Fiscal Note

BILL # SB 1116

TITLE: tax credit; foster care organizations

SPONSOR: Livingston

STATUS: Senate Engrossed

PREPARED BY: Hans Olofsson

Description

Laws 2021, Chapter 412 (Tax Omnibus) expanded, as session law, the definition of Qualifying Foster Care Organizations (QFCO) for Tax Year (TY) 2021 to allow tax credit donations to QFCOs that serve persons who have left the foster care system due to reaching 18 years of age, adoption, or legal guardianship after reaching 16 years of age or reunification at 14 or 15 years of age. The bill would make this provision permanent, beginning in TY 2022.

Under current law, the maximum allowable amount for the credit for cash contributions to Qualifying Charitable Organizations (QCO) is $400 for single and head of household filers and $800 for married filers. The corresponding credit cap for donations to QFCOs is $500 and $1,000, respectively. The bill would adjust these credit caps for inflation annually, beginning in TY 2023.

Estimated Impact

The bill has two provisions with potential fiscal impacts. The first provision makes the expanded QFCO definition under Laws 2021, Chapter 412 permanent and is expected to have a minimal impact on General Fund revenues, beginning in FY 2023.

The second provision is the inflation-indexing of the maximum credit allowed for cash contributions to QCOs and QFCOs. We estimate that this provision will reduce General Fund revenues by $(1.0) million annually, beginning in FY 2024

As of publication, the Department of Revenue (DOR) has not yet provided an estimate of SB 1116.

Analysis

According to the U.S. Bureau of Labor Statistics, the metropolitan Phoenix Consumer Price Index (CPI) has had an annual average increase of 3.3% over the past 5 years. Applying this percentage to the current maximum credit amounts and raising them to the nearest whole dollar, as required under the bill, we estimate that the new credits caps in TY 2023 would be $414/$828 for the QCO credit and $517/$1,034 for the QFCO credit.

Since we cannot determine in advance to what extent the higher, inflation-adjusted credit caps under the bill would incentivize people to increase their donations to QCOs and QFCOs over and above the amounts under current law, we have made certain simplifying assumptions, as outlined below. First, we assumed that those individuals who typically claim the maximum allowable amount of the credit will continue to do so under the bill's higher credit caps. Second, for the purpose of this analysis, we assumed that on average 15% of QCO claimants take the maximum credit compared to 20% for the QFCO credit. Based on these simplifying assumptions, the bill could have an annual General Fund cost of approximately $(1.0) million, beginning in FY 2024, of which $748,000 would be attributable to the QCO credit [= ($828 - $800) x 146,515 married QCO claimants x 15% + ($414 - $400) x 62,792 other QCO claimants x 15%] and the remaining $252,000 to the QFCO credit [= ($1,034 -$1,000) x 30,535 married QFCO claimants x 20% + ($517 - $500) x 13,087 other QFCO claimants x 20%].

(Continued)

Local Government Impact

Beginning in FY 2024, incorporated cities and towns will receive 18% of individual and corporate income tax collections from 2 years prior from the Urban Revenue Sharing Fund (URSF) established by A.R.S. § 43-206. Therefore, the bill would decrease overall URSF distributions to cities and towns by an estimated $(180,000), beginning in FY 2026.

2/3/22