

Fiscal Note

BILL # HB 2701

TITLE: TPT; prime contracting; tax base

SPONSOR: Biasucci

STATUS: As Introduced

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Description

Under current law, the tax base for the prime contracting Transaction Privilege Tax (TPT) is 65% of the gross proceeds from a construction contract. The 35% reduction of the tax base is to account for the cost of labor, which is assumed to represent 35% of the amount of the contract. For this reason, this reduction is often referred to as the "35% labor deduction." HB 2701 would reduce the tax base for prime contracting TPT to 60% in FY 2024 and 55%, beginning in FY 2025, or equivalently, increasing the labor deduction to 40% and 45%, respectively.

Estimated Impact

Table 1 below summarizes the estimated state and local revenue impact of increasing the labor deduction to 40% in FY 2024 and 45% in FY 2025. Relative to current law, the General Fund would incur an estimated revenue loss of \$(73.1) million in FY 2024 and \$(153.0) million in FY 2025. The revenue impact on counties and cities in terms of the distribution of state TPT to them as well as the impact on their own taxes are displayed in *Table 1*.

Table 1						
FY	Labor Deduction	General Fund Share of State TPT	(\$ Millions)			
			County Share of State TPT	Municipal Share of State TPT	Municipal TPT	County Excise Taxes
2024	40%	\$(73.1)	\$(6.8)	\$(4.2)	\$(42.9)	\$(11.8)
2025	45%	\$(153.0)	\$(14.3)	\$(8.8)	\$(89.8)	\$(24.7)

Analysis

To derive the estimated impact of the proposed change to the prime contracting labor deduction, we applied the projected sales tax growth rates under the January Baseline, which are 4.7% in FY 2024 and 4.6% in FY 2025. The impact on municipal TPT was based on a weighted average tax rate of 2.55% for the prime contracting classification. The weighted average tax rate for county excise taxes, including the transportation taxes levied by the Maricopa Association of Governments (MAG) and the Pima Association of Governments (PAG), is 0.7%.

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