

# Fiscal Note

**BILL #** HB 2601

**TITLE:** income tax; exemption; minors

**SPONSOR:** Kupper

**STATUS:** As Introduced

**PREPARED BY:** Benjamin Newcomb

## Description

HB 2601 exempts an individual under 18 years of age and whose Arizona gross income is \$50,000 or less from the individual income tax (IIT). Additionally, employers would be required not to withhold the first \$50,000 of wages for income tax purposes.

The bill also directs the Arizona Department of Revenue (DOR) to create a process for verifying whether an individual is eligible for this exemption. The exemption would take effect beginning in tax year (TY) 2026, which would impact General Fund revenue starting in FY 2027.

## Estimated Impact

We estimate that providing an income tax exemption for minors with \$50,000 or less in annual earnings would reduce General Fund revenue by \$(8.0) million annually beginning in Fiscal Year (FY) 2027. Due to data constraints on the wages, hours worked, and part-time/full-time status of workers under 18, this estimate is uncertain and should be interpreted with caution.

We asked DOR for their perspective on HB 2601, and they responded that they do not have the data required to provide an estimate for the bill. They stated there is a potential for cost savings from reduced use of the state's tax collection system, but it is likely to be small. Since the newly exempted minors would constitute approximately 0.5% of all Arizona returns, we concur that the savings would not be substantial.

## Analysis

To estimate the impact of HB 2601, we developed estimates of the number of full-time minor workers in Arizona and their yearly wages. Multiplying these figures together and accounting for Arizona's standard deduction for IIT, we approximated the aggregate level of exempt income and corresponding General Fund impact.

### Number of Eligible Workers

The Bureau of Labor Statistics (BLS) estimates that 1,541,750 teenagers (ages 16 through 19) work full-time in the U.S. Arizona's population makes up about 2.2% of the national total, so we estimate that 33,919 of these workers are in Arizona. Based on projections from the Arizona Office of Economic Opportunity (OEO), 45.6% of the 16- to 19-year-old cohort is under 18. Applying this figure, we estimate there are 15,464 minor workers employed full-time in the state. (Based on BLS data and the use of the same methodology as described above, we estimate that there are 39,600 persons under age 18 that work part-time in the state. However, we have excluded these teenagers from our analysis, as we assume that they will not earn enough in a year to meet the \$14,600 threshold necessary to file for IIT.)

The 15,464 minors represent approximately 0.5% of the 3.1 million Arizona returns filed annually.



### Yearly Wages of Minors

The most recent data from the BLS shows that the median earnings for full-time minor employees in the U.S. is \$679 per week. Multiplying this amount by 52 weeks, we estimate the yearly wages of these workers to be \$35,308. Given the youth of the filers in question, we assume they are all single filers who do not itemize their deductions. The standard income deduction for single filers in Arizona is \$14,600. After taking this deduction from their yearly wages, the average taxable income per minor worker in Arizona is \$20,708 ( $\$35,308 - \$14,600 = \$20,708$ ). Multiplying this by the 15,464 eligible workers, there will be a total of \$320.3 million of income exempt from IIT under the bill. With Arizona's single IIT rate of 2.5%, this would decrease annual General Fund revenue by \$(8.0) million.

Since this analysis is based on the average wage of \$35,308, our estimate implicitly assumes that every full-time wage earner under 18 makes less than \$50,000 in a year. While this likely applies for most teenage workers, some may earn more than \$50,000, and any income above this threshold would continue to be subject to IIT. To the extent this occurs, our estimate could be overstated. Additionally, there may be part-time minor workers that make more than \$14,600 in a year. By not including these teenagers in our analysis, our estimate could be understated.

### **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 bill would decrease annual statewide IIT revenue by \$(8.0) million starting in FY 2027, overall annual URS distributions would decrease by \$(1.4) million beginning in FY 2029.

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