years beginning from and after December 31, 2001
10 through December 31, ~~2010~~ 2002, in computing Arizona adjusted gross income a
11 taxpayer may subtract five per cent of the sales price, excluding
12 commissions, taxes, interest, points and other brokerage, finance and escrow
13 charges, of one or more new single family residences, condominiums or town
14 houses that are sold by the taxpayer and that ~~exceeds~~ EXCEED the 1995 model
15 energy code by fifty per cent or more as determined by an approved rating
16 program. Rating programs shall meet the United States department of energy's
17 home energy rating system guidelines or other guidelines approved by the
18 department of commerce energy office. The amount of the subtraction shall
19 not exceed five thousand dollars with respect to each new single family
20 residence, condominium or town house.

21 B. The department of commerce energy office shall:

22 1. Annually review the threshold rating used to determine eligibility
23 for the subtraction.

24 2. If the number of homes receiving a subtraction in a single year
25 exceeds five per cent of the new homes built in this state as estimated by
26 the department of commerce, increase the qualifying rating by five per cent
27 for the next taxable year.

28 3. Provide an annual list to the department of revenue of the criteria
29 used to determine an energy efficiency rating that qualifies for a
30 subtraction pursuant to this section.

31 C. The taxpayer may elect to transfer a ~~credit~~ SUBTRACTION under this
32 section to the purchaser of the residence or to the financial institution
33 that secures a mortgage or deed of trust on the residence. If the taxpayer
34 transfers the ~~credit~~ SUBTRACTION, the taxpayer shall deliver to the purchaser
35 or financial institution a written statement that the taxpayer has elected
36 not to claim the ~~credit~~ SUBTRACTION and that the purchaser or financial
37 institution may claim the ~~credit~~ SUBTRACTION, subject to the conditions and
38 limitations prescribed by this section.

39 Sec. 10. Section 43-1041, Arizona Revised Statutes, is amended to
40 read:

41 43-1041. Optional standard deduction

42 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2003, a taxpayer, at his
43 election, may take a standard deduction as follows:

1 1. In the case of a single person or a married person filing
2 separately, the standard deduction shall be three thousand six hundred
3 dollars.

4 2. In the case of a married couple filing a joint return or a single
5 person who is a head of a household, the standard deduction shall be seven
6 thousand two hundred dollars.

7 B. The standard deduction provided for in subsection A of this section
8 shall be in lieu of all itemized deductions allowed by section 43-1042 which
9 are to be subtracted from Arizona adjusted gross income in computing taxable
10 income, but not in lieu of the personal exemption allowed by section 43-1043.

11 C. The standard deduction shall be allowed if the taxpayer so elects
12 in his return, and the department shall by rule prescribe the manner of
13 signifying such election in the return.

14 D. In the case of a husband and wife, the standard deduction provided
15 for in subsection A of this section shall not be allowed to either if the
16 taxable income of one of the spouses is determined without regard to the
17 standard deduction.

18 E. The standard deduction provided for by subsection A of this section
19 shall not be allowed in the case of a taxable year of less than twelve months
20 on account of a change in the accounting period.

21 F. Under rules adopted by the department, a change of an election to
22 take, or not to take, the standard deduction for any taxable year may be made
23 after the filing of the return for such year. If the spouse of the taxpayer
24 filed a separate return for any taxable year corresponding, for the purposes
25 of subsection D of this section, to the taxable year of the taxpayer, the
26 change shall not be allowed unless, in accordance with such rules, both
27 paragraphs 1 and 2 of this subsection apply:

28 1. The spouse makes a change of election with respect to the standard
29 deduction for the taxable year covered in such separate return consistent
30 with the change of election sought by the taxpayer.

31 2. The taxpayer and his spouse consent in writing to the assessment,
32 within such period as may be agreed upon with the department, of any
33 deficiency, to the extent attributable to such change of election, even
34 though at the time of the filing of such consent the assessment of such
35 deficiency would otherwise be prevented by the operation of any law or rule
36 of law.

37 Sec. 11. Section 43-1042, Arizona Revised Statutes, is amended to
38 read:

39 43-1042. Itemized deductions

40 A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2003**, except as provided
41 by subsections B, D and E of this section, at the election of the taxpayer,
42 and in lieu of the standard deduction allowed by section 43-1041, in
43 computing taxable income the taxpayer may take the amount of itemized
44 deductions allowable for the taxable year pursuant to subtitle A, chapter 1,

1 subchapter B, parts VI and VII, but subject to the limitations prescribed by
2 sections 67, 68 and 274, of the internal revenue code.

3 B. In lieu of the amount of the federal itemized deduction for
4 expenses paid for medical care allowed under section 213 of the internal
5 revenue code, the taxpayer may deduct:

6 1. For the 1992 taxable year, the amount of such expenses that exceed
7 six per cent of the taxpayer's federal adjusted gross income.

8 2. For the 1993 taxable year, the amount of such expenses that exceed
9 four per cent of the taxpayer's federal adjusted gross income.

10 3. For the 1994 taxable year, the amount of such expenses that exceed
11 two per cent of the taxpayer's federal adjusted gross income.

12 4. For the 1995 taxable year and each taxable year thereafter, the
13 full amount of such expenses.

14 C. Notwithstanding subsection B of this section, expenses for medical
15 care that are paid or reimbursed from the taxpayer's medical savings account
16 pursuant to section 43-1028 shall not be deducted pursuant to this section.

17 D. A qualified defense contractor that is identified and certified by
18 the department of commerce pursuant to section 41-1508 shall not claim both a
19 deduction as provided by this section and a credit under section 43-1078 with
20 respect to the same property taxes paid.

21 E. A taxpayer shall not claim both a deduction provided by this
22 section and a credit allowed by this title with respect to the same
23 charitable contributions.

24 F. The taxpayer may add any interest expense paid by the taxpayer for
25 the taxable year that is equal to the amount of federal credit for interest
26 on certain home mortgages allowed by ~~internal revenue code~~ section 25 OF THE
27 INTERNAL REVENUE CODE.