Senate Engrossed House Bill

FILED

JANICE K. BREWER
SECRETARY OF STATE

State of Arizona
House of Representatives
Forty-eighth Legislature
First Regular Session
2007

CHAPTER 258

HOUSE BILL 2784

AN ACT

AMENDING TITLE 41, CHAPTER 3, ARTICLE 7, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-608.04; AMENDING SECTIONS 42-13054, 42-13353, 42-15001 AND 42-15006, ARIZONA REVISED STATUTES; AMENDING SECTION 43-222, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2007, CHAPTER 225, SECTION 4; AMENDING SECTIONS 43-1021 AND 43-1022, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1086; PROVIDING FOR THE DELAYED REPEAL OF SECTION 41-608.04, ARIZONA REVISED STATUTES; MAKING AN APPROPRIATION; RELATING TO TAXATION; PROVIDING FOR CONDITIONAL ENACTMENT.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

Section 1. Title 41, chapter 3, article 7, Arizona Revised Statutes, is amended by adding section 41-608.04, to read:

41-608.04. Military family relief fund; advisory committee

A. THE MILITARY FAMILY RELIEF FUND IS ESTABLISHED THROUGH DECEMBER 31, 2013. THE FUND CONSISTS OF PRIVATE DONATIONS, GRANTS, BEQUESTS AND ANY OTHER MONIES RECEIVED FOR THAT PURPOSE. THE DEPARTMENT SHALL ADMINISTER THE FUND. ON NOTICE FROM THE DIRECTOR, THE STATE TREASURER SHALL INVEST AND DIVEST MONIES IN THE FUND AS PROVIDED BY SECTION 35-313, AND MONIES EARNED FROM INVESTMENT SHALL BE CREDITED TO THE FUND. THE MONIES IN THE FUND ARE CONTINUOUSLY APPROPRIATED TO THE DEPARTMENT SOLELY FOR THE PURPOSES DESCRIBED IN THIS SECTION. ANY MONIES REMAINING UNEXPENDED AND UNENCUMBERED ON DECEMBER 31, 2013 SHALL BE TRANSFERRED FOR DEPOSIT IN THE VETERANS' DONATIONS FUND ESTABLISHED BY SECTION 41-608.

B. THE MILITARY FAMILY RELIEF ADVISORY COMMITTEE IS ESTABLISHED TO DETERMINE APPROPRIATE USES OF THE MONIES IN THE MILITARY FAMILY RELIEF FUND AS PROVIDED BY THIS SECTION. THE ADVISORY COMMITTEE CONSISTS OF THE DIRECTOR OR THE DIRECTOR'S DESIGNEE AND TWELVE ADDITIONAL MEMBERS, INCLUDING WIDOWS AND WIDOWERS OF MILITARY PERSONNEL WHO DIED IN THE LINE OF DUTY, MILITARY RETIREES, VETERANS WHO HAVE A SERVICE-CONNECTED DISABILITY AND THEIR FAMILY MEMBERS AND ARIZONA ARMY AND AIR NATIONAL GUARD UNIT COMMANDERS. EXCEPT FOR THE DIRECTOR, THE GOVERNOR SHALL APPOINT THE MEMBERS BASED ON RECOMMENDATIONS BY THE DIRECTOR, BY ARIZONA ARMY AND AIR NATIONAL GUARD COMMANDERS AND BY COMMANDERS OF MILITARY BASES IN THIS STATE. APPOINTED MEMBERS SERVE AT THE PLEASURE OF THE GOVERNOR.

C. THE ADVISORY COMMITTEE SHALL:

1. ESTABLISH CRITERIA FOR THE USE OF MONIES IN THE FUND.

2. ESTABLISH AND REVISE AS NECESSARY THE APPLICATION PROCESS FOR FINANCIAL ASSISTANCE.

3. REVIEW AND EVALUATE APPLICATIONS.

4. MAKE OTHER RECOMMENDATIONS AS NECESSARY.

D. THE MONIES IN THE FUND SHALL BE USED TO PROVIDE FINANCIAL ASSISTANCE TO FAMILY MEMBERS OF MILITARY PERSONNEL WHO WERE KILLED OR WOUNDED IN THE LINE OF DUTY, AND WHO WERE DEPLOYED FROM A MILITARY BASE IN THIS STATE OR WHO WERE MEMBERS OF THE ARIZONA ARMY OR AIR NATIONAL GUARD. THE ASSISTANCE TO FAMILY MEMBERS SHALL BE BASED ON FINANCIAL NEED. ELIGIBLE ASSISTANCE IS AS FOLLOWS:

1. WIDOWS AND WIDOWERS OF MILITARY PERSONNEL WHO WERE KILLED IN THE LINE OF DUTY MAY APPLY FOR A STIPEND FOR LIVING EXPENSES FOR UP TO SIX MONTHS AFTER THE TERMINATION OF MILITARY PAY AND DEATH BENEFITS. FOR THE PURPOSES OF THE STIPEND, QUALIFYING LIVING EXPENSES ARE RESIDENTIAL MORTGAGE, RENT AND UTILITY PAYMENTS AND OTHER BASIC LIVING EXPENSES.

2. SPOUSES AND MINOR CHILDREN OF MILITARY PERSONNEL WHO WERE WOUNDED IN THE LINE OF DUTY MAY APPLY FOR A STIPEND FOR LIVING EXPENSES FOR UP TO SIX

MONTHS NEAR A MILITARY OR VETERANS HOSPITAL OR REHABILITATION FACILITY WHERE THE PERSON IS BEING TREATED, INCLUDING TRAVEL AND HOUSING EXPENSES.

E. THE DIRECTOR MAY ALLOCATE UP TO FIVE PER CENT OF THE FUND BALANCE AT THE BEGINNING OF THE FISCAL YEAR FOR ADMINISTERING THE FUND AND THE FINANCIAL ASSISTANCE PROGRAM UNDER THIS SECTION.

F. THE DIRECTOR SHALL RECEIVE PRIVATE DONATIONS FOR DEPOSIT IN THE FUND AND ISSUE RECEIPTS TO THE DONORS. PRIVATE DONATIONS MAY QUALIFY FOR THE PURPOSES OF INCOME TAX CREDITS UNDER SECTION 43-1086. THE DIRECTOR MAY RECEIVE DONATIONS IN ANY AMOUNT, BUT DONATIONS TO THE FUND THAT EXCEED A COMBINED TOTAL OF ONE MILLION DOLLARS IN ANY CALENDAR YEAR, ON A FIRST COME FIRST SERVED BASIS, DO NOT QUALIFY FOR THE INCOME TAX CREDITS. THE DIRECTOR SHALL PROVIDE THE TAXPAYER A DONATION RECEIPT WHICH SHALL INCLUDE THE FULL NAME, ADDRESS AND THE LAST FOUR DIGITS OF THE TAXPAYER'S SOCIAL SECURITY NUMBER AND THE AMOUNT OF THE DONATION. THE DIRECTOR SHALL DESIGNATE ON THE DONATION RECEIPT WHETHER THE DONATION QUALIFIES UNDER THE LIMITS PRESCRIBED BY THIS SUBSECTION AND SECTION 43-1086. THE DIRECTOR SHALL SEND A COPY OF EACH RECEIPT THAT QUALIFIES FOR A DONATION TO THE DEPARTMENT OF REVENUE.

G. ON OR BEFORE MARCH 31 OF EACH YEAR, THE DIRECTOR SHALL PROVIDE FOR AN AUDIT BY AN INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT OF THE FUND AND OF THE AGGREGATE AMOUNT AUTHORIZED BY THE DIRECTOR FOR INCOME TAX CREDITS UNDER SUBSECTION F OF THIS SECTION. THE DIRECTOR SHALL PROMPTLY SUBMIT A CERTIFIED COPY OF THE AUDIT TO THE AUDITOR GENERAL. THE AUDITOR GENERAL MAY MAKE FURTHER AUDITS AND EXAMINATIONS AS NECESSARY AND MAY TAKE APPROPRIATE ACTION RELATING TO THE AUDIT OR EXAMINATION PURSUANT TO CHAPTER 7, ARTICLE 10.1 OF THIS TITLE. IF THE AUDITOR GENERAL DOES NOT TAKE FURTHER ACTION WITHIN THIRTY DAYS AFTER THE AUDIT IS FILED, THE AUDIT IS CONSIDERED TO BE SUFFICIENT. THE DIRECTOR SHALL PAY THE COSTS OF THE CERTIFIED PUBLIC ACCOUNTANT AND THE AUDITOR GENERAL FROM THE ADMINISTRATION ALLOCATION UNDER SUBSECTION E OF THIS SECTION.

Sec. 2. Section 42-13054, Arizona Revised Statutes, is amended to read:

42-13054. <u>Taxable value of personal property; depreciated values of personal property in class one and class two (P)</u>

A. The taxable value of personal property that is valued by the county assessor is the result of acquisition cost less any appropriate depreciation as prescribed by tables adopted by the department. The taxable value shall not exceed the market value.

B. Except as provided in subsection C of this section and notwithstanding any other statute, the assessor shall adjust the depreciation schedules prescribed by the department as follows to determine the valuation of PERSONAL PROPERTY:

1. FOR personal property that is initially classified during ~~or after~~ tax year 1994 THROUGH TAX YEAR 2007 as class one, paragraph 8, 9, 10 or 13 pursuant to section 42-12001 and personal property that is initially

classified during ~~or after~~ tax year 1995 THROUGH TAX YEAR 2007 as class two (P) pursuant to section 42-12002:

~~1.~~ (a) For the first tax year of assessment, the assessor shall use thirty-five per cent of the scheduled depreciated value.

~~2.~~ (b) For the second tax year of assessment, the assessor shall use fifty-one per cent of the scheduled depreciated value.

~~3.~~ (c) For the third tax year of assessment, the assessor shall use sixty-seven per cent of the scheduled depreciated value.

~~4.~~ (d) For the fourth tax year of assessment, the assessor shall use eighty-three per cent of the scheduled depreciated value.

~~5.~~ (e) For the fifth and subsequent tax years of assessment, the assessor shall use the scheduled depreciated value as prescribed in the department's guidelines.

2. FOR PERSONAL PROPERTY THAT IS INITIALLY CLASSIFIED DURING OR AFTER TAX YEAR 2008 AS CLASS ONE, PARAGRAPH 8, 9, 10 OR 13 PURSUANT TO SECTION 42-12001 AND AS CLASS TWO (P) PURSUANT TO SECTION 42-12002:

(a) FOR THE FIRST TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE THIRTY PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

(b) FOR THE SECOND TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE FORTY-SIX PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

(c) FOR THE THIRD TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE SIXTY-TWO PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

(d) FOR THE FOURTH TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE SEVENTY-EIGHT PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

(e) FOR THE FIFTH TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE NINETY-FOUR PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

(f) FOR THE SIXTH AND SUBSEQUENT TAX YEARS OF ASSESSMENT, THE ASSESSOR SHALL USE THE SCHEDULED DEPRECIATED VALUE AS PRESCRIBED IN THE DEPARTMENT'S GUIDELINES.

C. The additional depreciation prescribed in subsection B of this section:

1. Does not apply to any property valued by the department.

2. Shall not reduce the valuation below the minimum value prescribed by the department for property in use.

Sec. 3. Section 42-13353, Arizona Revised Statutes, is amended to read:

42-13353. <u>Depreciated values of personal property of manufacturers, assemblers and fabricators</u>

A. Except as provided in subsection ~~B~~ C ~~of this section~~ and notwithstanding any other statute, the department shall adjust depreciation schedules for use by the assessors to determine the valuation of personal property valued under this article that was or is initially assessed during ~~or after~~ tax year 1994 THROUGH TAX YEAR 2007 as follows:

1. For the first tax year of assessment, the assessor shall use thirty-five per cent of the scheduled depreciated value.

2. For the second tax year of assessment, the assessor shall use fifty-one per cent of the scheduled depreciated value.

3. For the third tax year of assessment, the assessor shall use sixty-seven per cent of the scheduled depreciated value.

4. For the fourth tax year of assessment, the assessor shall use eighty-three per cent of the scheduled depreciated value.

5. For the fifth and subsequent tax years of assessment, the assessor shall use the scheduled depreciated value as prescribed by the department's guidelines.

B. EXCEPT AS PROVIDED IN SUBSECTION C AND NOTWITHSTANDING ANY OTHER LAW, THE DEPARTMENT SHALL ADJUST DEPRECIATION SCHEDULES FOR USE BY THE ASSESSORS TO DETERMINE THE VALUATION OF PERSONAL PROPERTY VALUED UNDER THIS ARTICLE THAT WAS OR IS INITIALLY ASSESSED DURING OR AFTER TAX YEAR 2008 AS FOLLOWS:

1. FOR THE FIRST TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE THIRTY PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

2. FOR THE SECOND TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE FORTY-SIX PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

3. FOR THE THIRD TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE SIXTY-TWO PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

4. FOR THE FOURTH TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE SEVENTY-EIGHT PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

5. FOR THE FIFTH TAX YEAR OF ASSESSMENT, THE ASSESSOR SHALL USE NINETY-FOUR PER CENT OF THE SCHEDULED DEPRECIATED VALUE.

6. FOR THE SIXTH AND SUBSEQUENT TAX YEARS OF ASSESSMENT, THE ASSESSOR SHALL USE THE SCHEDULED DEPRECIATED VALUE AS PRESCRIBED IN THE DEPARTMENT'S GUIDELINES.

~~B.~~ C. The additional depreciation prescribed in subsection A ~~of this section~~ shall not reduce the valuation below the minimum value prescribed by the department for property in use.

Sec. 4. Section 42-15001, Arizona Revised Statutes, is amended to read:

42-15001. Assessed valuation of class one property

The assessed valuation of class one property described in section 42-12001 is the following percentage of its full cash value or limited valuation, as applicable:

1. Twenty-five per cent through December 31, 2005.

2. Twenty-four and one-half per cent beginning from and after December 31, 2005 through December 31, 2006.

3. Twenty-four per cent beginning from and after December 31, 2006 through December 31, 2007.

4. Twenty-three ~~and one-half~~ per cent beginning from and after December 31, 2007 through December 31, 2008.

5. ~~Twenty-three~~ TWENTY-TWO per cent beginning from and after December 31, 2008 through December 31, 2009.

6. ~~Twenty-two and one-half~~ TWENTY-ONE per cent beginning from and after December 31, 2009 through December 31, 2010.

7. ~~Twenty-two~~ TWENTY per cent beginning from and after December 31, 2010 ~~through December 31, 2011~~.

~~8. Twenty-one and one-half per cent beginning from and after December 31, 2011 through December 31, 2012.~~

~~9. Twenty-one per cent beginning from and after December 31, 2012 through December 31, 2013.~~

~~10. Twenty and one-half per cent beginning from and after December 31, 2013 through December 31, 2014.~~

~~11. Twenty per cent beginning from and after December 31, 2014.~~

Sec. 5. Section 42-15006, Arizona Revised Statutes, is amended to read:

42-15006. Assessed valuation of class six property

The assessed valuation of class six property described in section 42-12006 is based on the following percentages to the full cash value or limited valuation of class six property, as applicable:

1. Property described in section 42-12006, paragraphs 1, 2, 3, 5, 6 and 7, five per cent.

2. Property described in section 42-12006, paragraph 4:

(a) For primary property tax purposes, five per cent.

(b) Except as provided in subdivision (c), for secondary property tax purposes:

(i) Twenty-five per cent through December 31, 2006.

(ii) Twenty-four per cent beginning from and after December 31, 2006 through December 31, 2007.

(iii) Twenty-three ~~and one-half~~ per cent beginning from and after December 31, 2007 through December 31, 2008.

(iv) ~~Twenty-three~~ TWENTY-TWO per cent beginning from and after December 31, 2008 through December 31, 2009.

(v) ~~Twenty-two and one-half~~ TWENTY-ONE per cent beginning from and after December 31, 2009 through December 31, 2010.

(vi) ~~Twenty-two~~ TWENTY per cent beginning from and after December 31, 2010 ~~through December 31, 2011~~.

~~(vii) Twenty-one and one-half per cent beginning from and after December 31, 2011 through December 31, 2012.~~

~~(viii) Twenty-one per cent beginning from and after December 31, 2012 through December 31, 2013.~~

~~(ix) Twenty and one-half per cent beginning from and after December 31, 2013 through December 31, 2014.~~

~~(x) Twenty per cent beginning from and after December 31, 2014.~~

(c) If subdivision (b) is finally adjudicated to be invalid, for secondary property tax purposes, five per cent.

Sec. 6. Section 43-222, Arizona Revised Statutes, as amended by Laws 2007, chapter 225, section 4, is amended to read:

43-222. Income tax credit review schedule

Each year the joint legislative income tax credit review committee shall review the following income tax credits:

1. In 2007, sections 43-1077, 43-1078, 43-1079, 43-1080, 43-1165, 43-1166, 43-1167 and 43-1169.

2. In 2008, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and 43-1178.

3. In 2009, sections 43-1076, 43-1081.01, 43-1084, 43-1162 and 43-1170.01.

4. In 2010, sections 43-1075, 43-1075.01, 43-1079.01, 43-1087, 43-1088, 43-1090.01, 43-1163, 43-1163.01, 43-1167.01, 43-1175 and 43-1182.

5. In 2011, sections 43-1074.02, 43-1083, 43-1085, 43-1164 and 43-1183.

6. In 2012, sections 43-1073, 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1090, 43-1176 and 43-1181.

Sec. 7. Section 43-1021, Arizona Revised Statutes, is amended to read:

43-1021. Additions to Arizona gross income

In computing Arizona adjusted gross income, the following amounts shall be added to Arizona gross income:

1. A beneficiary's share of the fiduciary adjustment to the extent that the amount determined by section 43-1333 increases the beneficiary's Arizona gross income.

2. An amount equal to the "ordinary income portion" of a lump sum distribution that was excluded from federal adjusted gross income pursuant to section 402(d) of the internal revenue code.

3. The amount of interest income received on obligations of any state, territory or possession of the United States, or any political subdivision thereof, located outside the state of Arizona, reduced, for tax years beginning from and after December 31, 1996, by the amount of any interest on indebtedness and other related expenses that were incurred or continued to purchase or carry those obligations and that are not otherwise deducted or subtracted in arriving at Arizona gross income.

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

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

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

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

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

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

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

11. That portion of the net operating loss included in federal adjusted gross income which has already been taken as a net operating loss for Arizona purposes or which is separately taken as a subtraction under the special net operating loss transition rule.

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

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

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

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

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

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

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

19. The amount by which the adjusted basis computed under the internal revenue code with respect to property for which a credit was claimed under section 43-1074.02, 43-1081 or 43-1081.01 and which is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under section 43-1074.02, 43-1081 or 43-1081.01, as applicable.

20. The deduction referred to in section 1341(a)(4) of the internal revenue code for restoration of a substantial amount held under a claim of right.

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

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

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

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

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

26. The amount of any depreciation allowance allowed pursuant to section 167(a) of the internal revenue code to the extent not previously added.

27. With respect to property for which an expense deduction was taken pursuant to section 179 of the internal revenue code, the amount in excess of twenty-five thousand dollars.

28. The amount of any deductions that are claimed in computing federal adjusted gross income representing expenses for which a credit is claimed under section 43-1075.

29. The amount by which the depreciation or amortization computed under the internal revenue code with respect to property for which a credit was taken under section 43-1090.01 exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

30. The amount by which the adjusted basis computed under the internal revenue code with respect to property for which a credit was claimed under section 43-1090.01 and which is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under section 43-1090.01.

31. THE AMOUNT OF A NONQUALIFIED WITHDRAWAL, AS DEFINED IN SECTION 15-1871, FROM A COLLEGE SAVINGS PLAN ESTABLISHED PURSUANT TO SECTION 529 OF THE INTERNAL REVENUE CODE THAT IS MADE TO A DISTRIBUTEE TO THE EXTENT THE AMOUNT IS NOT INCLUDED IN COMPUTING FEDERAL ADJUSTED GROSS INCOME, EXCEPT THAT THE AMOUNT ADDED UNDER THIS PARAGRAPH SHALL NOT EXCEED THE DIFFERENCE BETWEEN THE AMOUNT SUBTRACTED UNDER SECTION 43-1022 IN PRIOR TAXABLE YEARS AND THE AMOUNT ADDED UNDER SECTION 43-1021 IN ANY PRIOR TAXABLE YEARS.

Sec. 8. Section 43-1022, Arizona Revised Statutes, is amended to read:

43-1022. Subtractions from Arizona gross income

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

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

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

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

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

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

4. The amount of any distributions from an individual retirement account as provided for in section 408 of the internal revenue code or from a qualified retirement plan of a self-employed individual as provided for in section 401 of the internal revenue code to the extent that total adjustments made pursuant to this paragraph in all tax years do not exceed the total of

all contributions made by the taxpayer to such plans prior to December 31, 1975, which were included in computing Arizona taxable income.

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

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

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

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

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

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

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

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

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

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

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

16. The amount of prizes or winnings less than five thousand dollars in a single taxable year from any of the state lotteries established and

1 operated pursuant to title 5, chapter 5, article 1, except that all such
2 winnings before March 22, 1983, including periodic distributions from such
3 winnings made after March 22, 1983, may be subtracted.
4 17. The amount of exploration expenses that is determined pursuant to
5 section 617 of the internal revenue code, that has been deferred in a taxable
6 year ending before January 1, 1990 and for which a subtraction has not
7 previously been made. The subtraction shall be made on a ratable basis as
8 the units of produced ores or minerals discovered or explored as a result of
9 this exploration are sold.
10 18. The amount included in federal adjusted gross income pursuant to
11 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 the internal revenue code, compensation received for active service as a
15 member of the reserves, THE national guard or the armed forces of the United
16 States, including compensation for service in a combat zone as determined
17 under section 112 of the internal revenue code.
18 20. The amount of unreimbursed medical and hospital costs, adoption
19 counseling, legal and agency fees and other nonrecurring costs of adoption
20 not to exceed three thousand dollars. In the case of a husband and wife who
21 file separate returns, the subtraction may be taken by either taxpayer or may
22 be divided between them, but the total subtractions allowed both husband and
23 wife shall not exceed three thousand dollars. The subtraction under this
24 paragraph may be taken for the costs that are described in this paragraph and
25 that are incurred in prior years, but the subtraction may be taken only in
26 the year during which the final adoption order is granted.
27 21. The amount authorized by section 43-1027 for the taxable year
28 relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.
29 22. With respect to a medical savings account established pursuant to
30 section 43-1028:
31 (a) An eligible individual may subtract:
32 (i) The amount of contributions made by the individual's employer
33 during the taxable year to the individual's medical savings account pursuant
34 to section 43-1028 to the extent that the employer contributions are included
35 in the individual's federal adjusted gross income.
36 (ii) The amount deposited by the individual in the account during the
37 taxable year to the extent that the individual's contributions are included
38 in the individual's federal adjusted gross income.
39 (b) The individual's employer may subtract the amount of contributions
40 made by the employer to a medical savings account established on the
41 individual's behalf to the extent that the contributions are not deductible
42 under the internal revenue code.
43 23. The amount by which a net operating loss carryover or capital loss
44 carryover allowable pursuant to section 43-1029, subsection F exceeds the net

operating loss carryover or capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code.

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

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

26. The amount authorized by section 43-1030 relating to holocaust survivors.

27. The amount authorized by section 43-1031 for constructing an energy efficient residence.

28. An amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year computed as if the election described in section 168(k)(2)(D)(iii) of the internal revenue code had been made for each applicable class of property in the year the property was placed in service.

29. With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer that complied with section 43-1021, paragraph 26 with respect to that property, the amount of depreciation that has been allowed pursuant to section 167(a) of the internal revenue code to the extent that the amount has not already reduced Arizona taxable income in the current or prior taxable years.

30. With respect to property for which an adjustment was made under section 43-1021, paragraph 27, an amount equal to one-fifth of the amount of the adjustment pursuant to section 43-1021, paragraph 27 in the year in which the amount was adjusted under section 43-1021, paragraph 27 and in each of the following four years.

31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2007 THROUGH DECEMBER 31, 2012, THE AMOUNT CONTRIBUTED DURING THE TAXABLE YEAR TO COLLEGE SAVINGS PLANS ESTABLISHED PURSUANT TO SECTION 529 OF THE INTERNAL REVENUE CODE TO THE EXTENT THAT THE CONTRIBUTIONS WERE NOT DEDUCTED IN COMPUTING FEDERAL ADJUSTED GROSS INCOME. THE AMOUNT SUBTRACTED SHALL NOT EXCEED:

(a) SEVEN HUNDRED FIFTY DOLLARS FOR A SINGLE INDIVIDUAL OR A HEAD OF HOUSEHOLD.

(b) ONE THOUSAND FIVE HUNDRED DOLLARS FOR A MARRIED COUPLE FILING A JOINT RETURN. IN THE CASE OF A HUSBAND AND WIFE WHO FILE SEPARATE RETURNS, THE SUBTRACTION MAY BE TAKEN BY EITHER TAXPAYER OR MAY BE DIVIDED BETWEEN THEM, BUT THE TOTAL SUBTRACTIONS ALLOWED BOTH HUSBAND AND WIFE SHALL NOT EXCEED ONE THOUSAND FIVE HUNDRED DOLLARS.

Sec. 9. Title 43, chapter 10, article 5, Arizona Revised Statutes, is amended by adding section 43-1086, to read:

43-1086. Credit for donation to the military family relief fund

FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2007 THROUGH DECEMBER 31, 2012, A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR CASH CONTRIBUTIONS MADE BY A TAXPAYER DURING THE TAXABLE YEAR TO THE MILITARY FAMILY RELIEF FUND ESTABLISHED BY SECTION 41-608.04. THE AMOUNT OF THE CREDIT IS THE LOWEST OF THE FOLLOWING AMOUNTS, AS APPLICABLE:

1. THE TOTAL AMOUNT OF CONTRIBUTIONS TO THE FUND BY THE TAXPAYER DURING THE TAXABLE YEAR.

2. TWO HUNDRED DOLLARS OF CONTRIBUTIONS DURING THE TAXABLE YEAR BY A TAXPAYER FILING AS A SINGLE INDIVIDUAL OR A HEAD OF HOUSEHOLD.

3. FOUR HUNDRED DOLLARS OF CONTRIBUTIONS DURING THE TAXABLE YEAR BY A MARRIED COUPLE FILING A JOINT RETURN.

4. A HUSBAND AND WIFE WHO FILE SEPARATE RETURNS FOR A TAXABLE YEAR IN WHICH THEY COULD HAVE FILED A JOINT RETURN MAY EACH CLAIM ONLY ONE-HALF OF THE TAX CREDIT THAT WOULD HAVE BEEN ALLOWED ON A JOINT RETURN.

5. THE TAXPAYER'S TAX LIABILITY FOR THE TAXABLE YEAR.

Sec. 10. Delayed repeal

A. Section 41-608.04, Arizona Revised Statutes, as added by this act, is repealed from and after December 31, 2013.

B. Section 43-1086, Arizona Revised Statutes, as added by this act, is repealed from and after December 31, 2012.

Sec. 11. Transaction privilege tax exemption; 2009 NBA All-Star game events

Notwithstanding section 42-5073, Arizona Revised Statutes, the transaction privilege tax amusement classification does not include sales of admissions to the 2009 national basketball association all-star game and admissions to other related official activities and events sponsored by the national basketball association.

Sec. 12. Delayed repeal

Section 11 of this act, relating to transaction privilege tax exemption for the 2009 national basketball association all-star game and related events, is repealed from and after December 31, 2009.

Sec. 13. Purpose

Pursuant to section 43-223, Arizona Revised Statutes, the purpose of the income tax credit for contributions to the military family relief fund under section 43-1086, Arizona Revised Statutes, as added by this act, is to encourage contributions for the compassionate relief of military widows, widowers, spouses and minor children of military personnel in this state who were killed or wounded in the line of duty.

Sec. 14. Appropriation; military family relief fund; exemption

A. The sum of $100,000 is appropriated from the state general fund in fiscal year 2007-2008 to the military family relief fund established by section 41-608.04, Arizona Revised Statutes, as added by this act. The

appropriation shall only be used for costs associated with administering the fund and financial assistance program and shall not be used to provide financial assistance.

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

Sec. 15. Conditional enactment

Section 11 of this act, relating to transaction privilege tax exemption for the 2009 national basketball association all-star game and related events, is not effective unless the city of Phoenix both:

1. Issues letters of commitment to the national basketball association to host its 2009 all-star game.

2. Provides for exempting the sales of admission to the 2009 national basketball association all-star game and related events from its municipal transaction privilege tax.

APPROVED BY THE GOVERNOR JUNE 25, 2007.

FILED IN THE OFFICE OF THE SECRETARY OF STATE JUNE 25, 2007.