

Fiscal Note

BILL # SB 1208

TITLE: income tax; credit; labor costs

SPONSOR: Rogers

STATUS: As Introduced

PREPARED BY: Benjamin Newcomb

Description

The bill would create an individual and corporate income tax credit employers could claim for increased labor costs stemming from a local minimum wage that is set above the state minimum wage. The credit would be equal to 10% of the hourly labor costs above the wages the business would have paid absent the higher local minimum wage. To reimburse the state for any General Fund losses, cities and towns with local minimum wages above the state minimum wage would have Urban Revenue Sharing Fund (URSF) distributions withheld from them equal to the amount of this credit claimed during the taxable year. The employer credit would have a 5-year carryforward. These changes would become effective beginning tax year (TY) 2023.

Estimated Impact

We estimate that this bill would not have a long run General Fund impact since the Department of Revenue (DOR) will withhold the cost of the credit from the URSF distributions for cities and towns with local minimum wage laws. Based on a set of simplifying assumptions, we estimate that there would be a one-time General Fund revenue loss of \$(8.5) million in FY 2024. We estimate up to \$(7.8) million could be withheld from Flagstaff's URSF distributions and up to \$(0.7) million could be withheld from Tucson in FY 2025. By the time Tucson's minimum wage increase is fully implemented in TY 2025, the impact for Tucson specifically could be up to \$31.9 million, which would impact the city in FY 2027.

Analysis

Two Arizona cities have a local minimum wage higher than the state minimum wage of \$12.80 per hour. As of January 1, 2022, Tucson has a minimum wage of \$13.00 per hour, or \$0.20 per hour above the state minimum. The Tucson minimum wage will increase to \$13.50 on January 1, 2023, \$14.25 on January 1, 2024, and \$15.00 on January 1, 2025, and is adjusted for inflation annually thereafter. Flagstaff has a minimum wage of \$15.50 per hour; this wage is adjusted by inflation annually. Based on University of Arizona data, we estimate approximately 5% of workers in Tucson earn \$13.00 per hour or less and 25% of Flagstaff workers earn \$15.50 per hour or less. Using data from the Arizona Office of Economic Opportunity on the total number of workers in each metropolitan area, we estimate there are approximately 38,800 minimum wage workers in Tucson and 16,800 minimum wage workers in Flagstaff. We then multiplied these totals by the average yearly hours worked in each city and 10% of the difference between each municipality's minimum wage and the state minimum wage to estimate the amount of credit businesses in these cities could claim in TY 2023.

Using these simplifying assumptions, we estimate Flagstaff employers could claim up to \$7.8 million and Tucson employers could claim up to \$0.7 million, which would decrease FY 2024 General Fund revenues by \$(8.5) million. The following tax year, DOR would withhold the prior tax year's credit amount from the city's URSF distribution and deposit it into the General Fund. This holds the General Fund harmless in the long run. As Tucson's minimum wage increases to \$14.25 in TY 2024 and \$15.00 in TY 2025, we estimate the accompanying decreases in Tucson's URSF distributions would grow to up to \$(16.4) million in FY 2026 and \$(31.9) million in FY 2027.

(Continued)



The bill does not specify how taxpayers should define the impact of the minimum wage in calculating their credit. Our estimate has assumed it will be applied to all workers making minimum wage using the gap between the state and local minimum wage. To the extent taxpayer employers use different definitions, the actual impact could be different from our estimates.

1/27/22