

DAVID SCHWEIKERT
1ST DISTRICT, ARIZONA

WASHINGTON, DC
OFFICE:
460 CANNON HOB
WASHINGTON, DC 20515
(202) 225-2190

ARIZONA OFFICE:
14500 NORTH NORTHSIGHT BLVD.
SUITE 221
SCOTTSDALE, AZ 85260
(480) 946-2411
FAX: (480) 946-2446



COMMITTEE ON
WAYS AND MEANS

JOINT ECONOMIC
COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515-0301

March 13, 2024

Commissioner Daniel Werfel
Internal Revenue Service
1111 Constitution Ave., NW
Washington, D.C. 20224

Dear Commissioner Werfel:

As duly elected representatives of Arizona, we are writing to express our strong concerns regarding the Internal Revenue Service's (IRS) decision to subject the Arizona Families Tax Rebate Program to federal income taxation. We urge the IRS to reconsider the decision and side with the more than 700,000 Arizonan families who received tax relief that Americans in numerous other states have received.

In February 2023, the IRS issued a guidance statement (IRS News Release IR-2023-23) deeming certain tax rebates enacted by twenty-one states to be exempt from federal income tax for most taxpayers. The IRS claimed that rebate disbursements designated "for the promotion of the general welfare or as a disaster relief payment... may be excludable from income for federal tax purposes under the General Welfare Doctrine or as a Qualified Disaster Relief Payment." However, the guidance provided vague parameters, describing the determination of taxable rebates as "complex" and "fact-intensive," taking into account "a number of considerations."

Three months later, Arizona state officials used the February 2023 guidance to institute a one-time tax rebate, the Arizona Families Tax Rebate, for eligible families who claimed a dependent in 2021 for up to \$750 per taxpayer. Arizonan households are not exempt from the financial burdens of the COVID-19 pandemic and the historic levels of inflation that have been placed upon the country. The rebate was constructed in good faith with reasonably available information and tailored to aid taxpayers with children and dependents, establishing a need among those taxpayers who claimed the rebate.

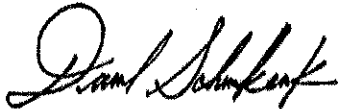
As you know, updated guidance from the IRS (Notice 2023-56) concerning 2023 state payments was not released until August 30, 2023, four months after Arizona's rebate was passed. The IRS has considerable leeway in determining which types of payments are eligible for exclusion, as there is no written or singular definition of what kind of income threshold qualifies for the general welfare exclusion. We disagree with the determination that the Arizona rebate did not meet exclusion requirements under general welfare or disaster relief payments despite being

much more targeted than most of the other states' payments, which the IRS declared to be excluded.

We also want to express concern about how the IRS informed the Arizona Department of Revenue of its determination to make the Arizona Tax Rebate subject to federal taxation. In December 2023, the IRS relayed its decision orally through a video meeting, providing no written explanation until February 15, 2024, *eighteen days* after the start of tax season, and only in response to a letter from the Arizona Attorney General challenging the decision. In addition to failing to specify the factual and legal basis for the twenty-one states' rebates and payments that were deemed nontaxable in 2022, and despite several of these programs being far less targeted at individual needs than the Arizona Tax Rebate, the inconsistent rationale left the state with no timely redress and no choice but to compel upon Arizona taxpayers an estimated \$20.8 million in extra federal taxes. The inconsistency and delay in communication have resulted in undue financial strain on Arizonans.

The country is poorer now than it was three years ago, and Arizonans are no different, facing the brunt of financial pressure with supermarket prices now nearly 25% higher than in January 2020, for example. State officials acted in good faith with the reasonably available information to provide more than 700,000 households with much-needed relief from price increases on everyday goods and services. We urge the IRS to reconsider its determination and provide expedited relief to compliant Arizonan taxpayers who have already filed their 2023 tax returns.

Sincerely,



David Schweikert
Member of Congress



Juan Ciscomani
Member of Congress



Greg Stanton
Member of Congress