

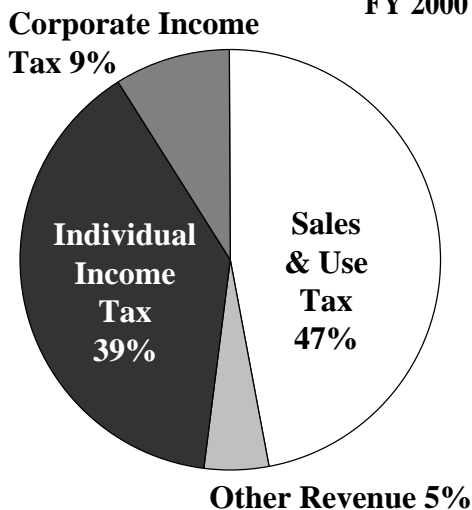
# ATRA OPPOSES INCOME TAX INITIATIVE

The Arizona Tax Research Association (ATRA), the state's oldest and most respected taxpayer organization, is opposed to Proposition 107. If passed, Proposition 107 will eliminate both the personal and corporate income tax in Arizona and have a devastating impact on the state's fiscal system.

Explaining the move to oppose the initiative, ATRA Chairman Dick Foreman said, "Arizona citizens need to be alerted about the significant damage this initiative will do to the state's budget. This initiative is reckless mischief that will imperil our economy and every taxpayer in Arizona."

Dubbed the "Taxpayer Protection Act of 2000," the initiative calls for the elimination of taxation of income on individuals, corporations, partnerships, and other legal entities after December 31, 2004. In addition, the initiative requires acts of the legislature that result in a net increase in state revenue to be submitted to the voters at the next general election. Lastly, the act permits candidates for the offices of President of the United States and the U.S. House and Senate to sign a pledge to eliminate the federal income tax and the IRS in favor of the enactment of a federal tax on economic consumption.

## STATE GENERAL FUND REVENUE FY 2000



majority of the income taxes at 39 percent with corporate income at 9 percent.

Although individual income taxes make up a significant portion of the state's general fund, it is not the result of higher than average income tax burdens. In fact, of the three major taxes (property, sales & income), per capita individual income taxes are the lowest. When compared to other states, Arizona's per capita individual income tax burden of \$399 ranks Arizona 38<sup>th</sup> nationally and 33 percent below the national average. In recent years, Arizona individual income tax rates have been cut 30 percent, a reduction of over \$500 million.

Arizona's corporate income tax rate, although still higher than average, has been the target of reductions in the last two legislative sessions. Arizona's corporate rate has been reduced from 9 to 7 percent.

## REVENUE IMPACTS

The initiative's impact on the state general fund is dramatic. For fiscal year (FY) 1999, the net collections for individual and corporate income tax were as follows:

<b>Individual Income Tax</b>	<b>\$2,098,349,339</b>
<b>Corporate Income Tax</b>	<b>\$ 545,388,138</b>
<b>Total</b>	<b>\$2,643,737,477</b>

The \$2,643,737,477 in revenue was distributed as follows:

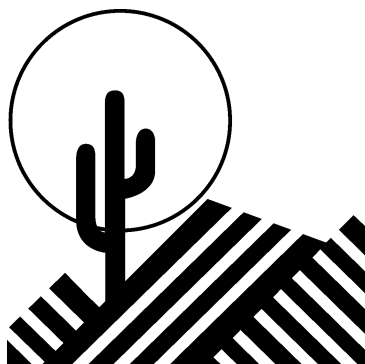
- \$2,302,706,944 to the state general fund
- \$340,310,656 to city revenue sharing
- \$719,878 to income tax checkoffs

As the pie chart on this page shows, the individual and corporate income tax account for 48 percent of the state's general fund revenue. Individual income taxes make up the

## BUDGET IMPACTS

The only recognition that the initiative creates a massive budget deficit is that it gives the legislature four years to wean themselves off of the money. As the pie chart on the next page shows, the majority of state budget (61%) is spent on education (K-12 schools, community colleges and universities).

Another 32 percent of the budget is dedicated to the department of corrections, public safety, health services and AHCCCS.



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The requirement that any increases in taxes in other areas receive state-wide voter approval appears to suggest that the proponents of the initiative believe that the massive budget deficit caused by the initiative should be closed through budget cuts. If that is the case, those reductions would have to cut heavily into education, corrections, and health care.

The budget fallout from the initiative would also likely affect local governments that have financial relationships with the state. Because city governments also receive proceeds of Arizona's income tax the initiative affects them directly. On a per-capita basis, cities shared in \$340.3 million in income tax revenue in FY 99. The City of Phoenix received \$114.8 million, almost 9 percent of their general fund budget.

### PUBLIC VOTE REQUIREMENT?

Contrary to the claims of the proponents, efforts on the part of the legislature to increase other taxes to respond to the revenue loss would not necessarily require a public vote. Prop 107 does not require a public vote on any act that increases taxes. Rather, the initiative merely adds a public vote to the current constitutional requirement for a legislative two-thirds vote for acts that provide for a **net increase in general fund revenue**. This leaves the legislature the flexibility to recoup the loss in revenue through two approaches without the need for voter approval.

First, the legislature's control over K-12 school districts actually provides the flexibility to increase school property taxes without causing a "net increase" in state revenue. Raising the qualifying tax rate (QTR) for schools increases school district property taxes and decreases state aid to schools. The tax increase would not increase state

general fund revenue but would decrease the state's burden for funding K-12 schools.

Second, and as the proponents have suggested, the legislature could use the four year delay on the effective date to phase out the income tax while increasing property or sales taxes. The legislature could use the decrease in income taxes to offset the increase in other taxes thereby avoiding a "net increase" in general fund revenue.

### IMPACTS ON OTHER TAXES

If successful, the initiative will clearly put pressure on the other two major taxes: property taxes and sales taxes. A review of the sales and property tax reveals that neither are well positioned to catch the loss of \$2.6 million in income tax revenue.

Arizona's property tax, which by design shifts taxes from homeowners to business, now places business property taxes among the top five states nationally. Any marked growth in this area could cripple economic development in Arizona.

Sales taxes, which already fund 47 percent of the state budget, have also grown in popularity at the local level. Fourteen of the 15 counties now levy a

sales tax on top of those of 87 cities and towns. The overall sales tax rate in some areas of Arizona already reaches 8.8 percent. These high overall rates already provide an incentive to avoid tax through the use of the Internet. Future growth in the state sales tax rate would only exacerbate this problem.

### THE PROPONENTS

The initiative is being circulated by a group calling themselves the Taxpayers Protection Alliance (TPA). TPA's own literature makes clear that Arizona is merely a testing ground for the groups primary goal; the elimination of the federal income tax and its replacement with a national sales tax. TPA boasts of a steering committee whose members were involved in the successful "drug policy reform" initiatives in 1996 and 1998. TPA notes that the success of those initiatives was the combination issues that "may or may not overlap." The same strategy is employed this time by combining the elimination of income taxes with the public vote requirement for state tax increases and the pledge for officials to eliminate the federal income tax.

STATE GENERAL FUND OPERATING APPROPRIATIONS  
FY 2000

