

Fiscal Note

BILL # SB 1392

TITLE: net operating loss; carryback; carryover

SPONSOR: Leach

STATUS: As Introduced

PREPARED BY: Ben Newcomb

The bill conforms Arizona tax law to the net operating loss (NOL) provision in the federal 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act. The changes under the bill include removing the 80% limit on NOL deductions in tax years 2018 through 2020 and allowing a 5-year carryback on NOL arising in tax years 2018 through 2020. This bill, which would take effect retroactively from January 1, 2018, only affects individual income tax (IIT) filers.

Estimated Impact

Relative to current law, we estimate that SB 1392 would result in a General Fund revenue loss of \$(134.7) million by the end of FY 2022.

The Department of Revenue (DOR) estimates a \$(203.5) million revenue loss by the end of FY 2022. This estimate is based on DOR's May 2020 Conformity Report.

To better understand the difference between our estimate and DOR's, we have asked them for more information regarding their methodology. At the current time, DOR has not provided such information.

Analysis

In April 2020, the federal Joint Committee on Taxation (JCT) released a report containing their estimate of the federal revenue impact of the CARES Act, including the NOL provision. To produce the state revenue impact of SB 1392, we multiplied JCT's national estimate of the NOL provision by the ratio of Arizona's state IIT liability to the U.S. federal IIT liability. Based on this "prorating" method, we estimate that SB 1392 would result in state revenue loss of \$(134.7) million by the end of FY 2022.

Local Government Impact

Each year, incorporated cities and towns receive 15% of state income tax collections from 2 years prior. Therefore, the bill would reduce the distribution of state revenues to cities and towns by \$(20.2) million by the end of FY 2024.

2/16/21