



ARIZONA STATE SENATE
Fifty-Fifth Legislature, First Regular Session

FACT SHEET FOR S.B. 1124

contributions in aid of construction

Purpose

Allows a public service corporation operating a water system or sewage disposal facility to subtract the amount of monies or property received as a contribution in aid of construction when computing Arizona taxable income.

Background

For corporations, Arizona gross income is the same as federal taxable income for the taxable year. To determine a corporation's Arizona taxable income, the Arizona gross income is statutorily adjusted by additions and subtractions of certain expenses and income (A.R.S. §§ [43-1101](#); [43-1121](#); and [43-1122](#)).

Federal law currently requires any contributions in the aid of construction to be included in corporate gross income ([26 U.S.C. § 118](#)). Prior to 2017, federal law allowed any amount of monies or property received from any person by a regulated public utility which provides water or sewage disposal services that was a contribution in aid of construction to be subtracted from corporate gross income ([P.L. 104-118 § 1613](#)). In 2017, the Tax Cuts and Jobs Act repealed the special rule for water and sewage disposal utilities ([P.L. 115-97 § 13312](#)).

A *public service corporation* includes all non-municipal corporations that: 1) furnish gas, oil or electricity for light, fuel or power; 2) furnish water for irrigation, fire protection or other public purposes; 3) furnish hot or cold air or steam for heating or cooling purposes; 4) collect, transport, treat, purify and dispose of sewage through a system, for profit; 5) transmit messages or furnish public telegraph or telephone service; and 6) operate as common carriers ([Ariz. Const. Art. 15 § 2](#)).

There may be a fiscal impact to the state General Fund by allowing public service corporations operating a water system or sewage disposal facility to subtract contributions in aid of construction when computing Arizona taxable income and not conforming with federal changes to contributions in aid of construction for water system and sewage disposal utilities.

Provisions

1. Requires, when computing Arizona taxable income for a public service corporation operating a water system or sewage disposal facility, the amount of monies or property received as a contribution in aid of construction to be subtracted from Arizona gross income.

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2. Defines *contribution in aid of construction* and *public service corporation*.
3. Becomes effective on the general effective date, retroactive to the taxable year beginning January 1, 2021.

Prepared by Senate Research

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