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ARIZONA TAX RESEARCH ASSOCIATION

ATRA Applauds Budget Tax Plan

Leveraging new revenues for reform is smart policymaking

Making changes to the tax code is never easy and opportunities for revenue neutral reform are rare. With two major revenue producing tax law changes available, state lawmakers and the Governor have elected to make prudent use of that revenue with modest tax reform.

Conformity

When the federal government expanded the personal income tax base and lowered rates, it became necessary for states who conform their income tax code to the federal code to decide what to do about this expanded base of tax. The reform proposal in the budget offers several advantages and is consistent with the philosophy in the federal Tax Cut and Jobs Act (TCJA). TCJA doubled the standard deduction and many will no longer itemize their deductions as a result. An estimated 90% of taxpayers will use the standard deduction for their federal tax filings. Leveraging the same philosophy, higher standard deductions at the state level will mean taxpayers need not recreate a Federal Schedule A. The state filing will be simplified for the vast majority of taxpayers.

Importantly, “this conform with reform”, which also reduces the income tax brackets from five to four, keeps the faith with taxpayers that the income tax conformity process will not be used as a backdoor tax increase. Each year the state conforms to the federal code with little fanfare, despite its significance. If taxpayers could not rely on state lawmakers to fairly acknowledge when there is a tax increase as a result of conformity, there would be a renewed effort to permanently decouple from the system.

Wayfair

ATRA has long supported the policy of applying TPT (sales) taxes on sales conducted remotely but warned of the legal hazards. While the introduced bill did not go nearly far enough to make Arizona's TPT system fair for remote sellers, who must determine the tax based on the destination of each product sold, the final version goes a long way towards simplifying Arizona's retail TPT. The state is making the necessary change of creating a statutory retail base, so taxpayers nationwide can trust there is one code housed at the state level, meaning the taxability and definitions of retail goods is uniform. Between this major change and the 2013-14 reforms, which consolidated collection, remittance, and audit at the state level, Arizona will be able to present a sales tax system that is easier to comply with and is less liable in a legal challenge.

Finally, it is appropriate to acknowledge the revenue windfall associated with this change, as both individuals and businesses will certainly pay more TPT going forward. By using this revenue increase as part of a tax reform package, a good faith effort has been made to give the money back to taxpayers.