



# Children's Action Alliance

*A Voice for Arizona's Children since 1988*

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August 24, 2010

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## **Arizona Tax Deductions Giving Millions in Tax Breaks to the Wealthiest Families**

Itemized deductions on the state income tax cost Arizona millions of dollars in income tax revenue each year while giving the biggest windfall to upper income families.

"No lawmaker would ever devise a spending program to encourage homeownership that gave the biggest checks to the richest taxpayers, while entirely excluding low-income families," noted Dana Wolfe Naimark, President and CEO of Children's Action Alliance. "Yet itemized deductions have exactly that effect."

The impacts of state income tax itemized deductions are documented in a new report from the Institute on Taxation and Economic Policy, "*Writing Off" Tax Giveaways: How States Can Help Balance Their Budgets by Reforming or Repealing Itemized Deductions*. The report describes how federal tax changes have gradually made itemized deductions even more unfair and expensive over the last five years, automatically passing tax cuts onto Arizona's wealthiest residents even as the state faces unprecedented budget challenges.

The report highlights Arizona as one of only six states with a "never ending deduction." This policy allows taxpayers who deduct their state income taxes from their federal income taxes to carry that same deduction over to their state income taxes. Most states require taxpayers to add back any state income tax deduction when they prepare their state tax returns. Breaking the cycle of the never ending deduction would bring an estimated \$147 million into Arizona's state treasury.

"Reforming our itemized deduction policies can both improve fairness and increase state revenue," said Naimark. "This option should be on the table as Arizona continues to struggle with state budget deficits of hundreds of millions of dollars."

The ITEP report presents five additional reform options that have been enacted in other states: replacing itemized deductions with increased standard deductions, capping the total value of itemized deductions, converting itemized deductions to credits, enacting stand-alone phaseouts, and decoupling from the recent federal tax changes.

Utah tax policy offers a strong model for converting itemized deductions to tax credits. Utah allows taxpayers to claim a tax credit equal to 6 percent of either the federal standard deduction or itemized deductions. The credit is phased out at higher income levels. This is a straightforward way of ensuring that low-income and middle income families don't lose out of the tax benefits, like they do with itemized deductions.

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*Children's Action Alliance is an independent voice for Arizona children at the state capitol and in the community. CAA works to improve children's health, education, and security through information and action. [www.azchildren.org](http://www.azchildren.org)*

*The Institute on Taxation of Economic Policy (ITEP) is a non-profit, non-partisan research organization that focuses on federal and state tax policy. Its mission is to inform policymakers and the public of the effects of current and proposed tax policies on tax fairness, government budgets, and sound economic policy.*

*The report and all the 50 state fact sheets will be available here on August 24, 2010:*

*[http://www.itepnet.org/state\\_reports/itemize0810.php](http://www.itepnet.org/state_reports/itemize0810.php)*

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