

# Fiscal Note

**BILL #** SB 1375

**TITLE:** ~~technical correction; driver license fees~~ NOW:  
gross income subtractions; uniformed services

**SPONSOR:** Gowan

**STATUS:** Senate Engrossed

**PREPARED BY:** Benjamin Newcomb

## Description

SB 1375 expands the exemption from state income tax for active duty pay to include uniformed service agencies, which includes commissioned officers in the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Public Health Service (USPHS). The bill becomes effective January 1, 2024.

## Estimated Impact

We estimate that SB 1375 will decrease General Fund income tax collections by \$(336,100) in FY 2025 and each year thereafter. The actual impact of the bill will depend on the number of NOAA and USPHS commissioned officers living in Arizona and their salary each year. Since these figures are not currently available, our estimate should be interpreted with caution.

## Analysis

A.R.S. § 43-1022 exempts gross income received as a result of active-duty service in the National Guard or armed forces from Arizona state income tax. The federal definition of armed services includes the departments of the Army, Navy, Air Force, Space Force, Marines, and Coast Guard. The bill would amend this statute by changing the reference from “armed services” to “uniformed services.” The federal definition of uniformed services includes all agencies in the armed services as well as commissioned officers in NOAA and USPHS.

NOAA is a federal agency within the U.S. Department of Commerce that evaluates and provides forecasts for oceans and the atmosphere. The commissioned officers within NOAA are trained in several fields including engineering, oceanography, meteorology, earth sciences, and fisheries science. These individuals often work within other federal agencies and are available to be incorporated into the armed forces as subject matter specialists in times of war. As of March 2023, there were approximately 330 commissioned officers in NOAA’s commissioned officer corps nationally.

The USPHS is an agency of the U.S. Department of Health and Human Services that helps to serve the country’s health needs through disease control, health research, food and drug regulation and other healthcare-related services. As of March 2023, USPHS’ commissioned corps included more than 6,100 officers nationally who specialize in many different health and medical fields. Like commissioned officers within NOAA, USPHS officers are sometimes deployed to other federal agencies and can be incorporated into the military or deployed to areas experiencing public health crises or other disasters.

According to the U.S. Census Bureau, Arizona accounts for approximately 2.2% of the national population. Since the number of NOAA and USPHS commissioned officers who are residents of Arizona is not available, we assume that Arizona will have a proportionate share of the commissioned officer population similar to Arizona’s share of the national population with 7 NOAA officers and 135 USPHS officers.

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Since complete salary data for these officers is not readily available, we developed a midpoint for the possible tax impacts based on officer salaries across pay grades. Excluding positions ranking at or above Rear Admiral due to their infrequency, the 2023 federal pay scale for commissioned officers of the uniformed services has a median of \$94,700 per year. The individual income tax rate in Arizona is 2.50%, which when applied to the estimated number of NOAA and USPHS officers residing in Arizona and the aforementioned salary midpoint would result in a reduction to income tax revenues of \$(336,100) per year beginning in FY 2025.

**Local Government Impact**

Beginning in FY 2024, incorporated towns and cities will receive 18% of individual and corporate income tax collections from 2 years' prior from the Urban Revenue Sharing (URS) Fund established by A.R.S. § 43-206. Therefore, the bill would decrease overall URS distributions to cities and towns by \$(60,500) annually beginning in FY 2027.

4/3/23