

Fiscal Note

BILL # HB 2347

TITLE: earned income; tax credit

SPONSOR: Hernandez D

STATUS: As Introduced

PREPARED BY: Benjamin Newcomb

Description

The bill would establish a state Earned Income Tax Credit (EITC) that can be claimed by those who qualify for the federal EITC. The amount of credit that can be claimed under the proposed state EITC would be 50% of the federal credit. This credit, which is refundable, would become effective January 1, 2022.

Estimated Impact

Based on the most recent data available from the Internal Revenue Service (IRS), which is for Tax Year (TY) 2018, we estimate that creating a state EITC would reduce state income tax collections by an estimated \$(740) million, beginning in FY 2023.

Analysis

The federal EITC varies between \$538 and \$6,660 depending on income level and family size. Therefore, under the state EITC program proposed by the bill, the credit would vary between \$269 and \$3,330. Data from the IRS contains information regarding the number of filers and amount of federal EITC claimed by Arizona residents. According to this information, a total of 576,720 filers claimed the federal credit in TY 2018, for a total amount of \$1.5 billion. Since the state credit under the proposal is 50% of the federal credit, the revenue impact would be an estimated \$(740) million, beginning in FY 2023.

Since our estimate is based on TY 2018 data but the state EITC program would not become effective until TY 2022, the actual revenue loss could be somewhat higher or lower depending on several factors, such as changes to the federal EITC program, program participation, or income growth.

Local Government Impact

Each year, incorporated cities and towns receive 15% of income tax collections from 2 years prior from the Urban Revenue Sharing Fund (URSF) established by A.R.S. § 43-206. Therefore, the proposal would decrease URSF distributions to cities and towns by \$(111) million, beginning in FY 2025.

1/20/21