ARIZONA HOUSE OF REPRESENTATIVES
Fifty-first Legislature – First Regular Session

COMMITTEE ON WAYS AND MEANS

Minutes of Meeting
Monday, February 25, 2013
House Hearing Room 1 -- 2:00 p.m.

Chairman Lesko called the meeting to order at 3:11 p.m. and roll call was taken by the secretary.

Members Present

Mr. Cardenas
Mr. Gallego
Mr. Mesnard
Mr. Olson
Mr. Petersen
Mr. Wheeler
Mr. Kwasman, Vice-Chairman
Mrs. Lesko, Chairman

Members Absent

None

Committee Action

SB1172 - DP (6-2-0-0)

SB1168 - DPA (6-1-0-1)

CONSIDERATION OF BILLS

SB1172 - qualifying charitable credit; itemizing deductions - DO PASS

Casey Baird, House Majority Intern, explained that SB1172 removes the requirement that taxpayers must itemize yearly deductions on their tax forms in order to receive the Working Poor Tax Credit and to claim credit for contributions made to a qualifying charitable organization. The credit can be claimed for up to $200 for individuals and $400 for married couples filing jointly. The Joint Legislative Budget Committee (JLBC) estimates a reduction in individual income tax revenue of $18 million beginning in fiscal year 2014; however, the impact would depend on the behavioral responses of taxpayers to the proposed changes to the credit (Attachment 1).

Senator Steve Yarbrough, sponsor, explained that 14 years ago the Legislature enacted a Working Poor Tax Credit. It was a complicated and a difficult credit to take advantage of but it was later reformed and became a charitable tax credit. To receive that credit, taxpayers needed to itemize their tax returns. SB1172 removes that requirement and allows the 501(c)(3) organizations, which help our community more efficiently than government, make the dollars go further due to the private charity factor. Arizona Department of Revenue (DOR) predicts $4.5 million to $19 million could come out of the General Fund based on utilization.

Mr. Sean Laux, Legislative Liaison, Department of Revenue (DOR), neutral on SB1172, reaffirmed the projected figure of up to $19 million depending on taxpayers' action. He responded to Mr. Petersen's question on the percentages of taxpayers that file stating that 55 percent of taxpayers use the standard deduction and 45 percent itemize on their returns.

Discussion ensued as to the qualifications of charities, which is heeded by DOR, and how SB1172 creates an opportunity for all taxpayers to give to private charities and avoid the issues of government and religious components.

Ron Johnson, Executive Director, Arizona Catholic Conference, spoke in favor of SB1172 stating that this gives those who do not itemize the benefit of giving.

Steve Zabilski, representing self, spoke about the mission of St. Vincent de Paul and the organization's services which come from financial and volunteer support from individuals, not government. The organization serves 3,000 meals a day, 365 days a year to the homeless and the working poor. He spoke about the homeless shelters, utility assistance, prepared food boxes, and all the opportunities that are provided because of the charity of people. Mr. Zabilski asked for Members' support of SB1172.

Vice-Chairman Kwasman announced the names of those who signed up in support of SB1172 but did not speak:
Patrick McWhortor, President and CEO, Alliance of Arizona Nonprofits
Penny Allee Taylor, Government Affairs Specialist, Valley of the Sun United Way
Gretchen Conger, Director of Government Relations, Arizona Chamber of Commerce and Industry
Walter F. Dudley, Accountant, Arizona Society of Practicing Accountants
Joan Serviss, Executive Director, Arizona Coalition to End Homelessness
Josh Kredit, Legislative Counsel, Center for Arizona Policy

Vice-Chairman Kwasman announced the names of those who signed up as neutral on SB1172 but did not speak:
Leonard Clark, representing self

Vice-Chairman Kwasman moved that SB1172 do pass. The motion carried by a roll call vote of 6-2-0-0 (Attachment 2).

SB1168 - internal revenue code conformity - DO PASS AMENDED

Stephanie Jaffa, Majority Research Analyst, explained that each year the Legislature considers whether to amend statute to conform to changes made to the Internal Revenue Code (IRC) in the prior year and updates the statutory definition of *IRC* to include federal provisions that became effective in the previous year. This conformity is necessary because Arizona requires taxpayers to use federal adjusted gross income as the starting point for state income tax assessment. SB1168 updates the definition of *Internal Revenue Code* to include all IRC provisions that were in effect as of January 3, 2013. Included in the updated definition are the provisions of the Federal Aviation Administration (FAA) Modernization and Reform Act, the Moving Ahead for Progress in the 21st Century Act, and the American Taxpayer Relief Act of 2012. The bill also

establishes a tax credit for taxable year 2013 in lieu of conforming to the retroactive provision of the FAA Modernization and Reform Act (Attachment 3).

Ms. Jaffa explained the Lesko four-line amendment to SB1168 dated 2/22/13 makes a technical change to apply retroactive provisions of the American Taxpayer Relief Act of 2012 to taxable years beginning in 2011 (Attachment 4).

Senator Steve Yarbrough, sponsor, explained that SB1168 will conform Arizona's tax code to the federal tax code which currently uses the adjusted gross income from the federal return.

Sean Laux, Legislative Liaison, Department of Revenue, spoke in support of SB1168 and explained the FAA Modernization and Reform Act. The federal government passed a law which allowed employees of bankrupt airlines to take out contributions from their IRAs, based on their pay over a certain number of years, and exempted them from paying the tax. Those taxpayers amended their federal tax returns which then affected their Arizona returns. It went back so far, Arizona's current system was unable to process those returns so a tax credit was created. SB1168 will enable them to claim all of the credit on their 2013 tax returns and not have to amend previous tax returns.

Discussion ensued as to conforming to federal government laws, the fiscal impact, which is unknown until the credits are claimed, and time limitations on refunds.

Vice-Chairman Kwasman announced the names of those who signed up in support of SB1168 but did not speak:
Ryan DeMenna, Senior Associate, Arizona Society of Certified Pubic Accountants
Heather Bernacki Wilkey, Director, Government Affairs, East Valley Chambers of Commerce Alliance
Walter F. Dudley, Accountant, Arizona Society of Practicing Accountants
Tom Dorn, Lobbyist, East Valley Chambers of Commerce Alliance
Kevin B. DeMenna, Arizona Society of Arizona Society of Certified Pubic Accountants

Vice-Chairman Kwasman announced the names of those who signed up as neutral on SB1168 but did not speak:
Leonard Clark, representing self

Vice-Chairman Kwasman moved that SB1168 do pass.

Chairman Lesko moved that the Lesko four-line amendment to SB1168 dated 2/22/13 (Attachment 4) be adopted. The motion carried.

Vice-Chairman Kwasman moved that SB1168 as amended do pass. The motion carried by a roll call vote of 6-1-0-1 (Attachment 5).

Without objection, the meeting adjourned at 3:47 p.m.

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Tracey Gardner, Committee Secretary
May 7, 2013

(Original minutes, attachments and audio on file in the Office of the Chief Clerk; video archives available at http://www.azleg.gov)