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ARIZONA TAX RESEARCH ASSOCIATION

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Governor Vetoes Property Tax Protections

Commentary by Kevin McCarthy

ATRA proposed targeted responses to address skyrocketing property tax valuations and threats of initiatives to dramatically roll back property taxes. Regrettably, two of those measures had vetoes slapped on them by Governor Napolitano.

Senate Bill (SB) 1206, which would have capped primary property tax rates for school districts with extraordinarily high rates, was vetoed for the second straight year. SB1217 would have required county boards of supervisors to receive voter approval before creating a public health services district.

SB1206 schools; maximum property tax rate

A recommendation from the Tax Reform for Arizona Citizens (TRAC) legislative study committee, SB1206 was an attempt to protect taxpayers and the state general fund from the unintended consequences of the 1%

See *Governor's Vetoes*, page 4

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May 31, 2006

ATRA's Annual Luncheon
Honoring
Senator Jon Kyl
with
ATRA's Watchdog Award

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Arizona State & Local Debt Reaches \$26.5 Billion

Total statewide debt increased 12.4% in Fiscal Year (FY) 2005 to \$26.5 billion, \$2.9 billion more than FY 2004. Since FY 2000, total statewide debt has grown 40.9%, or \$7.7 billion.

The data is based on the Department of Revenue's annual debt publication as reported by Arizona's cities and towns, counties, community colleges, school districts, and other political subdivisions throughout the state.

The debt report includes principal amounts only, excluding all interest payment obligations. Excluded in the total are the 839 political subdivisions that reported \$626.7 million in outstanding lease purchase contracts.

Jurisdiction	FY 1999-00	FY 2003-04	FY 2004-05	1-YR CHG	5-YR CHG
County	\$547,364,201	\$744,279,569	\$856,599,420	15.1%	56.5%
Cities/Towns	\$6,164,581,768	\$8,509,809,700	\$10,171,206,678	19.5%	65.0%
Comm Colleges	\$474,845,000	\$481,615,000	\$622,100,000	29.2%	31.0%
Schools	\$4,329,553,959	\$3,889,602,972	\$3,924,446,000	0.9%	-9.4%
Special	\$1,298,157,680	\$848,877,203	\$946,396,277	11.5%	-27.1%
State & Univ.	\$2,265,092,672	\$5,931,671,436	\$6,941,026,218	17.0%	206.4%
Other	\$3,740,828,021	\$3,189,457,176	\$3,049,451,526	-4.4%	-18.5%
TOTAL	\$18,820,423,301	\$23,595,313,056	\$26,511,226,119	12.4%	40.9%

Community College	Outstanding Debt	Per Student Debt
Maricopa	\$425,780,000	\$5,009
Pima	\$75,970,000	\$3,407
Yavapai	\$63,020,000	\$17,195
Coconino	\$21,410,000	\$10,979
Mohave	\$11,355,000	\$4,832
Central Arizona ²	\$9,310,000	\$2,483
Arizona Western ³	\$7,185,000	\$1,674
Navajo	\$7,015,000	\$2,419
Cochise	\$1,055,000	\$222
Eastern Arizona ⁴	\$0	\$0
Gila	\$0	\$0

²Central Arizona Community College serves Pinal County.

³Arizona Western Community college serves Yuma and La Paz Counties.

⁴Eastern Arizona Community College serves Graham County.

*The student population counts used to calculate per student debt are provided by the State Board of Community Colleges for FY 2004-05 for the expenditure limitation calculation.

Source: Arizona Department of Revenue

COMMUNITY COLLEGES

The community colleges generated the greatest percentage increase in debt, with 29.2% (\$140.5 million) growth in FY2005. This dramatic increase is mainly due to the passage of Proposition 401 in November 2004 that gave Maricopa Community College (MCC) the authority to issue \$951 million in general obligation bonds through 2013.

Although MCC has accumulated the most debt

over the last year, Yavapai Community College has incurred the highest per student debt of all the community colleges, at \$17,195.

See *Statewide Debt*, page 3

Cities Target Specific TPT Classes For Increases

Arizona cities rely heavily on local sales taxes for their general fund budgets. As the chart on page 5 reflects, many cities now have rates in excess of 2%. In search of even more sales tax revenue, it has now become common among many cities to extract additional transaction privilege tax (TPT) revenues through rate increases on classifications other than the highly visible retail class.

In recent years, cities have found it more politically advantageous to increase rates on other TPT classifications, such as restaurant, telecommunications, prime contracting, and lodging classifications, which go virtually unnoticed by most taxpayers.

For example, two cities recently approved significant increases in their TPT rates. The town of Florence doubled its TPT rate on construction activities from 2% to 4%. Wickenburg adopted an even greater increase by raising its TPT rates on the taxation of restaurants and bars, as well as lodging, both from 1.7% to 5.2%.

The adjacent tables show the top rates for the classifications that have become targets for discriminatory treatment, along with the total rate for the jurisdiction (includes state, county and city TPT rates). The lodging classification is clearly the most popular target when it comes to levying higher rates, with Eloy levying a 10% rate, resulting in a total jurisdictional rate of 16.5%.

The table below shows the low and high rates that are currently being levied for each class, as well as the average rate levied. What is obvious from this data is that cities tend to levy higher rates on TPT classifications other than the retail class.

With no statutory cap in place on city TPT rates, it has become common for taxpayers to easily pay over 10% on most transactions. (For a complete list of TPT rates for the different classifications, see ATRA's website at www.arizonatax.org.)

Jennifer Schuldt

TPT Class	City TPT Rates		
	Low Rate	High Rate	Avg. Rate
Lodging	1.5%	10.0%	4.5%
Restaurant	1.5%	6.0%	2.6%
Prime Contracting	1.5%	5.0%	2.6%
Telecommunications	0.0%	5.0%	2.4%
Retail	1.5%	3.5%	2.3%
Utilities	0.0%	4.5%	2.2%

	City TPT Rate	Total State & Local TPT Rate
Lodging		
Eloy	10.0	16.5
Oro Valley	8.0	13.5
Willcox	7.0	13.0
Guadalupe	7.0	13.2
Cave Creek	6.5	12.7
Carefree	6.0	12.2
Restaurants		
Eloy	6.0	12.6
Wickenburg	5.2	11.5
Winslow	5.0	11.1
Williams	4.5	11.0
Goodyear	4.0	10.3
Guadalupe	4.0	10.3
Telecommunications		
Glendale	5.0	11.3
Winslow	5.0	11.1
Phoenix	4.7	11.0
Marana	4.5	10.1
Buckeye	4.0	10.3
Prime Contracting		
Cave Creek	5.0	11.3
Winslow	5.0	11.1
Marana	4.5	10.6
Eloy	4.5	11.1
Benson	4.0	10.1
Carefree	4.0	10.3
Oro Valley	4.0	9.6
Sahuarita	4.0	9.6
Queen Creek	4.0	10.3
Coolidge	4.0	10.6
Florence	4.0	10.6
Retail		
Winkelman	3.5	10.1
San Luis	3.5	10.7
Utilities		
Marana	4.5	10.1
San Luis	3.5	10.7
Apache Junction	3.2	9.5

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Statewide Debt *Continued from page 1*

CITIES

Arizona cities and towns incurred the second largest percentage increase in statewide debt in FY2005, with one-year growth of 19.5% (\$1.7 billion) and five-year growth of 65% (\$4 billion).

The city of Phoenix carries the largest level of debt (\$4.8 billion), ranking 5th per capita out of the 89 cities reporting debt. The city of Mesa holds \$967 million in debt, ranking 10th per capita, with Tucson trailing close behind with \$921 million in debt, ranking 17th per capita.

The city of Tolleson carries the greatest per capita debt at \$5,939, followed by Sedona (\$5,791) and Williams (\$4,425).

Top 10 Per Capita Debt	
City/Town	Per Capita Debt
Tolleson	\$5,939
Sedona	\$5,791
Williams	\$4,425
Goodyear	\$3,996
Phoenix	\$3,415
Scottsdale	\$3,112
Page	\$2,845
Cave Creek	\$2,392
Quartzsite	\$2,380
Mesa	\$2,162

Source: Arizona Department of Revenue

Top 10 Outstanding Debt	
City/Town	Outstanding Debt
Phoenix	\$4,835,486,949
Mesa	\$966,806,000
Tucson	\$920,969,403
Scottsdale	\$688,165,322
Glendale	\$477,755,908
Tempe	\$337,990,000
Chandler	\$302,763,500
Gilbert	\$264,070,000
Yuma	\$155,979,326
Peoria	\$146,427,254

Source: Arizona Department of Revenue

SCHOOL DISTRICTS

School district debt in FY2005 climbed slightly to \$3.9 billion (0.9%). The three top county schools with the most debt include Maricopa (\$2.9 billion), Pima (\$593.7 million), and Pinal (\$114.3 million).

Graham County schools lead the way with the largest percentage increase in outstanding debt at 29%, followed by Greenlee schools with a 26.3% increase, and Pinal, growing their total debt by 14.6% in FY2005.

These increases were offset mainly by the large drop in outstanding debt for Apache, La Paz, and Coconino Schools.

COUNTIES

County debt grew \$112.3 million (15.1%) in FY2005. The same three counties incurred the largest amount of debt on a percentage and dollar basis, beginning with Mohave County, which added 219% (\$17.2 million), Pinal County with a 190.3% (\$69.2 million) increase, and Pima with an increase of 14% (\$66.7 million).

Pima County continues to carry the largest level of debt of all the counties, which rose to \$546.7 million at the end of FY 2005. Although voters recently approved a \$732 million bond package in May 2004, Pima County is asking voters to approve another bond package this May totaling \$54 million, as well as the approval of a ½-cent transportation sales tax.

STATE & UNIVERSITIES

State and university debt increased 17% to \$6.9 billion in FY2005, with five-year growth of 206.4% (\$4.7 billion).

The \$1 billion growth in state & university debt is mainly the result of the additional debt acquired by the Health Facilities Authority, which amounted to \$84.9 million. Arizona State University and the School Facilities Board collectively added over \$350 million in debt in FY 2005.

Jennifer Schuldt

County Total for School Districts	Outstanding Debt	Per Student Debt*
Maricopa	\$2,886,471,000	\$5,395
Pima	\$593,730,000	\$4,881
Pinal	\$114,275,000	\$4,190
Mohave	\$76,355,000	\$3,360
Yavapai	\$50,280,000	\$2,653
Coconino	\$44,600,000	\$2,663
Yuma	\$39,910,000	\$1,224
Navajo	\$38,410,000	\$3,043
Cochise	\$27,390,000	\$1,915
Santa Cruz	\$13,850,000	\$1,535
Graham	\$13,560,000	\$3,638
Gila	\$13,430,000	\$2,147
Greenlee	\$6,405,000	\$4,307
La Paz	\$4,455,000	\$8,684
Apache	\$1,325,000	\$1,290

*Arizona Department of Education's 100th day average daily membership student count for FY 2004-05.

Source: Arizona Department of Revenue

County	Outstanding Debt	Per Capita Debt
Pima	\$546,676,920	\$587
Maricopa	\$106,645,000	\$30
Pinal	\$105,590,000	\$480
Mohave	\$24,995,000	\$139
Yuma	\$23,315,000	\$128
Coconino	\$20,100,000	\$155
Cochise	\$8,715,000	\$67
Apache	\$6,530,000	\$92
Navajo	\$6,180,000	\$58
La Paz	\$2,650,000	\$125
Gila	\$2,235,000	\$41
Yavapai	\$2,062,500	\$10
Greenlee	\$905,000	\$108
Graham	\$0	\$0
Santa Cruz	\$0	\$0

Source: Arizona Department of Revenue



Governor's Vetoes *Continued from page 1*

constitutional cap on residential primary property taxes. While recognizing that the 1% constitutional cap, however problematic, was a provision that is here to stay, the TRAC committee recommended a fair and thoughtful approach to mitigate some of the problems associated with the cap. Interestingly, the Governor's own Citizen Finance Review Commission (CFRC) shared the TRAC committee's concern to the point that the CFRC recommended the complete elimination of the 1% cap.

The Governor's CFRC analysis concluded that "The cap has frustrated state tax policy administrators who recognize the "disconnect" it creates between the spending decisions of local government and the residents' decisions to fund local government spending." The Governor never pursued the CFRC recommendation to eliminate the cap.

ATRA was surprised that Governor Napolitano's veto letter on SB1206 simply referenced her message on last year's veto of HB2143. In addition to ignoring CFRC concerns about the 1% cap, that veto message not only had internal inconsistencies but also arguments that were incompatible with Arizona's school finance system. The veto letter first makes a local

control argument by stating "Imposing this type of cap on school district tax rates would involve an inappropriate intrusion into local control. Absent financial abuses and or constitutional violations, school district governing boards should generally have the ability to set their own budget priorities, and be held accountable by the local populations whom they are elected to represent."

The letter then does a reversal and expresses concern about the bill's effect on equitable per pupil spending. Ignoring the fact that the school districts whose rates would be capped under SB1206 have higher per pupil spending levels, the veto message concludes with "This would further exacerbate the discrepancies in per pupil spending levels among high and low wealth districts, making Arizona further susceptible to challenges that it has failed to maintain a general and uniform system for funding education."

SB1217 public health services district

In encouraging the Governor to sign SB1217, ATRA argued that it was bad public policy to remove public input from such an important decision as creating a new taxing jurisdiction. In vetoing the bill, the Governor said that not only are such elections expensive, but that they would eliminate the flexibility of counties to establish public

health services districts. Since the bill did not remove the ability to create the districts, it is safe to assume that the Governor believes the voters would not cooperate in their creation.

Future Property Tax Revolt?

At the heart of any future property tax revolt will be a debate over the appropriate level of power that government should have to tax property. Some local government officials argue that elected officials should be provided the flexibility to make annual budget decisions that are financed with whatever changes in property taxes are necessary to meet those budgets. On the other hand, at least one of the property tax initiatives currently in circulation would dramatically change the ability of state and local governments to make budget decisions that ultimately affect property taxes. Most property tax revolts are directed at breaking the link between the spending decisions of elected officials and the annual taxes paid on property. The advocates for those significant restrictions will argue that government cannot be trusted with reasonable access to the property tax base. Regrettably, the Governor's vetoes of SB1206 and SB1217 provides ammunition to their argument.

Two Bad Bills Still Alive

As the legislative session enters its final stages, a few important bills ATRA opposes are still alive.

HB2702 Rio Nuevo; shared revenue

HB2702, which awaits discussion on the Senate floor, extends the Rio Nuevo Multipurposes Facilities District tax increment financing project from ten to forty years, allowing the district to receive millions in state transaction privilege tax (TPT) revenues for the construction, operation, maintenance and repair within and adjacent to the district to serve any project within the district. ATRA believes that diverting state sales tax receipts

from the state general fund to finance this project makes all the state's taxpayers participate in the funding of what is actually a local project.

SB1074 enterprise zones; reauthorization

SB1074, which is awaiting a House floor discussion, extends the enterprise zone tax breaks due to sunset on July 1, 2006 through July 1, 2013. The program offers an array of tax credits, including income, premium and property.

ATRA continues to oppose the extension of the property tax credits, which only serve to exacerbate problems in Arizona's property

tax system through targeted relief to select businesses while shifting the burden onto other taxpayers.

In addition, the definitions of "independently owned and operated" and "family owned" are expanded, making it easier for more businesses to qualify for the program.

The extension of the property tax credits result in a fiscal impact to the state general fund due to increased state aid to schools as a result of the reduced net assessed values.

State and Local Retail Sales Tax Rates by City

Cities by County	State	County					City	Total Rate	Cities by County	State	County					City	Total Rate
		GF	Road	Jail	Capital	Health					GF	Road	Jail	Capital	Health		
Apache County								Queen Creek	5.60	-	0.50	0.20	-	-	2.00	8.30	
Eagar	5.60	0.50	-	-	-	-	3.00	9.10	Scottsdale	5.60	-	0.50	0.20	-	-	1.65	7.95
St. Johns	5.60	0.50	-	-	-	-	2.00	8.10	Surprise	5.60	-	0.50	0.20	-	-	2.20	8.50
Springerville	5.60	0.50	-	-	-	-	3.00	9.10	Tempe	5.60	-	0.50	0.20	-	-	1.80	8.10
Cochise County									Tolleson	5.60	-	0.50	0.20	-	-	2.00	8.30
Benson	5.60	0.50	-	-	-	-	2.50	8.60	Wickenburg	5.60	-	0.50	0.20	-	-	1.70	8.00
Bisbee	5.60	0.50	-	-	-	-	2.50	8.60	Youngtown	5.60	-	0.50	0.20	-	-	2.00	8.30
Douglas	5.60	0.50	-	-	-	-	2.50	8.60	Mohave County								
Huachuca City	5.60	0.50	-	-	-	-	1.50	7.60	Bullhead City	5.60	0.25	-	-	-	-	2.00	7.85
Sierra Vista	5.60	0.50	-	-	-	-	1.60	7.70	Colorado City	5.60	0.25	-	-	-	-	2.00	7.85
Tombstone	5.60	0.50	-	-	-	-	2.50	8.60	Kingman	5.60	0.25	-	-	-	-	2.00	7.85
Willcox	5.60	0.50	-	-	-	-	3.00	9.10	Lake Havasu City	5.60	0.25	-	-	-	-	2.00	7.85
Coconino County									Navajo County								
Flagstaff	5.60	0.50	-	0.30	0.125	-	1.601	8.126	Holbrook	5.60	0.50	-	-	-	-	3.00	9.10
Fredonia	5.60	0.50	-	0.30	0.125	-	2.00	8.53	Pinetop-Lakeside	5.60	0.50	-	-	-	-	2.50	8.60
Page	5.60	0.50	-	0.30	0.125	-	3.00	9.53	Show Low	5.60	0.50	-	-	-	-	2.00	8.10
Sedona	5.60	0.50	-	0.30	0.125	-	3.00	9.53	Snowflake	5.60	0.50	-	-	-	-	2.00	8.10
Williams	5.60	0.50	-	0.30	0.125	-	3.00	9.53	Taylor	5.60	0.50	-	-	-	-	2.00	8.10
Gila County									Winslow	5.60	0.50	-	-	-	-	3.00	9.10
Globe	5.60	0.50	0.50	-	-	-	2.00	8.60	Pima County								
Hayden	5.60	0.50	0.50	-	-	-	3.00	9.60	Marana	5.60	-	-	-	-	-	2.50	8.10
Miami	5.60	0.50	0.50	-	-	-	2.50	9.10	Oro Valley	5.60	-	-	-	-	-	2.00	7.60
Payson	5.60	0.50	0.50	-	-	-	2.12	8.72	Sahuarita	5.60	-	-	-	-	-	2.00	7.60
Star Valley	5.60	0.50	0.50	-	-	-	2.00	8.60	South Tucson	5.60	-	-	-	-	-	2.50	8.10
Winkelman	5.60	0.50	0.50	-	-	-	3.50	10.10	Tucson	5.60	-	-	-	-	-	2.00	7.60
Graham County									Pinal County								
Pima	5.60	0.50	-	-	-	-	2.00	8.10	Apache Junction	5.60	0.50	0.50	-	-	-	2.20	8.80
Safford	5.60	0.50	-	-	-	-	2.50	8.60	Casa Grande	5.60	0.50	0.50	-	-	-	2.00	8.60
Thatcher	5.60	0.50	-	-	-	-	2.00	8.10	Coolidge	5.60	0.50	0.50	-	-	-	3.00	9.60
Greenlee County									Eloy	5.60	0.50	0.50	-	-	-	3.00	9.60
Clifton	5.60	0.50	-	-	-	-	3.00	9.10	Florence	5.60	0.50	0.50	-	-	-	2.00	8.60
Duncan	5.60	0.50	-	-	-	-	2.00	8.10	Kearny	5.60	0.50	0.50	-	-	-	2.00	8.60
La Paz County									Mammoth	5.60	0.50	0.50	-	-	-	2.00	8.60
Parker	5.60	0.50	-	0.50	-	-	3.00	9.60	Maricopa	5.60	0.50	0.50	-	-	-	2.00	8.60
Quartzsite	5.60	0.50	-	0.50	-	-	2.50	9.10	Superior	5.60	0.50	0.50	-	-	-	2.00	8.60
Maricopa County									Winkelman	5.60	0.50	0.50	-	-	-	3.50	10.10
Apache Junction	5.60	-	0.50	0.20	-	-	2.20	8.50	Santa Cruz County								
Avondale	5.60	-	0.50	0.20	-	-	2.50	8.80	Nogales	5.60	0.50	-	-	-	-	2.00	8.10
Buckeye	5.60	-	0.50	0.20	-	-	2.00	8.30	Patagonia	5.60	0.50	-	-	-	-	3.00	9.10
Carefree	5.60	-	0.50	0.20	-	-	3.00	9.30	Yavapai County								
Cave Creek	5.60	-	0.50	0.20	-	-	2.50	8.80	Camp Verde	5.60	0.50	-	0.25	-	-	2.00	8.35
Chandler	5.60	-	0.50	0.20	-	-	1.50	7.80	Chino Valley	5.60	0.50	-	0.25	-	-	3.00	9.35
El Mirage	5.60	-	0.50	0.20	-	-	3.00	9.30	Clarkdale	5.60	0.50	-	0.25	-	-	2.25	8.60
Fountain Hills	5.60	-	0.50	0.20	-	-	2.60	8.90	Cottonwood	5.60	0.50	-	0.25	-	-	2.20	8.55
Gila Bend	5.60	-	0.50	0.20	-	-	3.00	9.30	Dewey-Humboldt	5.60	0.50	-	0.25	-	-	2.00	8.35
Gilbert	5.60	-	0.50	0.20	-	-	1.50	7.80	Jerome	5.60	0.50	-	0.25	-	-	3.00	9.35
Glendale	5.60	-	0.50	0.20	-	-	1.80	8.10	Prescott	5.60	0.50	-	0.25	-	-	2.00	8.35
Goodyear	5.60	-	0.50	0.20	-	-	2.00	8.30	Prescott Valley	5.60	0.50	-	0.25	-	-	2.33	8.68
Guadalupe	5.60	-	0.50	0.20	-	-	3.00	9.30	Sedona	5.60	0.50	-	0.25	-	-	3.00	9.35
Litchfield Park	5.60	-	0.50	0.20	-	-	2.00	8.30	Yuma County								
Mesa	5.60	-	0.50	0.20	-	-	1.50	7.80	San Luis	5.60	0.50	-	0.50	0.50	0.10	3.50	10.70
Paradise Valley	5.60	-	0.50	0.20	-	-	1.65	7.95	Somerton	5.60	0.50	-	0.50	0.50	0.10	2.50	9.70
Peoria	5.60	-	0.50	0.20	-	-	1.80	8.10	Wellton	5.60	0.50	-	0.50	0.50	0.10	2.50	9.70
Phoenix	5.60	-	0.50	0.20	-	-	1.80	8.10	Yuma	5.60	0.50	-	0.50	0.50	0.10	1.70	8.90

Sources: League of Arizona Cities & Towns; Arizona Department of Revenue

Arizona's Tax Freedom Day Falls on April 20, in 2006

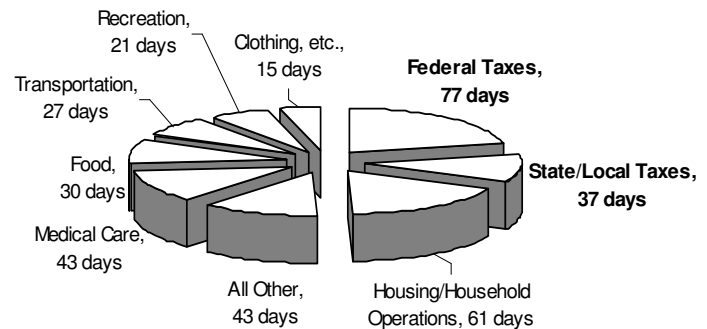
The non-partisan *Tax Foundation* determined that in 2006, Arizona taxpayers found themselves relieved of local and state tax burdens on April 20. The date was determined by dividing the state's tax burden per capita (\$9,919) by the state's income per capita (\$33,156). Arizonans commemorated their tax freedom on April 14 in 2003, on April 13 in 2004, and on April 18 last year.

An aggregate of factors explains why the 2006 National Tax Freedom Day falls 116 days into the year on April 26, three days later than it did in 2005 and ten days later than in 2004. Since unemployment rates remain low, tax receipts have increased from wage-based tax collections. Rapid economic growth, profitable corporations boosting tax payments, individuals benefiting from lower capital gains and dividends delivering higher levels of capital income all contributed to increased tax collections.

Taxes come in different types and forms. Of the 116 days spent working to pay local, state, and federal taxes, individual income taxes take 42 days, payroll taxes 31 days, and sales and excise taxes 16 days. Next are corporate income taxes at 12 days, property taxes at 11 days and other taxes at 4 days.

According to *Tax Foundation* figures, Americans will work longer in 2006 to pay for federal, state and local government taxes (116 days) than they will for food, clothing, and housing combined (106 days). Ranked 29th in the nation in terms of taxes, Arizona taxpayers, based on income per capita, will find themselves working 73 days to pay federal taxes (19.8% of income) while they will work 37 days to pay state and local taxes (10.1% of income).

How Long Americans Work To Pay Taxes Compared to Other Major Spending Categories



Hawkeye Wilson