Fiscal Note

BILL # SB 1461

TITLE: income tax; subtraction; FDIC premiums

SPONSOR: Livingston

STATUS: Senate Engrossed

PREPARED BY: Jack Brown

Description

The bill would allow certain banks to deduct the premium fees paid to the Federal Deposit Insurance Corporation (FDIC) from their state taxable income beginning in tax year (TY) 2020.

Estimated Impact

The JLBC Staff estimates that this bill would reduce ongoing General Fund revenues by $(4.2) million starting in FY 2023, as the bill's likely effective date means its impact would begin with Tax Year (TY) 2022 tax filings. Due to limited data on specific bank assets and annual amounts of FDIC premiums paid by certain banks, this estimate is based on national estimates available from the Joint Committee on Taxation (JCT). The JLBC Staff then prorated this national estimate to the state level based on Arizona's share of national taxable business income. This estimate is highly speculative and could be either understated or overstated based on the following:

- If Arizona's share of taxable income from banks is relatively smaller the impact would be overstated.
- Conversely, if Arizona's share of taxable income from banks is relatively larger the impact would be understated.

Because the bill is retroactive to TY 2020, banks may elect to amend their TY 2020 and TY 2021 tax filings to retroactively claim the deduction for FDIC premiums. If this occurred, the General Fund would also realize a one-time fiscal impact of $(8.4) million for 2 years of retroactive deductions.

Analysis

The federal Tax Cuts and Jobs Act (TCJA) enacted in December 2017 made several changes to Section 162 of the Internal Revenue Code, which governs trade and business expenses. Previously, premiums paid by banks to the FDIC were deductible from the bank's taxable income. After TCJA, the deduction of these premiums is phased out for banks with assets over $10 billion and the deduction is completely disallowed for banks with assets over $50 billion.

SB 1461 would permit these disallowed FDIC premium deductions to be subtracted from state taxable income beginning in TY 2020.

In the initial JCT analysis of TCJA, the JCT estimated that the disallowance of the deductions for FDIC premiums resulted in an annual increase in federal tax revenue of $1.5 billion. Using a ratio of Arizona taxable business income relative to national taxable business income, the prorated JCT estimate results in an annual state impact of $4.2 million. Given that SB 1461 would now permit the deduction of these premiums at the state level, this $4.2 million amount would be the corresponding annual General Fund revenue loss.

Local Government Impact

Beginning in FY 2024, incorporated cities and towns will receive 18% of individual and corporate income tax collections from 2 years prior from the Urban Revenue Sharing Fund (URSF) established by A.R.S. § 43-206. Therefore, based on the ongoing revenue impact, the bill would decrease overall URSF distributions to cities and towns by an estimated $(756,000), beginning in FY 2025.

2/10/22