



# Children's Action Alliance

*A Voice for Arizona's Children since 1988*

## **Flat Tax Proposal Will Undermine Arizona's Recovery When It's Most Needed**

***Costs will be substantial – benefits will be uneven and uncertain***

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### ***HB 2653/SB 1478 would permanently cut Arizona's taxes, threatening vital services.***

HB 2653/SB 1478 states that the flat tax will be an overall tax cut. The legislative fact sheet reports the loss to the state's General Fund at \$450 million per year. This loss in state revenues will begin at the same time the hundreds of millions in federal stimulus money will be expiring and one year before the possible temporary sales tax increase will expire. Because Arizona's constitution requires a supermajority vote of the legislature for any revenue increase, this tax cut will be virtually impossible to undo. This law would continue to reduce people's taxes for contributions to public school extracurricular activities and would allow the tax reduction for contributions to private school tuition to rise each year. However, basic k-12 public education, full-day kindergarten, early education, and children's health would face dramatic budget cuts.

Adopting a flat tax for Arizona with the provisions in HB 2653/SB 1478 for an income tax cut would damage the state's tax base when the state is already struggling to support basic voter expectations for education, health care, and public safety.

### ***The tax changes in HB 2653/SB 1478 would raise the tax burden of some households compared to others. Which constituents will pay a higher burden?***

HB 2653/SB 1478 not only creates a single tax rate for the state individual income tax, it also changes the definition of how much income is taxed. Currently, the base for Arizona individual income taxes is the Federal Adjusted Gross Income. Under the proposal, the base becomes Federal Gross Income and only a few deductions and credits will be allowed. That means many taxpayers will pay taxes on a bigger portion of their income. *Arizonans who will be taxed on more of their income include:*

- People paying back student loans
- People with health savings accounts
- People paying alimony
- People paying moving expenses
- People with high medical expenses
- People paying school tuition and fees
- People who are self-employed
- People with children or other dependents
- People who are blind
- Seniors who are aged 65 or older

***Arizona individual income taxes are already low.***

Arizona ranks 40<sup>th</sup> in the nation for income tax collections at \$1.59 per \$100 of personal income – well below the national average of \$2.36. Our highest bracket tax rate – 4.54% for incomes over \$150,000 single/\$300,000 married – is already low compared to other states. Thirty-four states have higher rates. Only four states have lower rates.

***Flat tax holds no promise for economic growth.***

States with flat income taxes have had **slower** economic growth (GDP) than other states. From 1998 to 2008, the national economy grew 63%; flat-income-tax states experienced economic growth of just 49%. (Arizona grew 81%.) The flat income tax states during this period were Colorado, Illinois, Indiana, Massachusetts, Michigan and Pennsylvania.

***The flat tax hurts low and middle-income taxpayers.***

Families with children and working parents earning \$30,000 will likely see an **increase** in their state income tax bills, while wealthier taxpayers get a cut.

The Arizona state budget and Arizona cities and towns rely heavily on sales taxes to finance government services. Sales taxes cost low and middle-income taxpayers a higher share of their income than the share paid by wealthier taxpayers. The different tax rates in Arizona's current income tax help to offset that imbalance and make the overall state and local tax structure more fair. With a flat rate, low and middle income taxpayers will shoulder an even larger share of the cost of statewide government services.

***Lawmakers are considering a major overhaul of tax policy with no information about the impacts to different groups of taxpayers, no financial analysis, and no public discussion or debate. Just like the "alt fuels" tax credit fiasco, a hasty decision could lead to dramatic unintended consequences.***