

Fiscal Note

BILL # SB 1559

TITLE: businesses; fees; income tax reduction

SPONSOR: Kaiser

STATUS: As Amended by House WM

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Description

SB 1559, as amended by the House Ways and Means Committee, would exempt new businesses (as defined under the bill) from various filing and service fees imposed by the Arizona Corporation Commission and the Secretary of State (SOS). The bill would also exempt new businesses from paying the Department of Revenue's (DOR) Transaction Privilege Tax (TPT) license fee.

A "new business" under the bill is defined as a business entity that has been in operation for less than 5 years and has Arizona as its principal place of business and that has not dissolved or otherwise terminated only to reinstate business operations in the state after December 31, 2023.

The bill directs that the Arizona Department of Administration (ADOA) be encouraged to award 5% of state contracts each year to new businesses.

Estimated Impact

Based on information provided by the Corporation Commission and SOS, we estimate that bill would reduce General Fund revenue by \$(1,442,000) in FY 2024, \$(1,567,000) in FY 2025, and \$(1,694,000) in FY 2026. Since DOR has not provided an estimate of exempting new businesses from their \$12 TPT license fee, the total General Fund impact is understated. For more details on the bill's General Fund impact, see *Table 1* below.

Table 1			
General Fund Impact			
	FY 2024	FY 2025	FY 2026
Corporation Commission Fees	\$(1,065,000)	\$(1,171,000)	\$(1,278,000)
SOS Fees	(377,000)	(396,000)	(416,000)
DOR TPT License Fee ^{1/}	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total General Fund Impact	\$(1,442,000)	\$(1,567,000)	\$(1,694,000)

^{1/} As of publication, DOR has not provided an estimate of the impact of waiving the TPT license fee. To the extent this fee is waived for new businesses, our estimate of the total General Fund cost is understated.

In addition to the General Fund, SB 1559 would also affect Other Funds. Specifically, the bill would reduce revenue collections to the Public Access Fund and Arizona Arts Trust Fund, which both receive funding from Corporation Commission fees. The total Other Fund impact would be an estimated \$(1,198,000) in FY 2024, \$(1,318,000) in FY 2025, and \$(1,438,000) in FY 2026. For more details on the bill's Other Fund impact, see *Table 2* below.

(Continued)



Table 2			
Other Fund Impact ^{1/}			
	FY 2024	FY 2025	FY 2026
Public Access Fund	\$(1,057,000)	\$(1,163,000)	\$(1,269,000)
Arts Trust Fund	<u>(141,000)</u>	<u>(155,000)</u>	<u>(169,000)</u>
Total Other Fund Impact	\$(1,198,000)	\$(1,318,000)	\$(1,438,000)

^{1/} Estimates were provided by the Corporation Commission.

The fiscal impact, if any, of the provision that specifically encourages ADOA to award 5% of state contracts each year to new businesses would depend on the scope of each new contract, which cannot be determined in advance. ADOA has not provided any perspective on this provision of the bill at the time of publication.

Analysis

Under the bill, new businesses would not be required to pay certain fees, such as Corporation Commission filing fees, SOS registration fees, and DOR's TPT license fee.

Arizona Corporation Commission

The Corporation Commission charges various business, service, and copying filing fees to prospective businesses that would be exempted under the bill. The revenue from these fees contributes to the General Fund, Public Access Fund, and the Arizona Arts Trust Fund.

The Corporation Commission estimates that removing these fees for new businesses would reduce General Fund revenue by \$(1,065,000) in FY 2024, \$(1,171,000) in FY 2025, and \$(1,278,000) in FY 2026. Deposits into the Public Access Fund would be reduced by \$(1,057,000) in FY 2024, \$(1,163,000) in FY 2025, and \$(1,269,000) in FY 2026. Revenue to the Arizona Arts Trust Fund would be reduced by an estimated \$(141,000) in FY 2024, \$(155,000) in FY 2025, and \$(169,000) in FY 2026.

Secretary of State

SOS charges fees for registering trademarks and trade names. According to SOS, a total of \$341,900 in fees collected for new trade names and trademark registrations in 2022 were deposited into the General Fund. The agency estimates this amount will grow by 5% per year. Waiving these fees would reduce General Fund revenue by an estimated \$(377,000) in FY 2024, \$(396,000) in FY 2025, and \$(416,000) in FY 2026.

Department of Revenue

Each year, DOR applies a TPT license fee to businesses selling products or services subject to TPT. The fee is equal to \$12 per location and is deposited into the General Fund. During FY 2022, DOR collected \$611,500 in TPT license fees. We do not know, however, what portion of this total is attributable to new businesses. For this reason, we are unable to estimate this provision's cost to the General Fund. As of publication, DOR has not provided an estimate of the bill.

Local Government Impact

None