

BILL # HB 2519

TITLE: itemized deductions; charitable contributions

SPONSOR: Landrum-Taylor

STATUS: As Introduced

REQUESTED BY: House

PREPARED BY: Tim Everill

FISCAL ANALYSIS

Description

The bill allows an individual income taxpayer to include contributions made to charitable organizations between January 1 and April 15 in their federal deductions for the previous taxable year. The contribution could then not be claimed again the following year.

Estimated Impact

This bill could result in a one-time shift beginning in FY 2006 by allowing charitable contributions made between January 1, 2006 and April 15, 2006 to be added to the amount of contributions made during tax year 2005. This could result in a one-time reduction of individual income tax revenue in FY 2006. The dollar magnitude of the shift cannot be determined in advance. However, a 5% shift would cost approximately \$4 million.

The Department of Revenue does not have a cost estimate for this bill.

Analysis

Based on Internal Revenue Service data for tax year 2002 (the latest available data), there were approximately \$2.3 billion in charitable contributions made in Arizona on itemized individual income tax returns. Based on Department of Revenue data, the effective individual income tax rate in Arizona is 3.57%. This would mean that the total annual cost to the state of the deductions made to charitable organizations in FY 2003 would have been approximately \$82 million.

It is not possible to determine what percentage of charitable contributions is made in a specific portion of the tax year, such as the first quarter. Nor is possible to determine to what extent this legislation would influence taxpayer behavior by encouraging the taxpayer to make a contribution during the January 1 to April 15 timeframe. However, as noted above, to the extent that charitable contributions were made during that period, the loss to the state from the allowable deductions would be shifted from the next fiscal year to the current fiscal year.

Local Government Impact

Incorporated cities and towns receive 15% of individual and corporate income taxes as urban revenue sharing. Accounting for the two year lag in the distribution of urban revenue sharing, this bill could have an undetermined impact on local government beginning in FY 2008. A 5% shift would result in a one-time revenue loss of \$600,000.

2/8/05