

# Fiscal Note

**BILL #** HB 2166

**TITLE:** TPT; use tax; exemption; firearms

**SPONSOR:** Kaiser

**STATUS:** House Engrossed

**PREPARED BY:** Molly Murphy

## Description

The bill would exempt firearms, ammunition, and firearm safety equipment from the Transaction Privilege Tax (TPT). The bill is effective from January 1, 2023.

## Estimated Impact

We estimate that the bill would result in a total General Fund revenue reduction of \$(3.9) million in FY 2023, of which \$(3.7) million is for the firearms and ammunition TPT exemption and \$(240,000) is for the firearm safety equipment TPT exemption.

The first full-year impact begins in FY 2024, with an estimated total General Fund revenue loss of \$(9.4) million, of which \$(8.8) million is for the firearms and ammunition TPT exemption and \$(570,000) is for the firearm safety equipment TPT exemption.

The estimates above are uncertain as they are based on limited data from several sources, as described in the *Analysis* section below.

The Arizona Department of Revenue (DOR) estimates that the firearm and ammunition TPT exemption would result in a General Fund reduction of \$(34.7) million in FY 2023, \$(36.6) million in FY 2024, and \$(38.7) million in FY 2025. DOR's FY 2023 estimate assumes that the exemption would be effective for all of FY 2023. As noted above, however, the bill does not go into effect until January 1, 2023, thereby limiting the FY 2023 impact to only the second half of the fiscal year. DOR has not to date provided the details with respect to the methodological assumptions used to derive their estimate.

## Analysis

### Firearms and Ammunition Exemption

The federal government levies a 10% excise tax on handguns and an 11% excise tax on all other firearm and ammunition sales. This excise tax is levied on the wholesale price when the "manufacturer, producer or importer sells or uses the firearms or ammunition." In FY 2020, the Bureau of Alcohol, Tobacco and Firearms reports that both excise taxes generated a combined \$665.3 million of revenue nationwide.

Assuming an average tax rate of 10.5%, this excise tax data suggests that the total dollar value of wholesale firearm and ammunition transactions nationwide is approximately \$6.34 billion. If this wholesale amount is adjusted upward by 25% to reflect retail pricing (which would be the tax basis for TPT), that would translate into \$7.92 billion of retail transactions nationwide.

According to the 2020 Census, Arizona represents 2.1% of the United States population. However, due to Arizona's higher-than-average per capita gun ownership, we assume that Arizona represents 3% of all firearm and ammunition sales in the United States. Therefore, we estimate that in FY 2020, there was approximately \$238 million in firearm and ammunition sales in Arizona [ $\$7.92$  billion of nationwide sales  $\times$  3%].

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At the general state TPT rate of 5.0%, we estimate that these sales generated approximately \$11.9 million in state tax revenue, of which \$8.8 million was deposited into the General Fund. Therefore, exempting firearms and ammunition from TPT would result in a General Fund revenue loss of \$(8.8) million annually.

Since this exemption would go into effect on January 1, 2023, the FY 2023 General Fund impact would be limited to \$(3.7) million. Beginning in FY 2024, the General Fund revenue loss would be an estimated \$(8.8) million annually.

#### Firearm Safety Equipment Exemption

The bill would also exempt firearm safety equipment from TPT. Under the bill, such equipment includes a device that is designed to prevent the firearm from being operated without first deactivating the device. The bill also defines firearm safety equipment as a gun safe, gun case, lock box or other device that is designed to store a firearm and be unlocked only by means of a key or a combination.

Washington state exempts the sale of gun safes from retail sales and use tax. However, other types of firearm safety equipment, as defined under HB 2166, are not exempt. According to Washington's 2020 Tax Exemption Study, the Washington Department of Revenue estimates that the firearm safe exemption reduces sales tax revenue in the state by approximately \$(1.0) million annually. Washington's retail sales tax rate is 6.5%. Therefore, we estimate that firearm safe sales in Washington state total approximately \$15.4 million per year.

According to the U.S. Census Bureau, Washington's adult population is approximately 6.05 million compared to 5.5 million in Arizona. Based on information published by the World Population Review, 42.1% of adults in Washington own a firearm compared to 46.3% of adults in Arizona. This suggests that an estimated 2.55 million [6.05 million x 42.1%] adults in Washington state own firearms. The comparable figure in Arizona is essentially the same, or 2.55 million [5.5 million x 46.3%]. For this reason, we estimate that the annual amount of firearm safe sales in Arizona is also \$15.4 million. At the general state TPT rate of 5.0%, we estimate that these sales generate approximately \$770,000 in state tax revenue annually, of which \$570,000 is deposited into the General Fund.

Based on the assumption outlined above, we estimate that exempting firearm safes from TPT would result in a General Fund revenue loss of \$(570,000) annually.

Since this exemption would go into effect on January 1, 2023, the General Fund impact would be limited to \$(240,000) in FY 2023. Beginning in FY 2024, the General Fund revenue loss would be an estimated \$(570,000) annually.

There could also be an additional state revenue loss from other types of firearm safety equipment that would be exempt in Arizona but is not currently exempt in Washington state. However, due to a lack of market data on such firearm safety equipment, we are only able to estimate the impact of exempting firearm safes from TPT.

#### **Local Government Impact**

##### County Impact of State TPT Reduction

By statute, the state is required to share a certain percentage of state TPT with counties and cities. Under the retail classification, counties receive 16.2% of state TPT. The total county impact under the bill is an estimated \$(900,000) in FY 2023 and \$(2.1) million annually, beginning in FY 2024.

##### County Excise Taxes

All sales subject to state TPT are also subject to various county excise taxes, including general county taxes, transportation taxes, jail district taxes, and health service district taxes. The weighted average county excise tax rate, including the transportation taxes levied by Maricopa and Pima, is 0.7%.

The total county excise tax revenue impact under the bill is estimated to be \$(700,000) in FY 2023 and \$(1.8) million annually, beginning in FY 2024.

##### Municipal Impact of State TPT Reduction

Cities and towns receive 10.0% of state TPT under the retail classification. The total reduction in state shared TPT distributed to municipalities is estimated to be \$(500,000) in FY 2023 and \$(1.3) million annually, beginning in FY 2024.

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Municipal TPT

The statewide weighted average retail TPT rate for Arizona's cities and towns is 2.18%. The total municipal TPT impact under the bill is estimated to be \$(2.3) million in FY 2023 and \$(5.5) million annually, beginning in FY 2024.

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