

BILL # SB 1523

TITLE: income tax; investment partnerships;
nonresidents

SPONSOR: Huppenthal

STATUS: As Introduced

PREPARED BY: Hans Olofsson

FISCAL ANALYSIS

Description

This bill exempts income derived by a nonresident partner in an investment partnership from Arizona income tax. The bill defines “investment partnership” as a pass-through entity that holds income-producing investments that would not be taxable to a nonresident if owned individually.

Estimated Impact

This bill could result in a direct state income tax revenue loss but the magnitude cannot be determined in advance. SB 1523 may also spur increased economic activity in the form of new jobs and investments, which would serve to offset some of the direct revenue losses under the bill. This amount cannot be determined in advance.

The Department of Revenue (DOR) did not provide a fiscal impact estimate for SB 1523.

Analysis

According to a managing member of an investment partnership located in Arizona, such partnerships are often formed for the purpose of receiving private equity for investment consistent with a specific, designated investment strategy, such as those held by a hedge fund. The same industry representative believes that there are a small number of investment partnerships currently operating in Arizona. However, the volume of activity by investment partnerships in Arizona cannot be independently verified since neither the Corporation Commission nor the Secretary of State separately accounts for such pass-through entities.

According to DOR’s interpretation of SB 1523, there is no provision in the bill that specifically limits investment partnerships to investments in intangible assets, such as stocks, bonds, futures, and options. For this reason, DOR believes that the bill, as currently written, could be construed to include any property held for investment purposes, including real property. If this interpretation is correct, the bill could potentially affect a significantly larger number of partnerships than suggested above.

Local Government Impact

Each year, incorporated cities and towns receive 15% of income tax collections from 2 years prior. If this bill reduces individual income tax collections in FY 2008, then the corresponding distributions to local government will be reduced by 15% beginning in FY 2010.

2/21/07