

**Congress of the United States**  
**Washington, DC 20515**

March 13, 2024

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

Dear Commissioner Werfel,

As elected representatives of the people of Arizona, we stand in full support of the State of Arizona’s recently filed suit against the Internal Revenue Service (“IRS”) over its decision to classify certain state tax rebates as federally taxable income. We are very concerned that the monetary consequences of this decision will be detrimental to the State of Arizona and Arizona taxpayers.

In February 2023, the IRS issued a guidance statement declaring certain tax rebates enacted by twenty-one states to be exempt from federal income tax for most taxpayers.<sup>1</sup> In its guidance, the IRS stated that rebate payments made “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.” In the absence of precise parameters in which policymakers and taxpayers could rely on, the guidance described the reasoning behind determining which rebates were taxable as “complex” and “fact intensive,” taking into account “a number of considerations.”<sup>2</sup>

Relying on this guidance and its decision on the tax rebates of other states, Arizona enacted a one-time tax rebate in May 2023, known as the Arizona Families Tax Rebate. The rebate was for taxpayers who claimed a dependent tax credit, with the possible amount received being capped at \$750 per taxpayer.<sup>3</sup> This tax rebate was paid out of Arizona’s general fund to all taxpayers who qualified and was structurally targeted to assist taxpayers with children who may be especially struggling from the aftereffects of the COVID-19 response and the then-record levels of inflation.<sup>4</sup> As such, Arizona’s tax rebate was both for the general welfare and related to disaster relief payment, even more so than some of the rebates of other states which the IRS declared to be excluded from taxable income.

Despite this, the IRS decided that money received from this tax rebate is taxable income and will require Arizona taxpayers who received a rebate to pay a portion of it to the federal government. This decision was originally conveyed in a December 2023 video meeting, with written confirmation only provided in February 2024 in response to a letter from the Arizona Attorney’s General office challenging the decision. This irregularity in the IRS’s notice of its

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<sup>1</sup> IR-2023-23.

<sup>2</sup> *Id.*

<sup>3</sup> S.B. 1734, 56th Session § 3 (2023).

<sup>4</sup> *See Id.* at § 3 (L)(1) (“Inflation is at a forty-year high, putting gas groceries and other necessities out of reach for many Arizonians”).

decision parallels the irregularity and seemingly arbitrary nature of its decision. The IRS has yet to provide reasons for why it has decided to classify this rebate as taxable income that would not equally apply to rebates enacted by other states which the IRS has already labelled as excluded from taxable income.

Relying on the IRS's previously issued guidance, the State of Arizona enacted this tax rebate to help Arizona families make vital purchases and payments. Under the current circumstances, however, the money distributed to taxpayers by the State of Arizona will instead be paid directly to the federal government. This result will deprive Arizona taxpayers the money they need to provide for their families and continue to sustain the economy in Arizona.

As representatives of the people of Arizona, we urge you to reevaluate this decision concerning Arizona's family tax rebate and come to the same conclusion as was made on the rebates of twenty-one other states.

Sincerely,



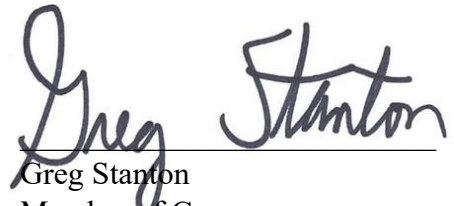
Andy Biggs  
Member of Congress



Eli Crane  
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Debbie Lesko  
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Greg Stanton  
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