

Fiscal Note

BILL # HB 2395

TITLE: repeal; individual income tax

SPONSOR: Smith

STATUS: As Introduced

PREPARED BY: Benjamin Newcomb

Description

The bill would repeal the individual income tax, beginning in Tax Year (TY) 2024.

Estimated Impact

We estimate that the bill would decrease General Fund revenues by \$(3.58) billion in FY 2024, \$(6.11) billion in FY 2025, and \$(6.37) billion in FY 2026.

The estimate above does not reflect any offsetting "dynamic" revenue impact associated with the potential behavioral response of individuals and businesses to the proposed tax legislation or from the potential reduction in state spending associated with the tax elimination.

Analysis

Our estimate for the impact of the bill is based on the January Baseline forecast, which projects Individual Income Tax (IIT) revenues from FY 2024 through FY 2026, as outlined below:

- \$5.91 billion in FY 2024
- \$6.11 billion in FY 2025
- \$6.37 billion in FY 2026

Although the repeal of IIT would take effect beginning January 1, 2024, individuals would still be required to file their TY 2023 tax returns in the spring of 2024. The refunds and final payments from the TY 2023 returns issued in the second half of FY 2024 would not be affected by the bill. However, the IIT repeal would affect withholding and estimated payments that otherwise would have been collected in the second half of FY 2024 to reflect tax liability accruing for TY 2024. Based on the 5-year average withholding and estimated payment portion of total IIT, we estimate the FY 2024 General Fund revenue loss to be \$(3.58) billion.

The first full-year impact of repealing IIT would not take effect until FY 2025, when filers will have no TY 2024 liability. Therefore, we estimate the bill would reduce General Fund revenues by \$(6.11) billion in FY 2025. The corresponding revenue loss in FY 2026 is \$(6.37) billion.

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 \$(0.64) billion in FY 2026, \$(1.10) billion in FY 2027 and \$(1.15) billion in FY 2028.

1/27/23

