

# Fiscal Note

**BILL #** HB 2501

**TITLE:** dependent tax credit; additional amount

**SPONSOR:** Gress

**STATUS:** As Introduced

**PREPARED BY:** Benjamin Newcomb

## Description

HB 2501 would expand the individual dependent tax credit to allow a taxpayer who gave birth or whose spouse gave birth during the year to claim an additional amount of credit. The additional amount is equal to the dependent credit amount of \$100 prorated by the number of months the taxpayer or their spouse was pregnant during the previous taxable year. The bill would take effect retroactively from January 1, 2023.

## Estimated Impact

We estimate the bill would have a General Fund cost of \$(2.4) million per year, beginning in FY 2024.

The Department of Revenue has not yet provided an estimate of the impact of the bill.

## Analysis

The dependent tax credit is \$100 for dependents below 17 years of age and \$25 for all other dependents. The income threshold for the credit is \$200,000 for single filers and \$400,000 for married filers. The credit is phased out for taxpayers with federal adjusted gross incomes from \$200,000 to \$219,000, or from \$400,000 to \$419,000 in the case of married couples filing jointly. If a taxpayer or taxpayer's spouse has a baby during a given taxable year, the bill would allow that filer to claim the \$100 dependent credit as well as an additional amount prorated based on the number of months the filer or their spouse was pregnant during the previous taxable year.

For example, if a single taxpayer earning less than \$200,000 became pregnant in July 2022 and gave birth the following April, that taxpayer could claim \$150 of the dependent credit for Tax Year (TY) 2023: \$100 for the baby born in April 2023 and \$50 for the 6 months of pregnancy during TY 2022 for one-half the full credit amount.

Since the additional credit can only be claimed for babies conceived in the prior taxable year, we have assumed only filers whose babies were born from January through September in any given year would qualify for the additional prorated credit. (These babies are assumed to have been conceived from April to December in the prior year and that the pregnancy lasted 9 months.) Based on data from the Arizona Department of Health Services (DHS) on monthly births, we estimate there were approximately 57,800 births in 2022 that would qualify for the prorated credit amount under the bill. Multiplying this total by the prorated credit amounts, which would vary from a low of \$8 to a high of \$75, depending on which month the baby was conceived, we estimate the yearly cost of the bill to be \$(2.4) million, starting in FY 2024.

## 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 \$(0.4) million annually, beginning in FY 2026.

1/30/23

