

# Fiscal Note

**BILL #** HB 2685

**TITLE:** earned income; tax credit

**SPONSOR:** Hernandez C

**STATUS:** As Introduced

**PREPARED BY:** Benjamin Newcomb

## Description

HB 2685 would create a state-level Earned Income Tax Credit (EITC) that can be claimed by individual income tax (IIT) filers who qualify for the federal EITC. The amount of the credit that can be claimed is \$350 per filer, and one filer per household. This credit, which is refundable, would be retroactively effective from January 1, 2025.

## Estimated Impact

Based on the most recent data available from the Internal Revenue Service (IRS), which is for Tax Year (TY) 2022, we estimate that creating a state EITC would reduce state income tax collections by an estimated \$(180.6) million annually, beginning in FY 2026.

## Analysis

The federal EITC varies between \$632 and \$7,830 depending on income level and family size. The state EITC program proposed by the bill would provide a \$350 credit to any Arizona taxpayer that qualifies for the federal credit. Data from the IRS contains information regarding the number of Arizona filers that claimed the federal EITC. According to this information, a total of 515,920 filers claimed the federal credit in TY 2022. Since the state credit under the bill is \$350 per claimant, the revenue impact would be an estimated \$(180.2) million annually, beginning in FY 2026.

Since our estimate is based on TY 2022 data but the state EITC program would not become effective until TY 2025, the actual revenue loss could be somewhat higher or lower depending on several factors, such as changes to the federal EITC program and program participation.

## 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 statewide IIT revenue by \$(180.2) million in FY 2026, overall annual URS distributions would decrease by \$(32.5) million in FY 2028.

2/6/25

