Fiscal Note

BILL # SB 1489

TITLE: individual income tax; rate adjustment

SPONSOR: Mesnard

STATUS: Amended by Senate FIN

PREPARED BY: Elliot Chau

Description

The bill would require the Joint Legislative Budget Committee to compute an individual income tax reduction amount based on the difference between the state's ongoing FY 2020 revenues, adjusted for the sum of Metropolitan Phoenix's inflation and Arizona's population growth, and ongoing revenues. If the resulting difference is greater than $0, then that amount is multiplied by 50% and established as the individual income tax reduction implemented in the following tax year. The law would take effect beginning in tax year 2021.

Estimated Impact

The bill is expected to reduce revenues by $(64) million in FY 2021, $(71) million in FY 2022, and $(110) million in FY 2023. These estimates should be considered speculative.

Analysis

Based on the JLBC Baseline, the state is expected to have ongoing revenues of $12.7 billion in FY 2021, $13.2 billion in FY 2022, and $13.7 billion in FY 2023. The figures are prior to deductions for Urban Revenue Sharing.

The bill establishes a "growth limit" which is the sum of Metro Phoenix's consumer price index (CPI), as determined by the U.S. Bureau of Labor Statistics (BLS), and the State of Arizona's population growth, as determined by the U.S. Census Bureau. We use IHS Markit data to forecast a population growth of 1.42% for 2021, 1.30% for 2022, and 1.22% for 2023. The same data indicate a Metro Phoenix inflation rate of 1.66% for 2021, 2.42% for 2022, and 2.33% for 2023.

The sum of the corresponding components result in a growth limit of 3.08% for 2021, 3.72% for 2022, and 3.55% for 2023.

In FY 2020, ongoing revenues are projected to be $12.23 billion. After multiplying this level by the growth factor of 3.08%, the growth limit is $12.61 billion for FY 2021. In comparison, ongoing Baseline revenues are projected to grow by 4.1% to $12.74 billion. Since the 4.1% forecasted Baseline growth exceeds the 3.08% growth limit by $128 million [= $12.74 billion less $12.61 billion], the Arizona Department of Revenue would reduce individual income tax rates to achieve a $64 million tax reduction.

Our calculations do not rebase the growth limited revenue to the prior year tax reduction. The following table illustrates the potential individual income tax reduction for each fiscal year:

(Continued)

Potential Fiscal Impact of SB 1489
($ in millions) 1/

	FY 2020	FY 2021	FY 2022	FY 2023
"Growth limited" revenue	$ 12,235	$ 12,611	$ 13,080	$ 13,545
Baseline ongoing revenue	12,235	12,740	13,094	13,622
Difference	$ 0	$ (128)	$ (14)	$ (77)
Tax reduction (50% of difference if negative)	$ 0	$ (64)	$ (7)	$ (39)
Cumulative impact	$ 0	$ (64)	$ (71)	$ (110)

1/ Numbers may not add due to rounding.

Local Government Impact

Incorporated cities, towns, and cities receive 15% of state income tax collections from 2 years prior from the Urban Revenue Sharing Fund (URSF) established by A.R.S. § 43-206. The bill therefore would reduce URSF distributions to cities and towns by an estimated $(9.6) million in FY 2023, $(10.6) million in FY 2024, and $(16.4) million in FY 2025.

2/11/20