

Fiscal Note

BILL # SB 1397

TITLE: internal revenue code; conformity

SPONSOR: Livingston

STATUS: As Introduced

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Description

SB 1397 would conform Arizona tax statutes to the Internal Revenue Code as of January 1, 2021, to reflect changes from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Consolidated Appropriations Act, 2021 (CAA) adopted by the U.S. Congress.

Estimated Impact

We estimate that conforming to the changes made in the CARES Act and CAA would reduce General Fund income tax collections one-time by \$(594.8) million over the next several years.

Conformity estimates by federal tax provision are displayed in *Table 1* on the following page.

Analysis

Table 1 summarizes the state revenue impact of conformity for CARES Act and CAA provisions. The JLBC Staff derived the \$566.9 million estimate for the CARES Act provisions by prorating the nationwide Joint Committee on Taxation (JCT) information.

DOR estimates that the cost of conforming to the CARES Act provisions is \$(547.7) million. DOR has not released information about the methodology used to reach this figure.

Table 1 also reflects the JLBC and DOR estimates of \$27.9 million for the CAA provisions.

Local Government Impact

Each year, incorporated cities and towns receive 15% of state income tax collections from 2 years prior. For this reason, SB 1397 would decrease local government distributions one-time by \$(89.2) million 2 years after the General Fund impact.

(Continued)

Table 1

State Revenue Impact under Conformity

	<u>Tax Type</u> ^{1/}	<u>Effective</u>	<u>\$ in Millions</u>
<u>CARES Act Provisions</u>			
(1) Remove 80% limit on NOLs/Allow TY 18-20 5 year carryback	IIT	1/1/18 - 12/31/20	(134.7)
(2) Remove \$250k/\$500k limit on losses by pass-through businesses	IIT	1/1/18 - 12/31/20	(371.3)
<u>All Other Provisions:</u>			
(3) Special rules for use of retirement funds	IIT	1/1/20 - 12/31/20	(5.2)
(4) Temporary waiver of required minimum distribution rules for certain retirement plans	IIT	1/1/20 - 12/31/20	(31.5)
(5) Allowance of partial above-the-line deduction for charitable contributions	IIT	1/1/20 - 12/31/20	(4.2)
(6) Modification of limitations on charitable contributions during 2020	IIT/CIT	1/1/20 - 12/31/20	(13.0)
(7) Exclusion from income of certain employer payments of student loans	IIT	3/27/20 - 12/31/20	(1.2)
(8) Modification of limitation on business interest	IIT/CIT	1/1/19 - 12/31/20	(18.4)
(9) Single-employer plan delay in contribution	IIT/CIT	1/1/20 - 12/31/20	14.3
(10) Exemption for telehealth services from certain high-deductible health plan rules	IIT	3/27/20	(0.2)
(11) Inclusion of certain over-the-counter medical products as qualified medical expenses	IIT	1/1/20	(1.5)
<u>All Other Provisions Subtotal</u>			(60.9)
<u>CARES Act Subtotal</u>			(566.9)
<u>CAA Provisions</u>			
(1) Application of special rules to money purchase pension plans	IIT	3/27/20-12/30/20	(0.3)
(2) Extension of exclusion for certain employer payments of student loans	IIT	1/1/21-12/31/25	(2.6)
(3) Depreciation of certain residential rental property over 30-year period	IIT/CIT	1/1/18	(4.4)
(4) Temporary allowance of full deduction for business meals	IIT/CIT	1/1/2021-12/31/22	(14.0)
(5) Extension of temporary modification of limitations on charitable contributions	IIT/CIT	1/1/21-12/31/21	(6.6)
<u>CAA Subtotal</u>			(27.9)
<u>CARES Act and CAA Total State Revenue Impact</u>			(594.8)

1/ IIT means individual income tax. CIT means corporate income tax.