

ARIZONA HAS BUDGET CHOICES

These choices include collecting more of the taxes that are already owed, eliminating tax deductions and tax credits that no longer serve their intended purpose, suspending new tax cuts that are scheduled to be phased in, and repealing recent tax cuts that were passed when Arizona had large budget surplus.

RESULTS OF STRENGTHENING REVENUE COLLECTION AND BROADENING THE TAX BASE

| | | |
|---|---|---------------------|
| SUSPEND NEW TAX CUTS | Tax cuts passed in 2005, when state revenues were high, are still being phased in. These include the reduction in assessment ratio for commercial property, the single sales factor formula for the corporate income tax, and the film tax credit. A moratorium on the cuts that haven't gone into effect yet would save \$52.3 million in FY 2010 and \$58 million per year thereafter. | \$52.3 million |
| | Allow the education equalization tax to return at the end of the three-year suspension. This is a statewide property tax that supports K-12 education. | \$250 million |
| COLLECT MORE TAXES THAT ARE ALREADY OWED | Require that taxes be withheld from contractors that work in Arizona but are located out of state. Having taxes withheld will encourage such contractors to file a tax return in Arizona, as is already required. | unknown |
| | Require pass-thru entities, such as S corporations that pass their income and losses on to stockholders rather than filing corporate income taxes, to withhold tax on distributions to out-of-state owners. These owners legally owe Arizona taxes on the distributions. | unknown |
| | Disallow deductions for business payments to independent contractors when the business has not filed the required 1099 form. Failing to file a 1099 form allows underreporting of income. | unknown |
| REMOVE TAX DEDUCTIONS/CREDITS THAT AREN'T ACHIEVING GOALS | <p><i>Corporate Income Tax Credits</i></p> <p>Arizona allows 27 credits that amount to \$58 million in lost revenues per year. The largest is the research and development credit which is unlimited. (\$43.7 million in the most recent year.) A December 2008 analysis from JLBC states that "no empirical evaluation of the credit has been conducted" and that the impact on Arizona's employment and economy is unknown.</p> | up to \$58 million |
| | <p><i>Individual Income Tax Credits</i></p> <p>Arizona allows 31 credits that amount to \$252 million in lost revenues per year. The largest are the private school tuition organization and public school extracurricular activity credits which cost the state general fund \$92 million per year. Some tax credits are clearly targeted to benefit low-income families. While other credits help some children, they are not efficient tax policy and the loss to the general fund is not well targeted to those who need it most.</p> | up to \$252 million |

| | | |
|---|--|--------------------------------|
| TAX PRICE, NOT VOLUME | Unlike the traditional sales tax, taxes that are based on a unit of measure, like gas and liquor taxes, do not automatically rise when prices rise. The result is that these revenues, which support our highways and correctional programs, are much lower than they would be if the changes in price were included in the calculation. | unknown |
| APPLY THE SALES TAX TO SOME SERVICES** | Apply the sales tax to personal care services, such as hairdressers, nail salons, and pet grooming. | \$35.2 million |
| | Apply the sales tax to educational services such as technical and trade schools, dance schools, and exam preparation schools. | \$21.9 million |
| | Apply the sales tax to miscellaneous services which include car repair and maintenance and household goods repair and maintenance. | \$99.7 million |
| OTHER WAYS TO STRENGTHEN REVENUE | Reclaim the transaction sales tax that is being retained by retailers as a payment for them collecting the tax (up to \$10,000 per year per retailer). | \$22.2 million |
| | Return the responsibility for building and repairing schools back to local property taxes. Include an equalization formula so that each district can fund minimum capital standards no matter what their local tax base is. The general fund took responsibility for school construction and repair in FY 99 with no new revenues. | \$520 million to \$675 million |
| | Strengthen the tax credit review process by requiring a sunset provision for all tax credits and retaining only those credits that are clearly achieving a goal. | Unknown |
| REPEAL 2006 PERSONAL INCOME TAX CUT | The Arizona Legislature passed a 10% reduction in Arizona's personal income tax in the 2006 Legislative Session. Since Arizona has a progressive income tax system, the cut provided a larger tax cut to the wealthiest income earners in Arizona. | \$340 million |
| SUSPEND TRUTH IN TAXATION & ADJUST | Suspending the Truth in Taxation law and adding \$1.00 to the existing QTR (Rollback to FY04 level) would only cost a homeowner in Arizona \$5.17 and businesses \$18.33 per \$100,000 of Assessed Value in property taxes. | \$588 million |

- These options do not represent an official position of the AEA. Each option has been brought forward by an organization or study and has been communicated to legislators.
- Thanks to Children's Action Alliance for research on CFRC recommendations included in this document.
- Sources: The Citizens Finance Review Commission 2003 (www.azcfr.com) and economic analysis by national organizations. AEA Report to the CFRC. http://www.arizonaaea.org/pdfs/news/cfrc_rpt071103.pdf

**Economists advise a broad tax base in order to weather the impact of the economic cycle on government revenues. Yet Arizona exempts two-thirds of services from sales tax, taxing only 55 of the 168 possible services.