

Fiscal Note

BILL # HCR 2012

TITLE: income tax; rate; reduction

SPONSOR: Kolodin

STATUS: As Introduced

PREPARED BY: Benjamin Newcomb

Description

If approved by voters at the 2026 General Election, the resolution would reduce the Individual Income Tax (IIT) rate from the current rate of 2.5% to 2.0%, beginning in Tax Year (TY) 2027. (This rate reduction would also apply to individuals who are required to file the Arizona Fiduciary Income Tax Return or who elect to file the Arizona Small Business Income Tax Return rather than the regular Arizona Personal Income Tax Return.)

Estimated Impact

We estimate reducing the IIT rate from 2.5% to 2.0% in TY 2027 would reduce annual General Fund revenues by \$(1.22) billion starting in FY 2028. Our estimate does not reflect the bill's potential dynamic effects, which are typically secondary to the direct impact. For example, all else being equal, a reduction of individual income taxes may serve as an incentive for taxpayers to increase their consumption which may result in greater economic output. If implementation of this bill would require lower state spending, taxpayers may lower their consumption, which may result in lower economic output.

Given the lower level of liability, taxpayers may qualify for a lower level of nonrefundable Individual Income Tax credits. We have assumed that credit usage would decline proportionately to the rate reduction.

Analysis

Our analysis of the proposed rate reduction is based on the projected level of IIT collections in FY 2028 under the January Baseline forecast, which is \$6.12 billion. With a 2.5% rate, the implied IIT taxable income under the January Baseline forecast is \$244.9 billion. Applying the resolution's 2.0% rate to this income level, we estimate IIT revenue would be \$4.90 billion in FY 2028. Compared to the Baseline forecast, this would be a yearly General Fund revenue reduction of \$(1.22) billion.

Local Government Impact

Incorporated cities and towns 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. Since the resolution would decrease statewide IIT revenue by \$(1.22) billion in FY 2028, overall URS distributions to cities and towns would decrease by \$(221) million in FY 2030.

1/31/25

