

Fiscal Note

BILL # SB 1252

TITLE: corporate income tax; phase-out

SPONSOR: Petersen

STATUS: As Introduced

PREPARED BY: David Hoffer

Description

The bill reduces the corporate income tax (CIT) rate by 0.49% per year, from 4.9% in Tax Year (TY) 2021 to 0% in TY 2031. The bill would begin the reduction in TY 2022, reducing the tax rate for that year from the current 4.9% to 4.41%. As under current law, each corporation would be required to pay at least \$50 annually in corporate income tax.

Estimated Impact

The JLBC Staff estimates that the bill would result in a General Fund revenue loss of \$(56.0) million in FY 2023 and then gradually increase to \$(1.0) billion in FY 2032 when fully phased in.

Analysis

Our estimate of the bill's revenue impact is based on the JLBC Staff's January Baseline forecast through FY 2024 and the University of Arizona's most recently updated revenue CIT forecast from FY 2025 through FY 2030. The revenue impact in FY 2031 and FY 2032 is based on the long-run average CIT growth rate. The state will continue to receive CIT revenue even with a tax rate of 0% due to a minimum \$50 tax. Because of a lack of tax information, the JLBC Staff cannot determine which corporate filers would be paying the \$50 tax. However, when the bill is fully phased in, the state would continue to collect an estimated \$2.5 million per year. This estimate assumes that there will be 50,000 corporate tax filers paying the \$50 minimum tax in FY 2032.

The estimated impact on the General Fund is listed in *Table 1* below.

Year	SB 1252 Tax Rate	Revenue Impact
FY 2023	4.41%	(\$56.0)
FY 2024	3.92%	(\$117.3)
FY 2025	3.43%	(\$197.8)
FY 2026	2.94%	(\$293.0)
FY 2027	2.45%	(\$402.9)
FY 2028	1.96%	(\$524.7)
FY 2029	1.47%	(\$646.5)
FY 2030	0.98%	(\$770.9)
FY 2031	0.49%	(\$886.4)
FY 2032	0%	(\$1,004.0)

The estimated General Fund revenue impact does not reflect the potential behavioral response of taxpayers to the changes under the bill. For example, all else equal, a reduction of corporate income taxes can serve as an incentive for businesses to employ more capital and labor and to invest more than they would otherwise. Such "dynamic" effects may result in an increase in economic output, which in turn may generate more tax revenue dollars for the state General Fund than what a "static" analysis assumes.

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Local Government Impact

Incorporated cities and towns receive 15% of the individual income tax and corporate income tax from the two years prior from the Urban Revenue Sharing Fund (URSF) established by A.R.S § 43-206. URSF distributions to cities and towns would decrease by \$(8.4) million in FY 2025 and increase to \$(150.6) million by FY 2034.

2/9/21