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ARIZONA TAX RESEARCH ASSOCIATION

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Richard Stavneak Updates on State Budget

Richard Stavneak, Director of the Joint Legislative Budget Committee (JLBC), kicked off ATRA's 2025 Outlook Conference with an update on the state



budget. He noted that the Finance Advisory Committee's (FAC) October revised revenue projections reflect a positive cash balance in each of the next three years after accounting for statutory funding formula growth; however, the lowest ending balance of \$67M in FY 28 is all that is available for discretionary spending purposes. Stavneak warned that the \$67M is insufficient to cover the \$1.7B he outlined as "stress points," which includes the \$580M in "one-time" spending and \$1.1B to fund the federal tax law changes under H.R. 1.

On top of these pressures, the Legislature will need to determine how much the state will conform to the federal tax law changes. Based on JLBC's revised December analysis, conforming to all provisions would reduce GF revenues by \$441M in FY 26, \$343M in FY 27, and \$373M in FY 28.

Alternatively on the spending side of H.R. 1, the administrative costs under the bill for the Supplemental Nutrition Assistance Program (SNAP) and AHCCCS programs would add more than \$100M in new expenses

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Jason Baran Named 2025 ATRA Outstanding Member



Kevin McCarthy presented Jason Baran of the Salt River Project (SRP) with the 2025 ATRA Outstanding Member Award at the Outlook Conference luncheon.

Byron Williams Elected ATRA Chairman

At the 2025 ATRA Annual Meeting, Byron Williams, Director of Tax for Southwest Gas, was elected Chairman of the ATRA Board of Directors. Byron replaces Bill Molina from the University of



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Jim Rounds Provides Economic Outlook

Predicts Bright Future for AZ

Jim Rounds reported on the national and local economies and their impact on Arizona's finances. The possibility of a recession is unlikely to materialize before the year-end. However, we warned that broader concerns remain due to national government spending patterns, inflationary pressures, and employment trends.

Rounds warned that tariffs raise costs for importing companies, which then pass those costs on to consumers, driving further inflationary pressures. Rounds went on to say the potential for Medicaid cuts are more of a long-term issue since budget adjustments cannot be achieved quickly. Instead, he suggested that this would be a five- to ten-year process, at a minimum.

In the meantime, he suggested Arizona prepare financially for different recession scenarios, with estimates ranging from \$1B for a mild downturn to \$2.5B for a severe one.



Ultimately, Rounds message was one of cautious optimism. Economists consistently advise conservative forecasting, regardless of whether times are good or bad. Yet he argued that Arizona is well-positioned for the future, with higher wage growth expected to continue and the state likely to remain a leader in economic expansion throughout the decade.

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over several years. DES requested \$62M to reduce the error rate and AHCCCS has about \$50M in requests for administrative costs to implement new work requirements and semiannual eligibility checks. However, some of that may be offset with the \$750M that Arizona could receive in federal border security reimbursement funding.

Stavneak continued by explaining that the month-end October corporate income tax collections were much higher than expected, more than double from last year, pushing total October GF revenues \$188M above forecast. Based on this new data, the October revenue growth rate of 2.0% in FY 26 could change when the FAC reevaluates in January. Using a sample scenario, Stavneak said that a revised growth rate of 3% would increase ongoing revenues by \$170M above the October projections and the total available resources through FY 28 would increase to approximately \$600M. Even so, the added revenues would not fully resolve the gap created by federal tax changes and the ongoing dependency on one-time funding.

ARIZONA TAX RESEARCH ASSOCIATION

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Kathleen Farnsworth.....Office Manager

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1814 W. Washington Street
Phoenix, Arizona 85007
(602) 253-9121

www.arizonatax.org

Fred Nicely of COST Updates on National Tax Issues

Fred Nicely of Council on State Taxation (COST) provided an update on significant tax issues at both the state and federal levels.

He reviewed COST's FY 2023 State and Local Business Tax Burden Study, which found that U.S. businesses paid more than \$1.09 trillion in state and local taxes in FY 23, an increase of 3.7% from FY 22. Business taxes accounted for 44.7% of all state and local tax revenue nationwide.

He also discussed Arizona's annual conformity process with federal tax code changes under the One Big Beautiful Bill (H.R. 1), unlike some other states that automatically conform. Nicely outlined key corporate income tax provisions included in H.R. 1 that were extended and expanded from the TCJA business provisions.

Nicely warned that H.R. 1 could lead to substantial reductions in federal grants-in-aid or adversely impact other state revenues, creating potential budget shortfalls. He noted that federal grants primarily fund health care, income security, education, transportation, and community and regional development, with Medicaid assistance making up about 60% of the total.

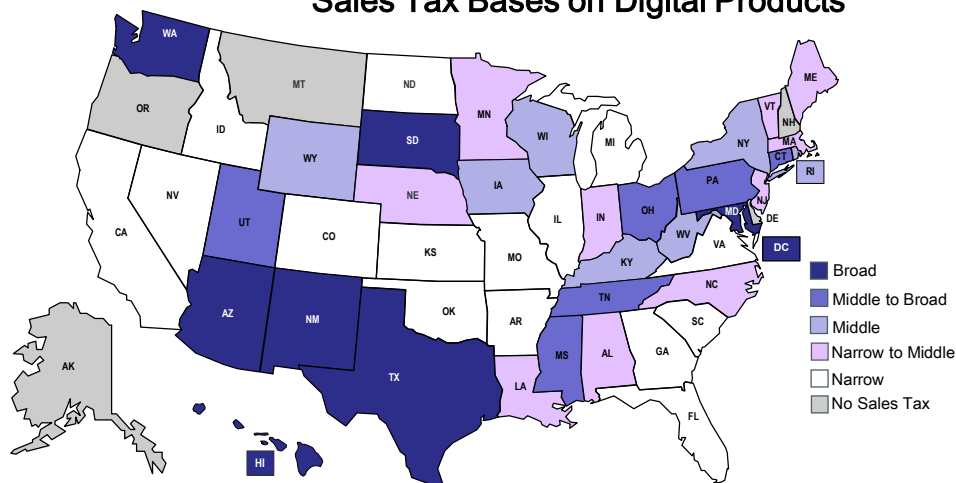
On tariffs, he noted that the economic impact on states remains uncertain, as rising prices could put some businesses over the economic nexus thresholds for sales taxes, gross receipts taxes, and corporate income taxes.

Finally, Nicely observed that many states have proposed

expanding indirect taxes to include non-traditional transactions and services, such as digital services taxes and retail delivery fees. He informed that Arizona is one of only seven states with a broad sales tax base on digital products, unlike neighboring California and Nevada, which maintain narrower tax bases. He also encouraged Arizona policymakers to create a clear law regarding the taxation of digital goods and services so taxpayers have certainty about their obligations.



State Sales Tax Systems: Narrow, Middle, and Broad Sales Tax Bases on Digital Products



Source: Preliminary MTC Survey Results (2023)

ATRA Updates on Major Public Finance and Tax Issues

ATRA President Kevin McCarthy opened the ATRA panel by explaining that tax systems should be designed to adequately fund state and local governments, but they should also be efficient through a broad base and low tax rates. Generally speaking, McCarthy said that Arizona has smartly

positioned itself as a low-tax, high-growth state.

McCarthy outlined how ATRA evaluates tax policy using six key criteria: simplicity; efficiency; predictability; neutrality; competitiveness; and accountability. By these measures, Arizona's property and income tax systems have been improved over the last 30 years; however, the sales tax structure fails most criteria for good tax policy.



ATRA Vice President Jennifer Stielow briefed attendees on the “big three” taxes that currently generates \$36B in revenue to support our state and local governments. Beginning with property taxes, Stielow noted that “stability” best characterizes Arizona's system. While property tax revolts are sweeping the nation, Arizona remains insulated thanks to decades of reforms—most notably Proposition 117, passed in 2012, which caps the annual value growth at 5%. Unlike states that simply limit value growth, Arizona's structure also imposes levy limits, tax rate caps, and truth in taxation laws, ensuring accountability for both state and local governments.

The controls Arizona has in place are only meaningful because of oversight by the Property Tax Oversight Commission (PTOC). Staffed by the Arizona Department of Revenue, PTOC reviews nearly 80% of the primary and secondary taxes levied every year. Without fail, staff uncovers major errors and/or illegal levies every year that must be corrected by the taxing jurisdictions prior to tax bills being mailed.

Lastly on the property tax front, Stielow highlighted ATRA's longstanding commitment to reducing reliance on the business personal property (BPP) tax. She noted that the 2025 legislative session marked additional progress with passage of the ATRA-backed legislation sponsored by Senate Finance Chairman J.D. Mesnard, which nearly doubled the BPP exemption to \$500k. When combined with the 2.5% valuation factor enacted a few years ago for all new BPP, this change now exempts up to \$20M in BPP. As a result of decades of reforms, locally assessed BPP represents only about 3% of the statewide property tax base.

Stielow went on to explain that, despite a recent slowdown in growth, Arizona continues to generate substantial sales tax revenues—totaling more than \$19B from state and local taxes. A significant portion of this growth over the past five years stems from the Wayfair legislation enacted in 2019, which enabled

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Arizona to tax out-of-state remote sellers without a physical presence in the state. Since FY 2020, this policy has contributed over \$5B in revenue to state and local governments.

Stielow moved on to update on recent income tax revenue trends, explaining how individual income tax revenues have shown considerable volatility over the last five years. Much of the volatility was driven by the impacts of COVID-19 and reductions in the income tax rates. However, despite implementation of the 2.5% flat rate in FY 2024, FY 2025 collections have now surpassed FY 2019 levels and are projected to continue growing.

Corporate income tax collections, meanwhile, have reached unprecedented highs since FY 2022, largely due to a significant increase in the number of filers. Over the past five years, corporate income tax revenues have averaged an extraordinary growth rate of 48% annually.

Stielow concluded by emphasizing that despite the steady revenue growth and billions held in local government reserves, many jurisdictions continue to raise taxes. As ATRA recommended in its May 2025 newsletter, local governments with substantial cash reserves should consider tapping those reserves before pursuing additional tax increases.

Kevin continued by addressing the complexities surrounding sales tax administration, largely because Arizona is one of only four states that allow for an independent municipal tax structure. He explained that ATRA and the Arizona business community have long pursued uniformity and administrative relief and have achieved some progress over the years. However, despite the 2013 TPT reforms intended to simplify administration, disputes over scope, sourcing, and audits persist—undermining uniformity. Taxpayers continue to face challenges in sourcing laws and prolonged refund disputes. Kevin stressed that the creation of the Model City Tax Code and the Municipal Tax Code Commission were not true reforms; if anything, they were considered losses to taxpayers.

Kevin switched to school finance and litigation, noting that it remains a highly contentious issue. Arizona recently lost another lawsuit (*Glendale Elementary v. State*), with the court ruling the state failed to meet minimum adequacy guidelines under Students FIRST. The decision suggests the state would need to assume full responsibility for school facility maintenance to comply constitutionally, prompting likely appeals and renewed discussions on reform. Meanwhile, school bond elections have surged, with \$8 billion in proposals over three years and \$5.08 billion approved, exacerbating inequities among districts. Concerns over electioneering in publicity pamphlets have led to vetoed reform efforts, leaving taxpayers with limited recourse.



Tax Foundation's Jared Walczak Addresses Conformity Challenges

Jared Walczak from the Tax Foundation provided the luncheon remarks at the ATRA Outlook Conference focusing on the income tax conformity challenges facing state policymakers. Jared began by contrasting the various challenges lawmakers across the country are wrestling with depending on their process for conforming to congressional changes to the Internal Revenue Code. Arizona is known as a static conformity state meaning Arizona adopts the federal income tax code as of a specific date which requires the state legislature to annually take action on federal changes being adopted or decoupled from the state's income tax base.



Jared noted that despite some messaging to the contrary, state action on their own tax codes will do nothing to deprive their taxpayers of the full benefit of the **federal** deduction made in H.R. 1.

While generally supporting the administrative simplicity associated with states conforming to federal changes, Walczak characterized many of the individual deductions as arbitrary, costly and offering little economic benefit. He argued, for example, there is no compelling reason why a low or middle-income tipped employee should pay less income tax than a non-tipped worker making the same amount.

Jared did encourage policymakers to adopt most the changes made to business expensing calling them high-impact tax policy that will bring positive impacts to the economy.

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Phoenix who completed a two-year term as ATRA Chairman. The other officers elected were **Jason Baran**, Salt River Project, first vice-chair; **Gaylord Gagnon**, Arizona Public Service, second vice-chair; **Heidi Thomas**, Early Warning Systems, third vice-chair; and **David Minard**, Individual, Secretary/Treasurer.

The following were elected to seats on the ATRA Board of Directors for terms expiring in 2030: **Gaylord Gagnon**, Arizona Public Service; **Jeff Mirasola**, Lumen; **Joe Hughes**, American Airlines; **Otto Shill**, Gallagher & Kennedy; **Pat Irvine**, Fennemore; **Janna Day**, AZ Policy Connect; **Chad Heinrich**, NFIB; **Matt Clark**, Verizon Communications; and **Mike Cruz**, Lucid Motors.

In further business, new ATRA Board Chair Byron Williams appointed **Heidi Thomas** of Early Warning Systems as the Chairwoman of the ATRA Tax Policy Committee, **Rebecca Hudson-Nunez** of Freeport-McMoRan as the Chairwoman of the ATRA Legislative Policy Committee, and **Bill Molina** of University of Phoenix as the Chairman of the ATRA Membership Committee.

Tax Chairs Address ATRA Outlook



House Ways & Means Chairman Rep. Justin Olson (left), Senate Finance Chairman J.D. Mesnard, and ATRA Legislative Policy Chairwoman Rebecca Hudson-Nunez.

The legislative tax chairs provided an update on the pressing issues lawmakers will face during the 2026 session. There was consensus by the Senate Finance Chairman J.D. Mesnard and House Ways and Means Committee Chairman Justin Olson that the Legislature should react quickly to the federal tax code changes. Both were surprised to hear the Governor's support of the individual income tax provisions exempting tax on tipped and overtime employees. The tax chairs agreed that the pressure is on lawmakers to address conformity early, possibly in a special session, so that taxpayers have certainty before commencement of the 2025 filing season.



Maricopa County Supervisor Debbie Lesko and Emily Rice of B3 Strategies.



(From left to right) Chris Gonzalez (APS), Manny Ernesto-Mulato (SRP), and Joel Morgan (APS).



(From left to right) Dr. Regina Cobb, Ryan Sullivan (Veridus), with JLBs Richard Stavneak & Jack Brown.



(Left) ATRA Board Members Kelley Wilson (Deloitte) and Pattie Theis (South32).



ATRA President Kevin McCarthy recognizes ATRA Vice President Jennifer Stielow for her 25 years of service to the organization.



Outgoing Chairman Bill Molina recognized for his dedicated service to the ATRA Board.