

Fiscal Note

BILL # SB 1252

SPONSOR: Petersen

PREPARED BY: David Hoffer

TITLE: corporate income tax; phase-out S/E: corporate income tax; subtraction

STATUS: As Amended by Senate FIN

Description

This bill allows corporations to deduct the first \$100,000 of income from their Arizona gross income, beginning in Tax Year (TY) 2022.

Estimated Impact

Based on the most recent corporate income tax filing-data provided by the Department of Revenue (DOR), we estimate that the bill would result in a General Fund revenue loss of \$(32.2) million, beginning in FY 2023. Due to certain data limitations discussed below, this estimate is uncertain.

Analysis

Aggregate data provided by DOR shows that 40,900 corporate filers in Arizona (90.4% of all filers) had less than \$100,000 in taxable income in TY 2016, the last year for which such information is available. The remaining 9.6% of corporate filers had taxable income above \$100,000. Based on this information, we estimate that 90.4% of corporate filers would pay only the minimum tax of \$50 under the bill. The remaining 9.6% of corporate filers would pay the corporate tax rate of 4.9% on Arizona gross income above \$100,000, which would reduce General Fund revenue by \$(32.2) million, beginning in FY 2023. This estimate is uncertain, however since it is based on data that is several years old (TY 2016) and not sufficiently detailed to accurately calculate the impact of the \$100,000 exemption under the bill.

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.

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 \$(4.8) million beginning in FY 2025.

2/23/21