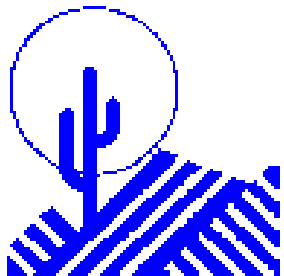


Valley Interfaith Project Presentation

TAX REFORM 2004



Arizona Tax Research Association

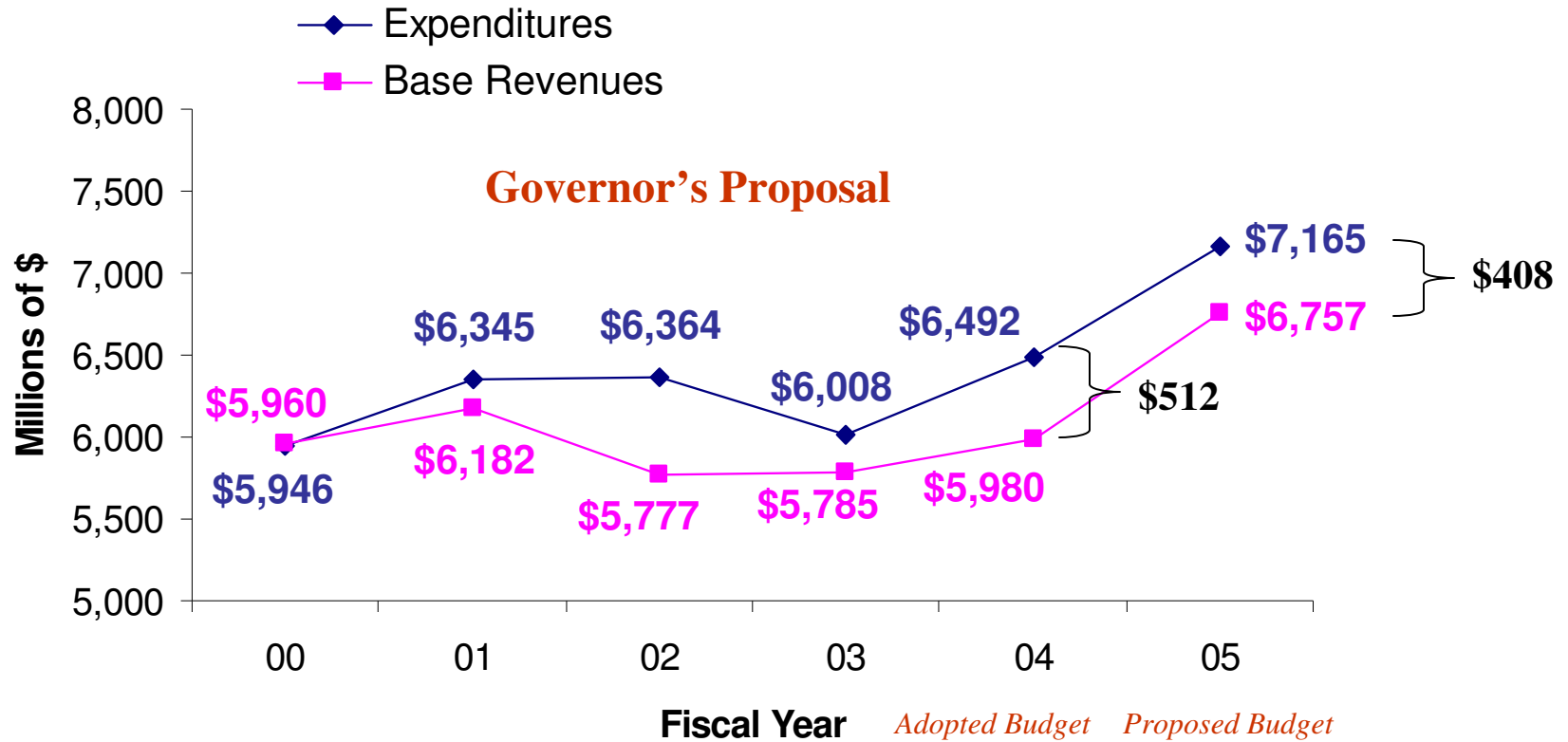
Tax Reform 2004

What's driving this?

- On-going state budget crisis.
- Perception that tax cuts and an outdated tax system got us in the trouble we are in.
- Belief that the state's tax system is an impediment to economic development.

Comparison of General Fund Revenues & Expenditures

Excludes beginning balance, one-time revenues & expenditures, & Prop 301



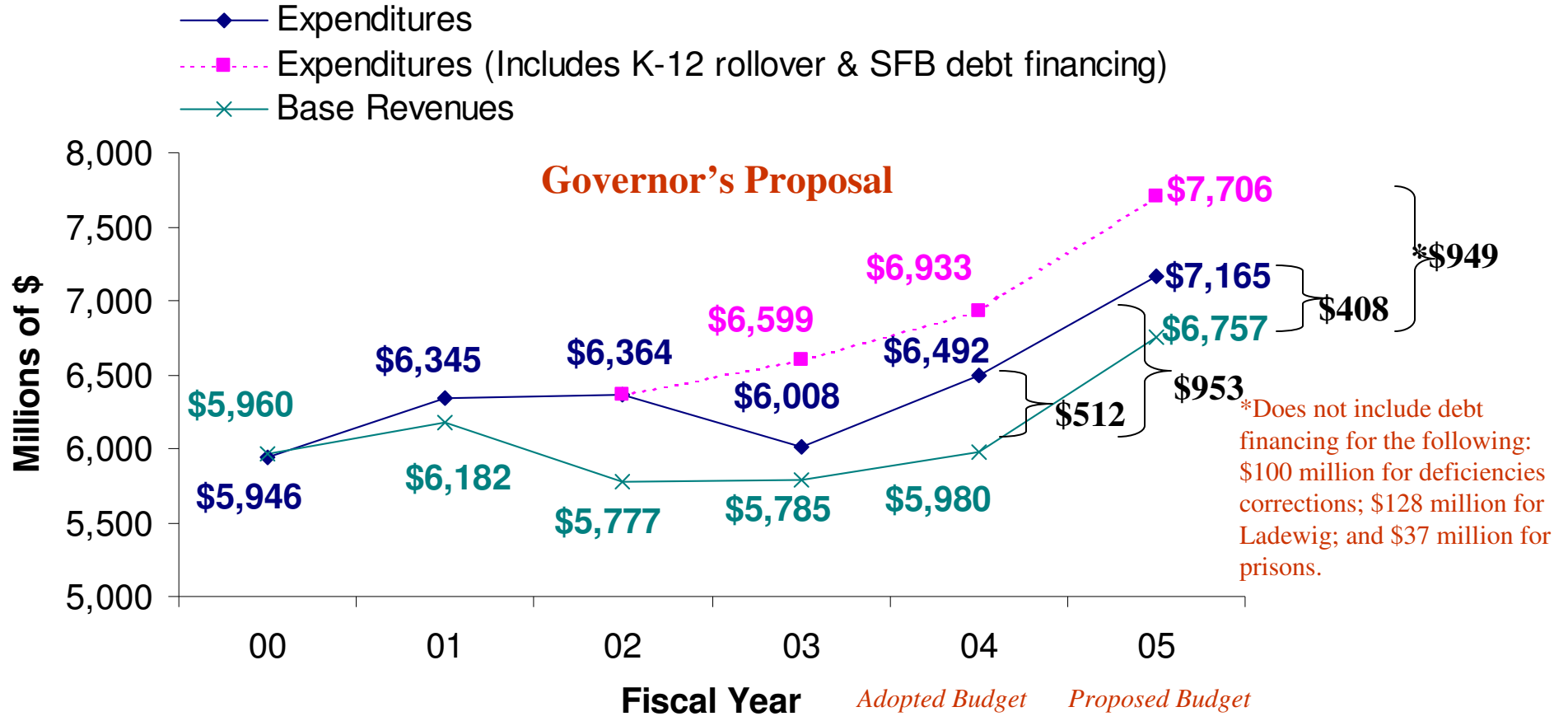
Beg. Balance:
(in millions)

255	203	13	1	18	173
-----	-----	----	---	----	-----

Adopted Budget *Proposed Budget*

Comparison of General Fund Revenues & Expenditures

Excludes beginning balance, one-time revenues & expenditures, & Prop 301



*Does not include debt financing for the following: \$100 million for deficiencies corrections; \$128 million for Ladewig; and \$37 million for prisons.

Beg. Balance:	00	01	02	03	04	05
(in millions)	255	203	13	1	18	173

Current Tax Reform Efforts

- **Tax Reform for Arizona Citizens (TRAC)**
Committee of state legislators, local government officials, business representatives and private citizens charged with studying the state's tax system
- **Citizens Finance Review Committee (CFRC)**
22 member committee appointed by Governor Napolitano to study the tax system and make recommendations for change to the Governor

What are the issues being studied?

Four working principals of the CFRC

1. Equity
2. Economic Vitality
3. Volatility
4. Simplicity

What does “Tax Reform” mean?

- Revenue neutral changes in Arizona’s tax system to change our reliance on certain taxes? *The stated CFRC operating model.*
- Increase in taxes to generate more revenue? *The premise is that there currently is insufficient revenue to adequately fund government programs.*
- Changes to improve the administration of Arizona’s state and local tax system? *Simplicity, minimize administrative costs*

National Comparisons

- Every analysis of a state and local tax system inevitably includes considerable focus on national comparisons
- High tax comparisons are used to argue for decreases
- Low tax comparisons are used to argue for increases

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.

Snapshot of AZ's 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?

Per Capita Tax Collections (1980-1990-2000) *(inflation adjusted to 1980 \$)*

Year	Per Capita	Decade change	%
1980	\$938.36		
1990	\$1,229.32	\$290.96	31.0%
2000	\$1,422.69	\$193.37	15.7%
1980 to 2000 growth:		\$484.33	51.6%

Arizona's Tax System & The Three-Legged Stool

- The three legs of Arizona's tax stool have seen minimal change over the last two decades:

	<u>1980</u>	<u>2000</u>
Sales	38%	39%
Property	32%	29%
Income	17%	21%

General Comments on Tax Reform

- **Do no harm!** *As was the case with Fiscal 2000, this effort might simply result in tax increases without any reforms. Tax increases would hopefully not exacerbate existing problems*
- Targeted Reform vs. Massive Overall. *We shouldn't miss the opportunity to make targeted changes that are much needed*

Key Issues Being Studied: Property Tax

- Decrease in the inequity between business and residential taxpayers.
- Targeted relief to business personal property taxpayers.
- Increasing property taxes through a new statewide levy.

Sales Tax

- Expand the sales tax base to services
- Evaluate current TPT exemptions for possible elimination
- Evaluate the application of the Streamlined Sales Tax Agreement

Income Tax

- Evaluate burdens. Increase personal income taxes?
- Evaluate all corporate and personal income tax credits and deductions for possible elimination.
- Evaluate the effect of moving to a single sales factor for corporate income tax purposes.

Final Comments

- Setting aside the debate over increasing or decreasing taxes, this should be viewed as an opportunity that should not be missed to fix longstanding problems in our tax system.