

BILL # SB 1067

TITLE: income tax exemption; military personnel

SPONSOR: Harper

STATUS: As Amended by Senate Finance

REQUESTED BY: Senate

PREPARED BY: Brian Schmitz

FISCAL ANALYSIS

Description

This bill, as amended, would provide an individual income tax exemption for military income earned by members of the regular armed forces, beginning with tax year 2005.

Estimated Impact

The bill would become effective halfway through FY 2005 and would reduce General Fund revenues in that year by an estimated \$(5.8) million. In FY 2006 and beyond, the bill would cost \$(11.6) million annually.

The Department of Revenue (DOR) does not have a cost estimate for this proposal.

Analysis

Under current law, members of the armed forces must pay Arizona income taxes if they are legal residents of this state, whether or not they are actually stationed here. For military personnel, legal residency is established by voter registration, vehicle registration, or other similar identifiers. This bill would exempt the military income of active members of the United States' armed forces from the state income tax, starting on January 1, 2005. The bill defines members of the armed forces to include all regular components of the uniformed services, but not including the reserves or National Guard.

DOR does not have data on the amount of income taxes paid by active duty military personnel. However, we were able to obtain the number of active duty military personnel who claim Arizona as their state of legal residence, as well as their total taxable wages, from the Military Family Resource Center, of the U.S. Department of Defense. As of December 2003, there were a total of 20,116 Arizonans in the active duty armed forces, earning a total income of \$382,197,599. Their average income is \$19,000. At this income level, an individual's income tax payment to the state would be \$575. This figure represents an average tax rate of approximately 3.0%, which is lower than the 3.5% average tax rate used by the JLBC Staff in some other analyses, since the average wage of military personnel is less than the average wage earned by Arizona taxpayers. Multiplying the average tax bill of \$575 by 20,116 (the number of active duty military personnel that pay state income taxes) produces total Arizona income tax receipts of \$11,566,700.

Since the tax exemption would not become effective until halfway through FY 2005, General Fund revenues would be reduced under this bill by \$(5,783,400) in FY 2005. In FY 2006 and in subsequent years, the cost to the General Fund would be \$(11,566,700).

Local Government Impact

Income tax collections are shared with Arizona cities through the Urban Revenue Sharing program, whereby the state distributes 15% of income tax revenues from two years prior to the cities. This bill would reduce the amount shared with the cities by \$(867,500) in FY 2007 and by \$(1,735,000) in subsequent fiscal years.