

Fiscal Note

BILL # HB 2383

TITLE: conformity; internal revenue code.

SPONSOR: Carter

STATUS: House Engrossed

PREPARED BY: Benjamin Newcomb

Description

HB 2383 would conform Arizona tax statute to the Internal Revenue Code as of January 1, 2023, to reflect changes from the Inflation Reduction Act (IRA) of 2022, Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act of 2022, and the Consolidated Appropriations Act, 2023 (CAA) adopted by the U.S. Congress.

Estimated Impact

We estimate that conforming state tax statutes to the federal provisions contained in HB 2383 would reduce General Fund income tax collections by \$(1.5) million in FY 2023 and increase revenues by \$12.2 million and \$10.7 million in FY 2024 and FY 2025, respectively. Our conformity estimates by federal tax provision are displayed in *Table 1* on the following page.

The Department of Revenue (DOR) estimates that conformity to HB 2383 would increase General Fund revenues by \$3.47 million in FY 2023, \$10.24 million in FY 2024, and \$11.62 million in FY 2025.

Analysis

Table 1 summarizes the state revenue impact of conformity to IRA and CAA provisions. We derived our estimates through FY 2025 by prorating the nationwide Joint Committee on Taxation (JCT) information. We estimate that conforming to IRA would cost \$(0.14) million in FY 2023, \$(0.11) million in FY 2024 and \$(0.10) million in FY 2025. Conforming to CAA would decrease General Fund revenue by \$(1.4) million in FY 2023 and increase revenue by \$12.3 million in FY 2024 and \$10.8 million in FY 2025. The CHIPS Act of 2022 does not have a conformity impact.

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 \$(0.3) million in FY 2025. URSF distributions would increase by \$2.2 million in FY 2026 and \$1.9 million in FY 2027.

(Continued)



Table 1					
State Revenue Impact Under Conformity (HB 2383)					
(\$ in Millions)					
<u>Inflation Reduction Act (IRA) 2022 Provisions</u>	<u>Tax Type</u> ^{1/}	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	
Energy efficient commercial building deductions	IIT/CIT	(0.14)	(0.11)	(0.10)	
Total IRA Conformity Impact		(0.14)	(0.11)	(0.10)	
<u>Consolidated Appropriations Act (CAA) 2023 Provisions</u>					
Expand automatic enrollment in deferred compensation plans	IIT	0.00	0.00	(0.96)	
Increase age for required mandatory distributions from deferred compensation plans from 72 to 73	IIT	(1.46)	(1.74)	(1.65)	
Index IRA catch-up limit for inflation	IIT	0.00	(0.03)	(0.04)	
Higher indexed IRA catch-up limit to apply at age 60, 61, 62, 63	IIT	0.00	0.00	(0.03)	
Treatment of student loan payments as elective deferrals for purposes of matching contributions	IIT	0.00	(0.30)	(0.43)	
Exempt the first \$1,000 of early withdrawal from penalty for emergency expenses	IIT	0.00	8.98	5.95	
Allow additional nonelective contributions to SIMPLE plans	IIT	0.00	(0.12)	(0.17)	
Increase contribution limit for SIMPLE plans	IIT	0.00	(0.14)	(0.20)	
Change in tax treatment of certain nontrade or business SEP contributions	IIT	(0.02)	(0.02)	(0.02)	
Make enrollment in company retirement plans easier for part-time workers	IIT	(0.02)	(0.04)	(0.04)	
Provide special rules for certain distributions from long-term qualified tuition programs to Roth IRAs	IIT	(0.01)	(0.20)	(0.40)	
Provide emergency savings accounts linked to individual account plans	IIT	0.00	0.86	1.50	
Remove required minimum distribution barriers for life annuities	IIT	(0.14)	(0.28)	(0.38)	
Change in qualifying longevity annuity contracts	IIT	(0.12)	(0.14)	(0.14)	
Reduce required minimum distribution amounts on partial annuities	IIT	0.02	0.05	0.08	
Recovery of retirement plan overpayments	IIT	0.31	0.24	0.10	
Reduction in excise tax on certain accumulations in qualified retirement plans	IIT	(0.02)	(0.02)	(0.02)	
One-time election for qualified charitable distribution to split-interest entity; increase in qualified charitable distribution limitation	IIT	(0.55)	(2.14)	(1.49)	
Application of top-heavy rules to defined contribution plans covering excludable employees	IIT	0.00	0.05	0.08	
Provide that employer may rely on employee for certifying that deemed hardship distribution conditions are met	IIT	0.06	0.09	0.10	
Provide penalty-free withdrawal from retirement plans for individual in case of domestic abuse	IIT	0.00	(0.02)	(0.02)	
Reform of family attribution rule	IIT	0.00	(0.10)	(0.18)	
Surviving spouse election to be treated as employee	IIT	0.00	(0.06)	(0.10)	
Repeal of direct payment requirement on exclusion from gross income of distributions from governmental plans for health and long-term care insurance	IIT	(0.05)	(0.05)	(0.06)	
Provide special rules for use of retirement funds in connection with qualified federally declared disasters	IIT	(1.60)	(1.75)	(0.79)	
SIMPLE and SEP contributions eligible to be treated as Roth IRAs	IIT	0.06	0.09	0.12	
Change in hardship withdrawal rules for 403(b) plans	IIT	0.02	0.06	0.09	
Certain catch-up contributions required to be made on a Roth IRA basis	IIT	0.00	4.23	5.40	
Employer matching or nonelective contributions may be made on a Roth IRA basis	IIT	1.48	1.99	2.42	
Limitation on deduction for qualified conservation contributions	IIT	0.79	2.91	2.15	
Total CAA Conformity Impact		(1.39)	12.27	10.79	
Total Combined IRA and CAA State Revenue Conformity Impact		(1.5)	12.2	10.7	

^{1/} IIT means individual income tax. CIT means corporate income tax.