Fiscal Note

BILL # SB 1092

TITLE: income tax; currency transactions; effect

SPONSOR: Petersen

STATUS: As Introduced

PREPARED BY: Benjamin Newcomb

Description

SB 1092 would allow individuals and corporations to remove any net capital gain or loss associated with foreign and virtual currency transactions from the calculation of Arizona taxable income, beginning in TY 2025. The bill has a general effective date.

Estimated Impact

Due to a lack of specific data on foreign and virtual currency transactions, we are not able to quantify the fiscal impact of the bill. However, we expect that SB 1092 will reduce Arizona taxable income relative to current law beginning in TY 2025. This will result in annual General Fund revenue loss starting in FY 2026.

The Department of Revenue (DOR) has not yet provided an estimate of the bill's impact.

Analysis

The starting point for the computation of taxable income is Arizona gross income (AGI), which is equivalent to federal adjusted gross income (FAGI). This includes a taxpayer's capital gain or loss. The bill would allow individuals and corporations to subtract net capital gains and remove net capital losses from foreign and virtual currency transactions to their AGI. This effectively exempts these transactions from state income taxation.

There is little public data on the level of net capital gains or losses from foreign and virtual currency transactions. Individual and corporate filers report the overall gain or loss from sales and exchanges of capital assets on Schedule D (Form 1040 for individuals, Form 1120 for corporations). The Internal Revenue Service (IRS) provides an estimate of overall net capital gains/losses reported on Schedule D, but it does not break these down by asset type in its most recent estimates, which are for TY 2020. The most recent year for which the IRS provides a breakdown by asset type is for TY 2015, but neither foreign nor virtual currency transactions are reported as distinct asset types. Therefore, we cannot estimate the level of net capital gain or loss under the bill.

Since the bill would allow taxpayers to remove both capital gains and losses from their taxable income, there would be a net decrease in individual and corporate income tax collections relative to current law. However, as noted above, due to a lack of specific capital gains data on foreign and virtual currency transactions, we cannot quantify such revenue impact.

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 Fund (URSF) established by A.R.S. § 43-206. To the extent that the bill reduces individual and corporate income tax collections relative to current law, as discussed above, the bill would decrease overall URSF distributions each year, beginning in FY 2028.

1/29/24