

**Ballot Proposition I-16-2022
Arizona Fair Elections Act
Fiscal Analysis**

Estimated Impact

A.R.S. § 19-123(E) requires the Joint Legislative Budget Committee Staff to prepare a summary of 300 words or less on the fiscal impact of voter-initiated ballot measures. Proposition I-16-2022 implements changes to state laws regarding taxes, elections and campaign finance.

The measure is projected to decrease annual General Fund revenues by \$(15.9) million, with most of this impact due to the proposed \$5 optional tax checkoff box. For the checkoff box, a taxpayer may opt to reduce their own taxes by \$5 plus transfer \$5 of their taxes to the Citizens Clean Elections Fund (CCEF), resulting in a \$10 revenue loss to the General Fund. The measure also reallocates \$100 of annual corporate income taxes of companies with more than 50 full-time employees from the General Fund to the CCEF.

The measure's revenue changes are projected to increase annual CCEF revenues by \$9.1 million, as the fund would collect \$5 from each checkoff box and receive \$100 from each corporation with more than 50 full-time employees. The measure also imposes an additional \$25 lobbyist registration fee that would be deposited into the CCEF.

The measure is expected to increase state spending by \$425,000 due to requiring an automatic voter registration system and a separate direct online voter registration system. The proposition would also increase the public funding amounts available to candidates, which is projected to increase state spending by at least \$700,000 for each 2-year election cycle. These increased state costs would be paid from the CCEF.

The act would increase local government spending due to requirements for the automatic voter registration system, hiring clerks for election-day voter registration at polling places and other election requirements. These local government costs cannot be determined. The measure allows state reimbursement of these costs from the CCEF.

Summary

See *Table 1* below for a summary of the measure's fiscal impact:

Table 1		
Summary of Estimated Fiscal Impact		
	<u>General Fund Impact</u>	<u>Clean Elections Fund Impact</u>
<u>Revenue Impact</u>		
Corporate Income Tax Provisions	(\$360,100)	\$1,339,100
\$5 Income Tax Checkoff Box	(15,497,800)	7,748,900
\$25 Lobbyist Registration Fee		37,700
Total Revenue Impact	(\$15,857,900)	\$9,125,700
<u>Spending Impact</u>		
State - Voter Registration Systems		\$425,000
State - Candidate Public Financing ^{1/}		\$700,000
State - Local Election Grants		Cannot Be Estimated
Total Spending Impact	\$0	\$1,125,000
^{1/} Represents minimum estimated impact prior to any additional usage of Clean Elections program.		

(Continued)

Analysis

The proposition implements numerous changes to state laws regarding taxes, elections and campaign finance.

State Revenue Impact

The initiative would impact state revenues by increasing the minimum income tax for corporations with more than 50 full-time employees, changing the distribution of income tax collections from corporations with more than 50 full-time employees, prohibiting the use of tax credits to offset the minimum income tax for corporations, implementing an optional \$5 tax checkoff box, and assessing an additional \$25 lobbyist registration fee. Additional revenues from these changes are deposited into the Citizens Clean Elections Fund.

Corporate Income Tax Changes

The state's corporate income tax is levied on corporations that engage in business within Arizona. Multi-state corporations must allocate a proportion of their income to Arizona based on their Arizona property, payroll and sales, or they may also elect to allocate income to Arizona based solely on their sales in the state. The corporate income tax applies to all corporations with the exception of: 1) Organizations exempt from federal income tax under section 501 of the Internal Revenue Code (generally non-profit organizations); 2) Small business corporations that make a "subchapter S" election, whose income is passed through to shareholders; 3) Insurance companies that are subject to the state's Insurance Premium Tax; 4) A corporation owned by an Indian tribe or tribal member if its income is derived from businesses located on the reservation; and 5) Non-profit medical marijuana dispensaries.

Corporate income tax is levied based on Arizona taxable income. This tax base starts with Arizona gross income, which is equivalent to the taxpayer's federal taxable income and is then adjusted by a series of additions and subtractions as authorized by state law.

Under current law, all corporations are liable for a tax of the greater of 2 amounts: 4.9% of net Arizona taxable income or \$50. The \$50 threshold serves as the state's minimum corporate income tax levy, in that any corporation, regardless of the amount of Arizona taxable income in a given tax year, can have no less than \$50 in state corporate income tax liability. A corporation may then apply available tax credits, which reduce Arizona corporate income tax liability on a dollar-for-dollar basis, which can reduce the amount due below the \$50 minimum corporate income tax threshold. After the calculation of tax liability and the inclusion of any tax credits, the final amount of corporate income tax due is paid entirely into the state General Fund.

The proposition would change the state's corporate income tax provisions relating to the minimum tax liability and the distribution of corporate income tax revenues.

Under the measure, beginning in Tax Year (TY) 2023, the state's minimum corporate tax threshold for corporations with more than 50 full-time employees would become \$150. In addition, the measure contains a provision that if the \$5 optional tax checkoff box (*see Optional Tax Checkoff Box section below*) is repealed or becomes unenforceable, then the state's minimum corporate tax threshold for corporations with more than 50 full-time employees would become \$350 starting in the following tax year. Finally, the measure prohibits any corporation from using tax credits to reduce their corporate income tax liability below the relevant minimum threshold.

The measure would also change the distribution of corporate income tax collections. Under current law, corporate income tax collections are deposited into the state General Fund. The proposition would instead require that for a corporation with more than 50 full-time employees, \$100 of the tax collected is deposited into the Citizens Clean Election Fund and the remainder would be deposited into the General Fund. If the \$5 optional tax checkoff box is repealed or becomes unenforceable, the measure would establish this tax set aside at \$300.

Assuming the \$5 optional tax checkoff box remains in effect, we estimate the combined impact of these corporate income tax provisions will reduce annual General Fund revenues by \$(0.4) million and increase annual Citizens Clean Elections Fund revenues by \$1.3 million based on the following factors (*see Table 2 below*):

(Continued)

Table 2

Estimated Impact of Corporate Income Tax Provisions

<u>Fiscal Impact For Each Scenario</u>	<u>Fund Impact</u>	<u>Revenue Impact</u>
1) Corporations with more than 50 FTE, that currently pay the \$50 minimum tax - Increase Minimum tax from \$50 to \$150 - Allocate \$100 of tax payment to Clean Elections Fund	GF CCEF	\$0 \$957,500
2) Corporations with more than 50 FTE, that currently pay the above minimum tax - Increase Minimum tax from \$50 to \$150. No impact since 4.9% tax rate is used. - Reallocate \$100 of tax payment to Clean Elections Fund	GF CCEF	(\$381,600) \$381,600
3) For all corporations regardless of FTE count, prohibit use of tax credits to eliminate minimum tax liability - Requires payment of existing \$50 minimum tax due, increases GF revenue - Requires payment of \$100 minimum tax increase already assumed in #1 above.	GF CCEF	\$21,500 \$0
Total Revenue Impact - General Fund (GF)		(\$360,100)
Total Revenue Impact - Citizens Clean Election Fund (CCEF)		\$1,339,100

- 1) Corporations with more than 50 employees, that currently pay the minimum tax: These entities will see their corporate income tax bill increase from \$50 to \$150. This entire \$100 increase will be captured by the measure's set aside provisions. This results in no net General Fund impact and a \$100 revenue increase for the Clean Elections Fund for each corporation falling under this category. According to data from the Department of Revenue (DOR), there are 9,575 corporations with more than 50 employees and who pay the minimum tax. The measure's changes for these entities would generate a \$957,500 annual increase in Citizens Clean Elections Fund revenues.
- 2) Corporations with more than 50 employees, that currently pay tax based on the 4.9% statutory rate: These entities corporate income tax bill will be unchanged by the increase in the minimum tax from \$50 to \$150. Because their tax bill is unchanged, the \$100 set aside provision results in a \$100 General Fund loss and a \$100 revenue increase for the Clean Elections Fund for each corporation falling under this category. According to data from DOR, there are 3,816 corporations with more than 50 employees and who pay more than the minimum tax and use the 4.9% statutory tax rate. The measure's changes for these entities would reduce annual General Fund by revenues by \$(381,600) and generate a \$381,600 annual increase in Citizens Clean Elections Fund revenues.
- 3) Prohibit the use of tax credits to eliminate minimum tax liability – Under current law, corporations that are subject to the \$50 minimum tax may eliminate this liability through the use of tax credits. These corporations generally fall into 2 categories: liability is reduced to zero through nonrefundable tax credits, or a refund is paid through refundable tax credits. The measure would instead require all corporations (regardless of employee count) to pay the required minimum tax. In the case of companies using nonrefundable credits, their zero liability would be replaced by the applicable minimum tax (\$50 or \$150). For companies using refundable tax credits, any refund would be reduced by the applicable minimum tax due (\$50 or \$150).

This provision generates a \$50 revenue gain to the General Fund for each affected corporation. According to DOR, 429 corporations currently eliminate the minimum tax liability through the use of tax credits. This provision is expected to increase annual General Fund revenues by \$21,500 (429 corporations X \$50). This provision would also ensure these 429 corporations pay the additional minimum tax required by the measure, which is included in the impact of #1 above.

(Continued)

Optional Tax Checkoff Box

The Citizens Clean Elections Act ballot measure approved in 1998 authorized a \$5 income tax checkoff box that was included on all individual and corporate income tax forms. Under this policy, a taxpayer could select a line labeled "Clean Elections Fund Tax Reduction", which would reduce the filer's tax liability by \$5 and transfer \$5 of the filer's taxes to the Citizens Clean Elections Fund. Based on this process, each checkoff box selected resulted in a \$5 increase in revenue to the Clean Elections Fund and a \$(10) reduction in General Fund revenue. For married couples jointly filing income taxes, the tax form authorized 2 separate checkoff boxes. The authorization for the \$5 checkoff box was repealed by Laws 2012, Chapter 257, a measure which made numerous changes to the Citizens Clean Elections Act.

The proposition would re-enact a similar \$5 optional tax checkoff box policy, which would apply to both individuals and corporations in the same manner and now also include insurance corporations who are subject to the state's insurance premium tax.

We estimate the tax checkoff box will reduce annual General Fund revenues by \$(15.5) million and increase annual Citizens Clean Elections Fund revenues by \$7.7 million based on the following factors (see Table 3 below):

	<u>Individual Income Tax</u>	<u>Corporate Income Tax</u>	<u>Insurance Premium Tax</u>	<u>Total Impact</u>
1) Number Eligible Tax Filers - IIT = Rounded TY 2020 data, exclude pass-throughs - CIT = Only C-Corporations, exclude pass-throughs - IPT = Filer Count From FY 2022	3,500,000	46,175	1,787	
2) Estimated Percent Usage of Checkoff Box - IIT/CIT based on historical usage of prior checkoff box - IPT usage assumed to be at CIT level	30%	35%	35%	
3) Number of Returns Using Checkoff Box - IIT = DOR Data 54% Single Filers/46% Married Filers 567,000 Single Returns / 483,000 Married Returns	1,050,000	16,161	625	
4) Dollar Value of Checkoff Box Activity - IIT = \$5 each single returns/\$10 each married return - CIT/IPT = \$5 each return	\$7,665,000	\$80,800	\$3,100	
Revenue Impacts				
For each \$5 checkoff, \$5 transferred to CCEF and \$5 tax reduction for filer = \$(10) GF revenue loss (2:1 ratio for GF)				
Revenue Impact - General Fund (GF)	(\$15,330,000)	(\$161,600)	(\$6,200)	(\$15,497,800)
Revenue Impact - Citizens Clean Election Fund (CCEF)	\$7,665,000	\$80,800	\$3,100	\$7,748,900

- 1) Number of Eligible Tax Filers – Based on the most recently available data from DOR and the Department of Insurance and Financial Institutions (DIFI), there are approximately 3.5 million individual income tax filers, 46,175 corporate income tax filers, and 1,787 insurance premium tax filers. These filer counts exclude pass-through "subchapter S" corporations, as any checkoff would be taken on the owner/shareholder tax filings.
- 2) Estimated Percent Usage – DOR provided data for usage from the prior \$5 checkoff policy, which was used for this analysis. During TY 2011, 30% of individual income tax filers used the optional checkoff. During TY 2008 – TY 2010, an average of 35% of corporate income tax filers used the optional checkoff. Because insurance corporations were ineligible for the prior checkoff box, we have assumed a 35% usage rate for these entities.
- 3) Number of Returns Using Checkoff Box – This amount is based on total returns X usage rate. For individual income tax, we have used DOR data from TY 2011 that of all tax returns selecting the checkoff box, 54% were single filers/married filing separately/head of household, and 46% were married filing jointly.

(Continued)

- 4) Dollar Value of Checkoff Box Activity – This amount is based on number of returns with checkoff box selections X \$5, while assuming \$10 of checkoff selection for married couples. The dollar value of checkoff boxes selected would total \$7.7 million, which corresponds to the additional annual revenue generated for the Citizens Clean Elections Fund. Because each checkoff box selected results in a \$(10) revenue loss for the General Fund (2:1 ratio), this activity would also result in a \$(15.5) million annual General Fund revenue loss.

Additional \$25 Lobbyist Registration Fee

The state currently imposes a \$25 registration fee for each principal or public agency that "causes lobbying to occur on its behalf", with the fee being deposited into the General Fund. The term "principal" is broadly defined to include any private entity that retains a lobbyist, including an individual, corporation or organization. Under current practice, a principal typically hires one designated lobbyist, with additional lobbyists known as authorized lobbyists, depending on workload. Designated or authorized lobbyists do not pay the current \$25 registration fee.

The proposition would impose an additional \$25 lobbyist registration surcharge on each principal and each designated lobbyist in the state, which would be deposited into the Citizens Clean Elections Fund. As of June 2022, the Secretary of State's office reports there are 1,507 principals registered with the state. Assuming each principal retains the services of one designated lobbyist, we assume there are also 1,507 designated lobbyists who would be assessed the registration surcharge.

Under current law, principals are assessed the base registration fee in odd-numbered fiscal years and designated lobbyist fulfill their non-fee registration process in even-numbered fiscal years. The proposition's requirement that the new surcharge be paid "at the time of registering or reregistering" would result in the surcharge being paid in alternating years by principals and designated lobbyists. Based on the \$25 surcharge being assessed against 1,507 persons/entities each year, we estimate this provision will generate \$37,700 of additional annual revenue for the Citizens Clean Elections Fund.

State Spending Impact – SOS/ADOT

The act would affect state spending by requiring an automatic system that registers voters after interacting with certain state agencies, along with a direct voter registration system on the Secretary of State's website. The costs for these measures would be paid from the Citizens Clean Elections Fund.

The measure requires the creation of the "Secure Automatic Electronic Voter Registration System", which at a minimum, requires that persons interacting with the Arizona Department of Transportation (ADOT) for driver license or identification card services have their information automatically transmitted for new voter registration purposes or to update existing voter registration information.

ADOT has indicated that they believe the automatic voter registration requirements are "currently being performed by the agency due to federal and legal requirements" and any additional ADOT costs would relate to further implementation details in coordination with the Secretary of State and County Recorders.

The proposition also authorizes other state agencies to be a "source agency" to transmit data through the automatic registration system when interacting with state residents. The measure requires the Secretary of State to evaluate other "source agencies" besides ADOT, including specifically AHCCCS and DES. Our analysis is limited to ADOT and Secretary of State costs due to their initial usage of the system.

The measure also requires the creation of a direct voter registration system on the Secretary of State's website, that would allow persons to register to vote separate from the ADOT process, which would include providing proof of citizenship and an electronic signature. The proposition would require this system to accept third-party submissions on behalf of voters no later than December 31, 2024.

Based on estimates provided by ADOT and the Secretary of State's office, the automatic voter registration system is projected to increase state spending by \$175,000 for one-time development costs as follows: \$100,000 for the Secretary of State for 1 FTE position during the first year of implementation, and \$75,000 for ADOT for up to 600 hours of programming labor, at a cost of \$125 per hour. In addition, based on an estimate from the Secretary of State's office, the direct voter registration system is projected to increase state spending by \$250,000 for one-time development costs. *(See below for local government costs related to the automatic voter registration system).*

(Continued)

State Spending Impact – Clean Elections System

The Citizens Clean Elections Act ballot measure approved in 1998 allows candidates for state office to qualify for public campaign financing after meeting certain requirements. Candidates must submit a required number of \$5 qualifying contributions from qualified voters for that office and agree to follow limits on campaign contributions and expenditures. The proposition would impact state spending by increasing the funding amounts available to candidates under the Citizens Clean Elections Act. These increased costs would be paid from the Citizens Clean Election Fund.

Under current law, qualifying candidates receive a fixed sum for the primary election and a fixed sum for the general election, which is 50% greater than the primary election allocation (See "Current Law – Base" columns below). The proposed measure would increase the fixed primary election allocation, which would then also translate into higher general election allocations through the 50% factor (See "Proposed – Base" columns below). In addition, the measure would add a new round of supplemental campaign funding as follows: 1) A supplemental grant would be distributed after receiving additional \$5 qualifying contributions (20% of the initial requirement); 2) Each grant is 10% of the combined primary and general election fixed allocations for that office (See "Each Round" column below); and 3) In total for an election cycle, a candidate for statewide office may receive up to 10 rounds of supplemental grant funding, with up to 20 rounds allowed for Legislative office (See "Maximum Allowed" column below). See Table 4 below for a summary of the current allocations and the amounts contained the measure. The amounts listed in Table 4 do not include the different statutory allocations for independent candidates and candidates in unopposed races.

For example, a candidate for Governor may currently receive a total funding amount of \$2.1 million (\$854,567 + \$1,281,851 = \$2,136,418). Under the measure, a candidate for Governor could receive up to \$9.0 million (\$1,791,204 + \$2,686,806 + \$4,478,010 after 10 rounds of supplemental grants = \$8,956,020).

As an additional example, a candidate for Legislature may currently receive a total funding amount of \$43,200 (\$17,293 + \$25,940 = \$43,233). Under the measure, a candidate for Legislature could receive up to \$169,900 (\$22,651 + \$33,977 + \$113,256 after 20 rounds of supplemental grants = \$169,884).

The Citizens Clean Elections Commission staff did not provide a specific estimate of candidate spending under the proposition, however, they provided data that 21% of candidates participated in the Clean Elections system during 2020 and a total of \$2.9 million was distributed to qualifying candidates. Using this dataset of candidates and election races from 2020, we reviewed how much candidate spending would have been with the new higher base allocations. We estimate that the Commission would have distributed \$3.6 million of funding using the proposition's higher base allocations, or an increase of at least \$700,000 during each 2-year election cycle.

Candidate spending, however, is likely to be higher than \$3.6 million. Both the higher base allocations as well as the new supplemental payments may incentivize greater use of the Clean Elections program. We do not think that there is reliable means of determining this increased usage above the \$700,000 level.

Office	Current Law - Base		Proposed - Base		Proposed - Supplemental	
	Primary Election	General Election	Primary Election	General Election	Each Round	Maximum Allowed
Governor	\$854,567	\$1,281,851	\$1,791,204	\$2,686,806	\$447,801	\$4,478,010
Secretary of State	221,442	332,163	290,090	435,135	72,523	725,225
Attorney General	221,442	332,163	290,090	435,135	72,523	725,225
Treasurer	110,698	166,047	145,020	217,530	36,255	362,550
Superintendent of Public Instruction	110,698	166,047	145,020	217,530	36,255	362,550
Corporation Commissioner	110,698	166,047	145,020	217,530	36,255	362,550
Mine Inspector	55,367	83,051	72,529	108,794	18,132	181,323
Legislature ^{1/}	17,293	25,940	22,651	33,977	5,663	113,256

^{1/} A.R.S. § 16-952 allows a candidate in a "one-party-dominant legislative district" to use the General Election allocation in the Primary Election, in exchange for using the lower Primary Election allocation in the General Election.

(Continued)

Local Government Impact – Elections Spending

The act would increase local government spending due to requirements for the automatic voter registration system, hiring clerks for election-day voter registration at polling places and other election requirements. We have requested information from the Arizona Association of Counties regarding the local government impact and have not yet received a response. Without additional information from county governments, we cannot determine this local government cost. The measure allows state reimbursement of these costs from the Citizens Clean Election Fund.

7/22/22