Presentation to the Citizens Finance Review Commission

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Arizona Tax Research Association
Topics to Cover

• National Statistics and Arizona Policy Decisions
• The Performance of Arizona’s Tax System - Two Decade Analysis
• ATRA Key Recommendations
National Statistics & Arizona Policy Decisions

• National comparisons are inevitable when analyzing a state and local fiscal system.

However, a few words of caution…

• Be very careful with the data if you intend to base policy decisions on it.
• Aggregate per capita or personal income statistics have limited value in analyzing tax burdens.
How Arizona Compares

• Bureau of Census is the primary source of data on aggregate tax burdens.
• However, ATRA’s research indicates significant errors in Arizona’s data, some confirmed by the Census Bureau, which understates Arizona’s overall tax burden.
Total State & Local Tax Collections

FY 2000 Census Bureau

Per Capita: $2,599  Ranking: 36

Per $1,000 of Income: $110.88  Ranking: 24

Per Capita vs. Personal Income
Total State & Local Tax Collections (adjusted for error)

FY 2000 Census Bureau

Per Capita: $2,731  Ranking: 30

Per $1,000 of Income: $116.52  Ranking: 15

Adjustment for error in total tax collections includes (in thousands): $430,046 in additional VLT and $248,596 for Maricopa County Road Tax.
How Arizona Compares: ATRA’s View

- In the aggregate, Arizona’s tax collections are in the mid range compared to other states.
- At a minimum, the data should not lead to the conclusion that overall taxes are low and should therefore be increased.
Snapshot of our Tax System

Average overall reliance

• High Sales Taxes
• Average Property Taxes
  • High Business Property Taxes
  • Low Homeowner Property Taxes
• Low Personal Income Taxes
Performance of Arizona’s Tax System
Two Decade Analysis 1980 - 2000

• Arizona’s tax system is far from perfect and in need of reform in some key areas;
• However, as a revenue producer the system has performed quite well over the last two decades.
How has the system performed?

*(inflation adjusted to 1980 $)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Capita</th>
<th>Decade change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$938.36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>$1,229.32</td>
<td>$290.96</td>
<td>31.0%</td>
</tr>
<tr>
<td>2000</td>
<td>$1,422.69</td>
<td>$193.37</td>
<td>15.7%</td>
</tr>
</tbody>
</table>

1980 to 2000 growth: $484.33  51.6%
## Per Capita Property Tax Collections 1980-1990-2000

*(inflation adjusted to 1980 $)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Collections</th>
<th>Per Capita</th>
<th>Decade change</th>
<th>%</th>
<th>Inflation adjusted</th>
<th>Decade change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$821,596,042</td>
<td>$302.28</td>
<td></td>
<td></td>
<td>$302.28</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>$2,506,010,794</td>
<td>$680.83</td>
<td>$378.55</td>
<td>125.2%</td>
<td>$444.11</td>
<td>$141.83</td>
<td>46.9%</td>
</tr>
<tr>
<td>2000</td>
<td>$3,874,688,668</td>
<td>$767.68</td>
<td>$86.85</td>
<td>12.8%</td>
<td>$408.25</td>
<td>-$35.85</td>
<td>-8.1%</td>
</tr>
</tbody>
</table>

**1980 to 2000 growth:**

$465.40 154.0%  $105.97 35.1%
## Per Capita Sales Tax Collections 1980-1990-2000

*(inflation adjusted to 1980 $)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Collections</th>
<th>Per Capita</th>
<th>Decade change</th>
<th>Decade change %</th>
<th>Inflation adjusted</th>
<th>Decade change</th>
<th>Decade change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$983,075,114</td>
<td>$361.69</td>
<td></td>
<td></td>
<td>$361.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>$2,341,449,197</td>
<td>$636.13</td>
<td>$274.44</td>
<td>75.9%</td>
<td>$414.95</td>
<td>$53.26</td>
<td>14.7%</td>
</tr>
<tr>
<td>2000</td>
<td>$5,264,576,318</td>
<td>$1,043.05</td>
<td>$406.92</td>
<td>64.0%</td>
<td>$554.69</td>
<td>$139.75</td>
<td>33.7%</td>
</tr>
</tbody>
</table>

**1980 to 2000 growth:**

- **$681.36** 188.4%
- **$193.00** 53.4%
## Per Capita Individual Income Tax Collections 1980-1990-2000

*(inflation adjusted to 1980 $)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Collections</th>
<th>Per Capita</th>
<th>Decade change</th>
<th>%</th>
<th>Inflation adjusted</th>
<th>Decade change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$319,339,473</td>
<td>$117.49</td>
<td></td>
<td></td>
<td>$117.49</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>$996,405,685</td>
<td>$270.70</td>
<td>$153.21</td>
<td>130.4%</td>
<td>$176.58</td>
<td>$59.09</td>
<td>50.3%</td>
</tr>
<tr>
<td>2000</td>
<td>$2,291,882,439</td>
<td>$454.08</td>
<td>$183.38</td>
<td>67.7%</td>
<td>$241.48</td>
<td>$64.90</td>
<td>36.8%</td>
</tr>
</tbody>
</table>

### 1980 to 2000 growth:

- **$336.59** 286.5%
- **$123.99** 105.5%
Arizona’s Tax System & The Three-Legged Stool

- The two-decade tax analysis also allowed us to look at the relative changes in the make-up of our tax system.

- The 3-legged tool has seen minimal change:

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>38%</td>
<td>39%</td>
</tr>
<tr>
<td>Property</td>
<td>32%</td>
<td>29%</td>
</tr>
<tr>
<td>Income</td>
<td>17%</td>
<td>21%</td>
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</tbody>
</table>
ATRA Recommendations:
General Comments Tax Reform

• “Tax reform” has been an on-going process for ATRA for the past decade.
• Many improvements have been made in property and sales tax systems.
• ATRA’s recommendations will continue to focus on both sound fiscal policy as well as realistic expectations.
• Drain the ocean vs. Targeted reform?
• Do No Harm!
ATRA Recommendations: Property Tax

• ATRA believes the most pressing issue in Arizona’s tax system is the effect of the classification system on business property taxes. (As high as 3rd in the country)

• There are two ways to deal with this problem:
  – 1. Reduce property taxes overall
  – 2. Create equity across the classes
ATRA Recommendations: Property Tax (continued)

• Considering the importance of the property tax for both state and local government significant reductions in the property tax are unrealistic.

• That leaves equity as the only other avenue to begin addressing the problem of high business property taxes.
Key Property Tax
Recommendations:

• Single Assessment Ratio for all future voter approved bonds and overrides.
• Control future growth of property tax levies (for all classifications)
• Address high school district primary property tax rates (desegregation, small schools, etc.)
• Manage 1% cap
State Property Taxes

- Recommendations to levy a new “state” property tax will clearly exacerbate our current problems.

- While the state does not have a statewide property tax rate for general fund purposes it very much relies on and benefits from property taxes.
FY 2003 State General Fund Revenue
Including State Controlled Property Taxes

<table>
<thead>
<tr>
<th>Source</th>
<th>Revenue (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Use Tax</td>
<td>$3,046.2</td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>$2,016.4</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>$285.4</td>
</tr>
<tr>
<td>Property Tax</td>
<td>$1,907.4</td>
</tr>
<tr>
<td>Other</td>
<td>$297.5</td>
</tr>
</tbody>
</table>

**TOTAL REVENUE** $7,552.9

*Includes K-12 Primary Levies [$1,697,031,236 + $21,903,614 (SRP) = $1,718,934,850], County Equalization [$170,402,602 + $2,663,449 (SRP) = $173,066,051], and MQTR ($13,801,961 + $1,643,144 (SRP) = $15,445,105).
State Primary Property Tax Levies  
Tax Year 1980

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12</td>
<td>$298,798,420</td>
</tr>
<tr>
<td>State Rate</td>
<td>$98,013,661</td>
</tr>
<tr>
<td>County Equalization</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$396,812,081</strong></td>
</tr>
</tbody>
</table>

Per Pupil Primary Property Tax Levies  
$818.85

Includes SRP voluntary contributions.
State Primary Property Tax Levies
Tax Year 1990

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12</td>
<td>$993,579,246</td>
</tr>
<tr>
<td>State Rate &amp; MQTR</td>
<td>$171,054,099</td>
</tr>
<tr>
<td>County Equalization</td>
<td>$119,230,696</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,283,864,041</strong></td>
</tr>
</tbody>
</table>

**Per Pupil Primary Property Tax Levies** $2,121.51

<table>
<thead>
<tr>
<th></th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12</td>
<td>$694,780,826</td>
<td>232.52%</td>
</tr>
<tr>
<td>State Rate &amp; MQTR</td>
<td>$73,040,438</td>
<td>74.52%</td>
</tr>
<tr>
<td>County Equalization</td>
<td>$119,230,696</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$887,051,960</strong></td>
<td><strong>223.54%</strong></td>
</tr>
</tbody>
</table>

Includes SRP voluntary contributions.
State Primary Property Tax Levies
Tax Year 2002

K-12 $1,718,934,850
State Rate & MQTR $15,445,105
County Equalization $173,066,051

$1,907,446,006

Per Pupil Primary Property Tax Levies $2,113.96

$ Change % Change
K-12 $725,355,604 73.00%
State Rate & MQTR -$155,608,994 -90.97%
County Equalization $53,835,355 45.15%
Total $623,581,965 48.57%

Includes SRP voluntary contributions.
ATRA Recommendations: Sales Tax

• Uniformity of the state and municipal sales tax base. (While complete uniformity of state and city sales tax bases are unrealistic, disparities should be limited)

• Maximum rate caps should be considered

• Exemptions not “loopholes”. Any consideration of expansion to the base should be done with great care and consideration of the state’s competitive position for economic development.
ATRA Recommendations: Income Tax

• Arizona should consider conformity with the federal government, for both corporate and personal income taxes, a very high priority.

• Arizona should change the corporate apportionment formula to 100% sales with an election for corporate taxpayers to stay with the current three factor formula.