

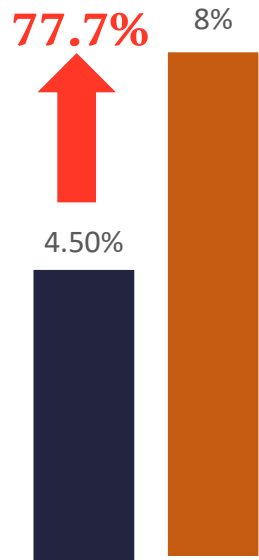
NO **ON** **2008**

Income Tax Hike is Cynical & Misguided

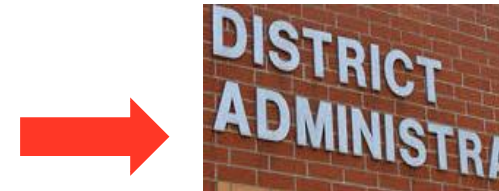
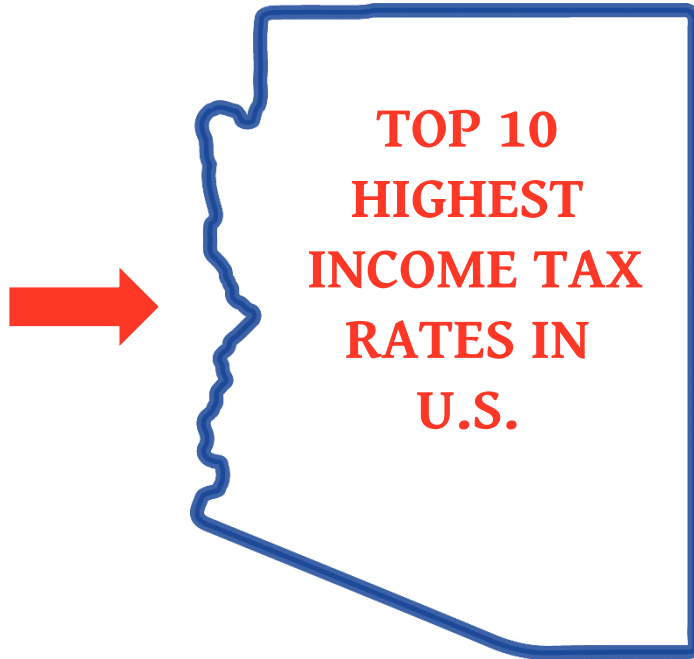
WE CAN DO BETTER

What does Prop 208 do?

Nearly doubles top income tax rate



TOP MARGINAL TAX RATE



- Small business killer
- Decrease in business relocation & expansion
- In first 10 years:
 - 124,00 jobs lost
 - (\$2.4B) hit to state & local tax revenue
- No increase to base K-12 funding
- No base salary increases for teachers
- Volatile grants
- Less \$ for teachers than 20x2020
- No accountability

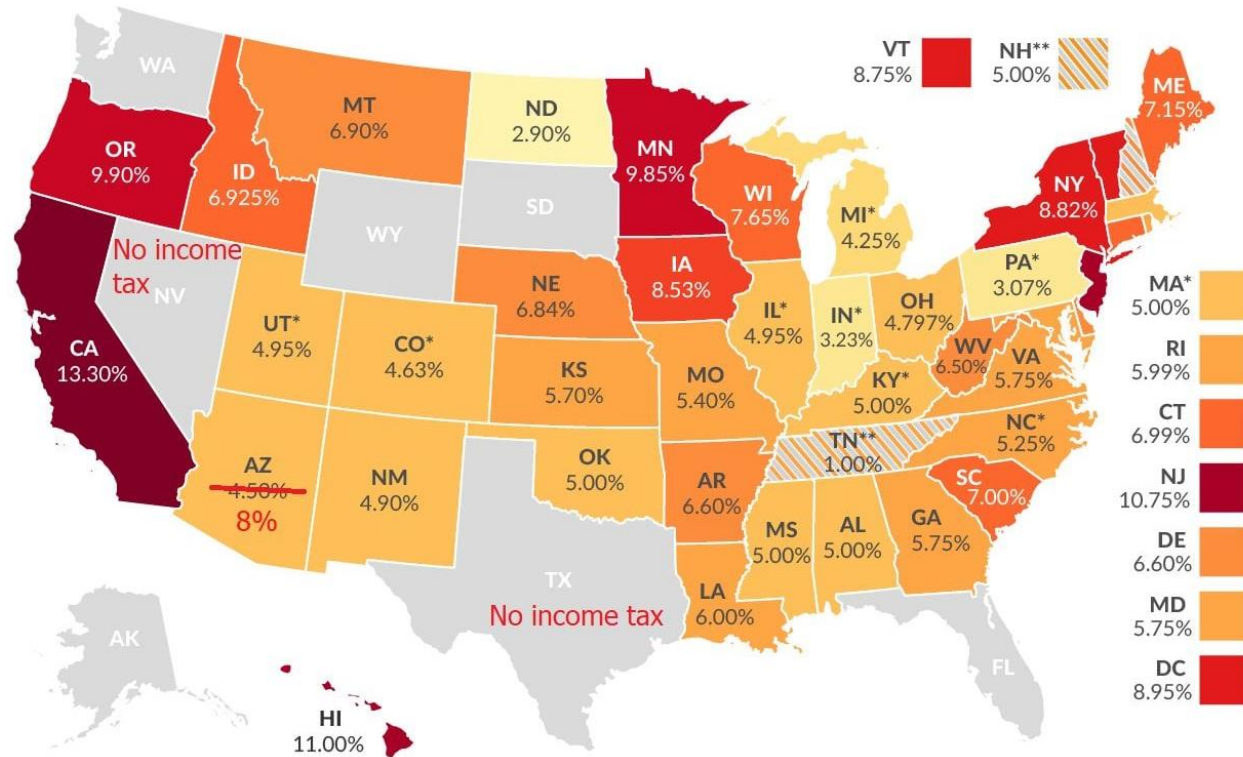
PROP 208 IS LARGEST TAX INCREASE IN ARIZONA'S HISTORY

NO
ON
208

AZ Cannot Afford to be a Top 10 Tax State

How High are Individual Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates, 2020



- An 8% tax rate will catapult Arizona into the **TOP 10** highest in the country.
- Prop 208 undermines:
 - Economic recovery
 - Business friendly reputation
 - Local business expansion
 - Regional tax competitiveness
 - Business attraction
 - Retiree locations

Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

(*) State has a flat income tax.

(**) State only taxes interest and dividends income.

Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.

Top State Marginal Individual Income Tax Rates



Arizona used to be a high tax state

It wasn't working

- Prior to rate cuts in the 90s & 2000s, AZ was a high tax state, with a **top marginal individual rate of 7%** and a corporate income tax rate of 9%
- AZ was regionally uncompetitive and had few wealthy filers
- High rates DID NOT result in higher revenues:
- **Despite 36% rate reductions since then, AZ's individual income tax produces 185% more revenue in 2019 than it did in 1991, adjusted for inflation. Revenue growth doubled population growth!**
- Arizona's economic success story and sustained in-migration cannot be fully understood without appreciating its low-income tax burdens

Competitive Rates Work for AZ

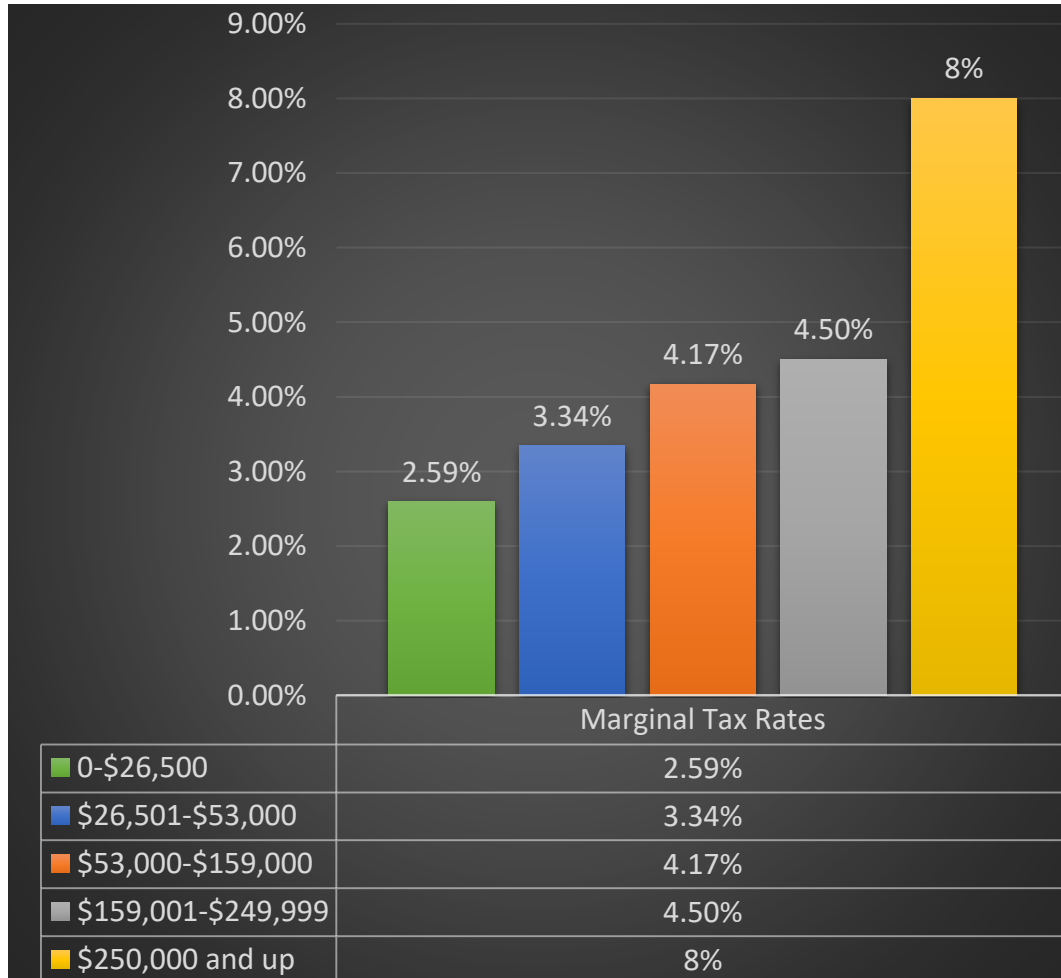
High Income Filers Flock

- From 1991 to today
 - Filers with \$500k+ in income grew from 1,674 to 20,211
 - Percentage of filers with \$500k+ in income grew 396%
 - Amount of taxes they paid increased from 11% of total to 24%
 - Taxes paid: \$161M in '91, TODAY: \$1+ Billion (constant dollars)
- High income, **nonresidents** pay more than \$100M in Arizona income taxes
- 50% of nonresident income tax revenues from filers who are impacted by Prop 208
- AZ imported \$11.6B in taxable income due to domestic migration last 5 yrs
 - Translated to \$282M in state income taxes
 - 7% of income taxes paid in 2018 were from new migrants to AZ

WEALTHY TAXPAYERS AREN'T TIED TO AZ; THEY CHOOSE TO BE



Prop 208 Creates an Imbalanced Tax

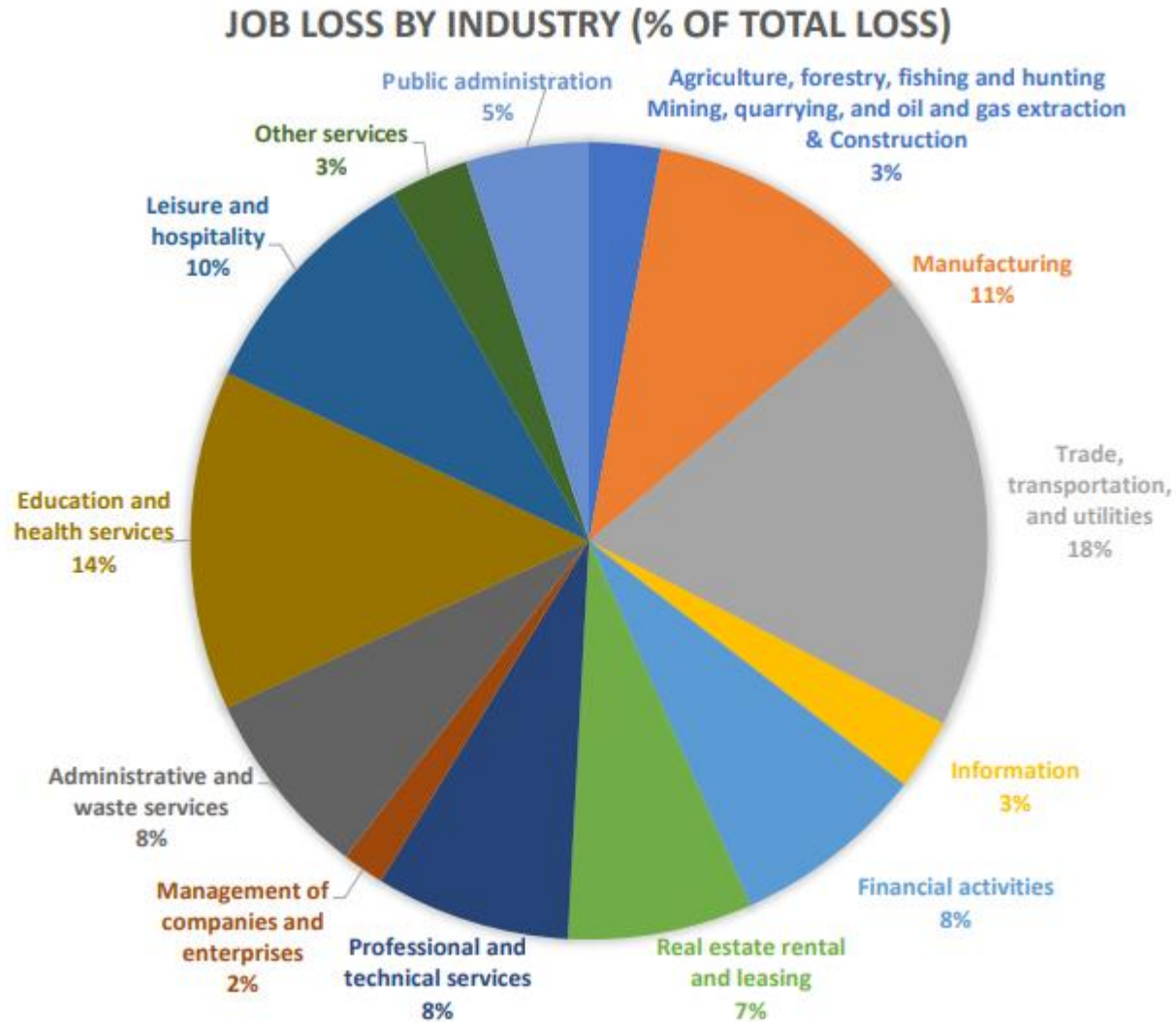


- Low rates on the majority and high rates on ~2% of filers creates an imbalance
 - Paying for K-12 is an obligation of entire public
 - Isolating K-12 costs on a small group is poor public policy & deeply cynical
- Federal income tax already highly progressive; **top rate would be 41.5%!**
- AZ loses regional competitiveness
- No state income tax:
 - TX, WA, NV, WY, SD
- Flat income tax (or nearly flat):
 - UT, CO, NM, ID, MN, OK
- Very high progressive rates: CA & OR

Economic Impacts at a glance

- If passed, the combined economic impact over the first ten years would result in **124,000 jobs lost and a reduction of \$2.4 billion in state and local tax collection.**
- **REDUCED BUSINESS ATTRACTION** A competitive tax policy is critical for economic development. The most common comparison used for business location decisions is a comparison of the top marginal tax rate. The risk for new business attraction and expansion could be as large as a 25% reduction.
- **SLOWER JOB GROWTH** Will have a negative impact in growing the state's current base, resulting in economic and fiscal losses over time.
- **REDUCED WAGES** Negative impact the quality of the state's job growth overtime resulting in average wages of newly created base sector jobs falling by \$1,000 to 3,000 per year.
- **Lower base sector wages will reduce tax collections, increase social services costs, and result in fewer supplier jobs being created throughout the economy.**

Industry Wide Job Loss

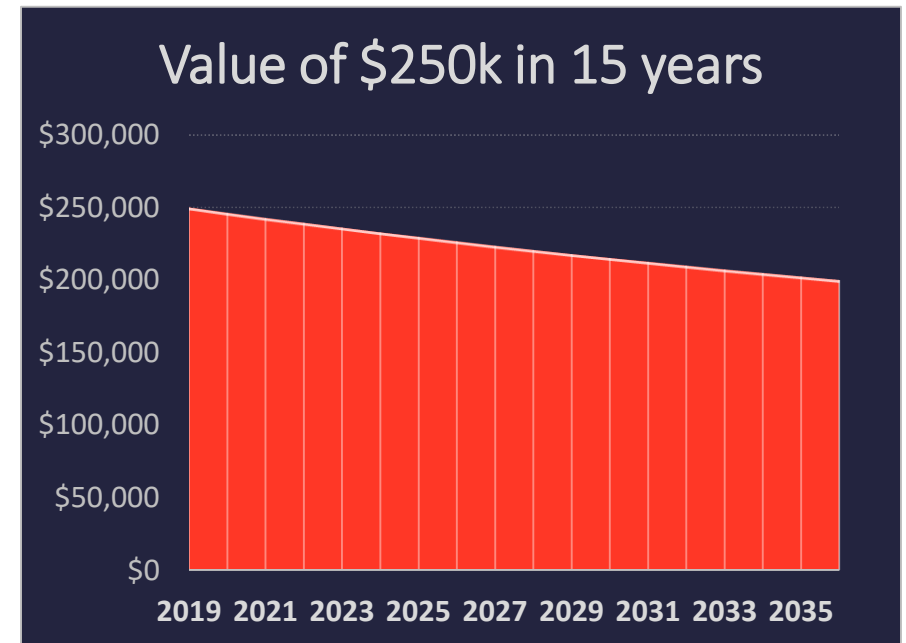


Bottom line: Prop 208 will impact everybody, and not just high-income individuals.

The Small Business Destruction Act

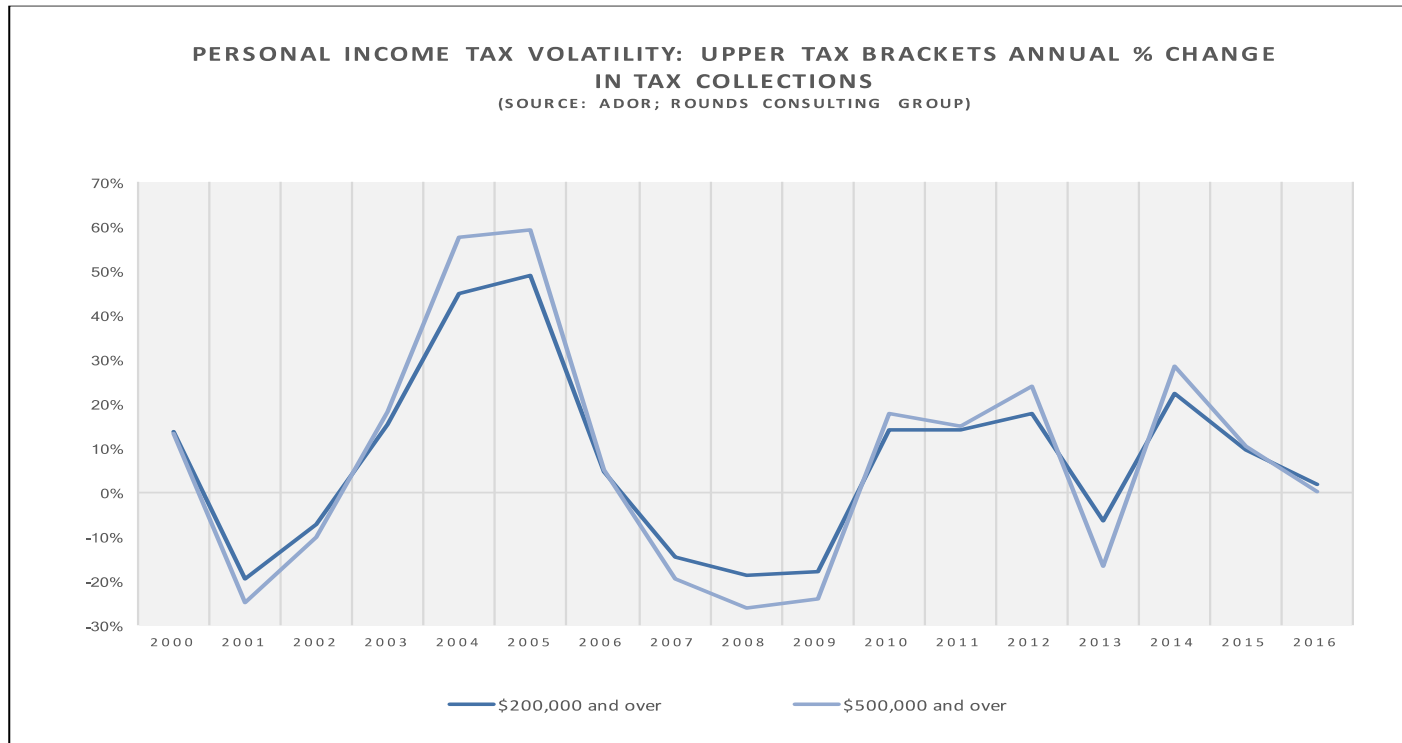
Already high taxes will grow each year due to indexing omission

- Prop 208 DOES NOT Adjust Tax Brackets for Inflation
 - Both Federal & State income tax brackets *do* adjust
 - Adjustments avoid tax increases associated with normal inflation
- 15 years on: \$250k = \$200k
- Each year, new taxpayers & more business revenues will be impacted.
- **Effectively an annual tax increase.**
- Needless complication for filers: one tax adjusts while this tax is static.



Prop 208 Fails Teachers

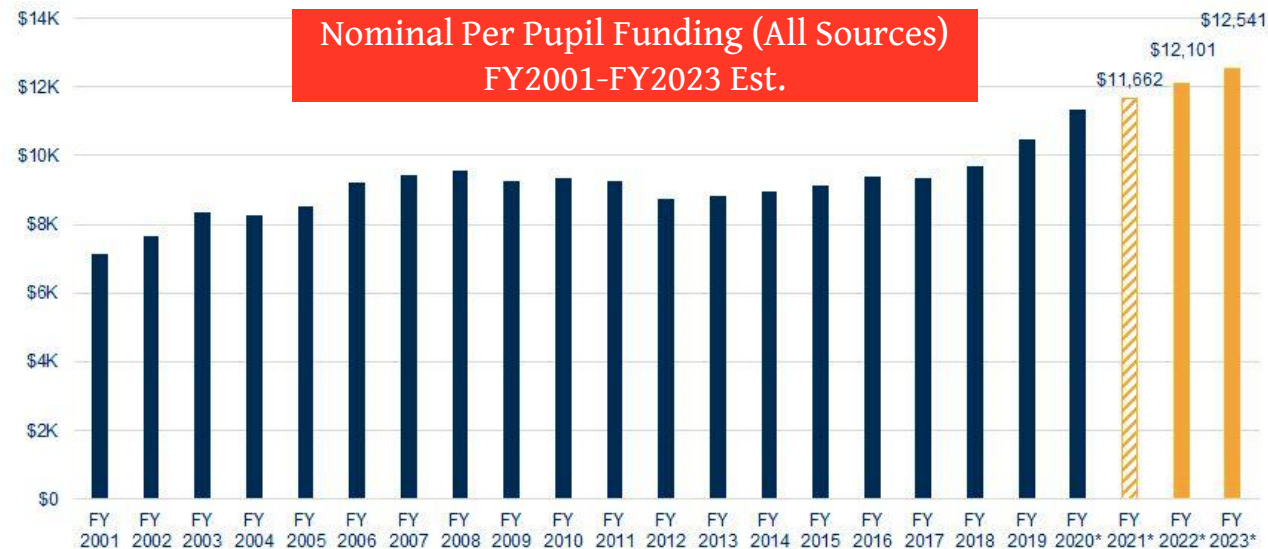
Unreliable & Unstable Revenue Source



- Proponents claim to raise \$1B, but this tax bracket is **highly volatile**
- There will be **no funding guarantee** from year to year
- **P208 won't raise base pay!** Staff will receive small bonuses only.
- Destabilizing teacher pay by tying it to a volatile source is **irresponsible & unfair to teachers**

208 Supporters Wrongly Cite Cuts to K-12 Growth in AZ Has Produced \$ for K-12

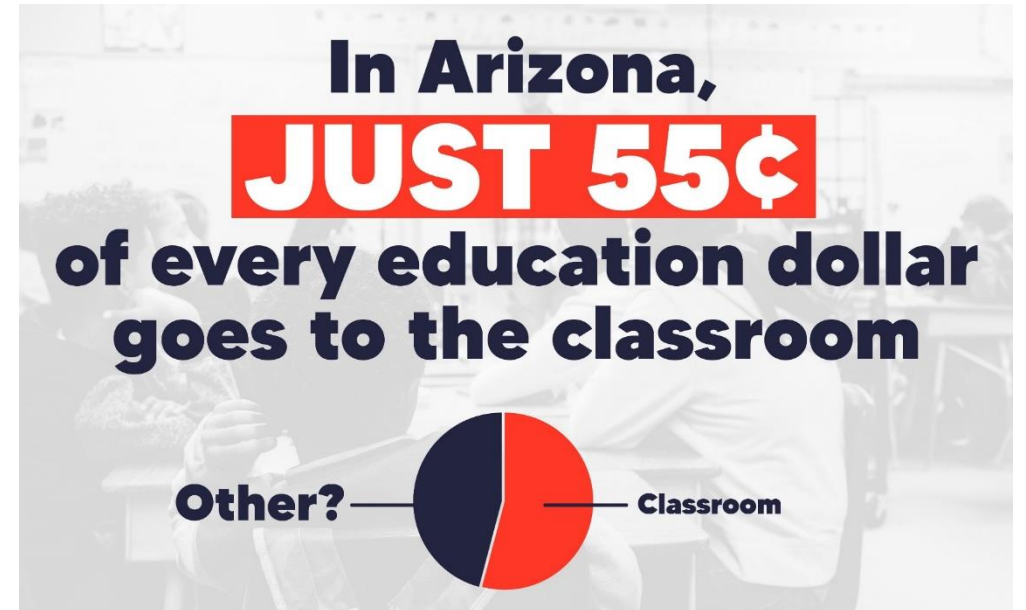
- Education funding has increased at a faster rate between FY2015 and FY2021 than at any other time in Arizona in the last 20 years.
- As of January, **\$4.5 billion NEW dollars have gone into K-12 public schools since 2015.** With the FY2021 budget this will grow to **\$6.4 billion.**
- Teachers started school a few weeks ago with **teacher pay up 20%.** With the passage of this year's budget (not supported by the proponents of Prop 208) the State dedicated **\$645 million in permanent funding dedicated solely to teacher raises.**



No Strings Attached

No accountability or performance metrics

- Voters want transparency and accountability of what their taxpayer dollars are funding.
- K-12 \$ should benefit the children and teachers, NOT bureaucracy and overhead
- P208 has no mandate for accountable use of money, **no performance metrics**
- Money can be used to simply increase staff: no guarantee teachers even get a bonus



Who Opposes?

Better Question: Who Actually Supports?

Opposition

- Entire Arizona business community
- Small business associations
- Taxpayer groups
- AZ's Top Economists
- Hundreds of Arizona elected officials

Proponents

- Out-of-state funded groups
- Teacher's Union
- **Who doesn't support?**
 - School Boards Association
 - School Administrators Association
 - School Business Officials Assn
 - Superintendents Assn
 - Charter School advocates

Prop 208 is bad policy and even worse timing: During a pandemic when thousands are out of work and small businesses are struggling, this is the wrong time to slam taxpayers with the largest tax increase in Arizona history.

Arizona can do better for education funding.
Proposition 208 is not it.

Questions?

