

# United States Senate

January 29, 2024

The Honorable Daniel Werfel  
Commissioner, Internal Revenue Service  
1111 Constitution Avenue, NW  
Washington, DC 20224

Commissioner Werfel,

As Arizona's senior senator, I am writing to elevate the concerns raised by state partners like Arizona State Senate President Warren Petersen and Attorney General Kris Mayes (letters enclosed) to the Internal Revenue Service (IRS). Looking at the potential impact to 700,000 hard-working Arizona families, I urge a timely reconsideration of the IRS' determination that the Arizona Families Tax Rebate is subject to federal income taxation.

At a time when Arizona households are still recovering from the financial impacts of the pandemic, exacerbated by historically high rates of inflation, the state legislature and the Governor's office worked in good faith in May 2023 to provide appropriate relief to Arizona families. When the state legislature was creating the rebate, the most recent IRS information available was from IRS News Release IR-2023-23. While the release noted it was specific to 2022 state payments, it is not unreasonable states would look towards the most recent, available information for guidance as they considered 2023 relief. Especially when updated information (Notice 2023-56) for 2023 state payments was not released until August 30, 2023, nearly four months after Arizona's law passed.

We understand the general welfare exclusion is a complex, fact-intensive process dependent on a number of considerations. It is also understood the IRS has latitude in considering which types of payments are eligible for the exclusion. We disagree with the IRS' determination that the income thresholds included in the Arizona Families Tax Rebate are too high, as there is no written or singular definition of what kind of income threshold qualifies or doesn't for the general welfare exclusion. States, understandably, relied on existing federal tax credit thresholds in the absence of other information, statutory text, or written guidance. Additionally, the IRS' determination denies tax relief to the most vulnerable families counted among the 700,000 impacted households.

In conversations with state stakeholders and members of your team, we have made clear that Arizona legislators acted in good faith, using what information was reasonably available to them in designing the Arizona Families Tax Rebate. It is unreasonable to subject 700,000 Arizona families to higher federal tax burdens after the fact and I ask the IRS to reconsider the federal taxability of the Arizona Families Tax Rebate.

Sincerely,



Kyrsten Sinema  
United States Senator

*Enclosures:* Letter - Arizona State Senate President Warren Petersen  
Letter - Arizona Attorney General Kris Mayes