

# Fiscal Note

**BILL #** SB 1155

**TITLE:** income tax; subtraction; uniformed services

**SPONSOR:** Gowan

**STATUS:** As Introduced

**PREPARED BY:** Benjamin Newcomb

## Description

SB 1155 expands the subtraction from state individual income tax (IIT) 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, 2026.

## Estimated Impact

We estimate that SB 1155 will decrease annual General Fund IIT collections by \$(976,800) starting in FY 2027. The actual impact of the bill will depend on several factors, including the number of NOAA and USPHS commissioned officers stationed in Arizona, their residency status, and their salary. (Under Arizona statutes, if an individual is considered a part-year resident or non-resident of Arizona, that person is still required to pay Arizona tax on "income derived from or attributable to sources within the state.") Due to various data constraints discussed below, our estimate is uncertain and therefore 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 January 2025, there were approximately 330 commissioned officers in NOAA's commissioned officer corps nationally. According to the U.S. Census Bureau, Arizona accounts for approximately 2.2% of the national population. Since the number of NOAA commissioned officers who are stationed in Arizona is not available, we assume the state will have a proportionate share similar to Arizona's share of the national population, which equates to 7 officers, all of which are assumed to be full-year residents.

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. According to data provided by the Military Officers Association of America, there are currently 368 USPHS officers stationed in Arizona. We assume each of these officers are full-year residents of Arizona and therefore pay income tax in Arizona and not in other states. These individuals 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.



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 2025 federal pay scale for commissioned officers of the uniformed services has a median of \$104,100 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 \$(976,800) per year beginning in FY 2027.

**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. Therefore, the bill would decrease overall URS distributions to cities and towns by \$(175,800) annually beginning in FY 2029.

1/31/25