



## H.B. 2250 – TAX CUTS TO GROW ARIZONA’S DEFICIT

January 22, 2010

H.B. 2250 enacts a broad range of tax cuts and tax incentives beginning in FY 12 when Arizona will still be facing multibillion dollar deficits and cuts to education and health care. These across the board tax cuts are not targeted to economic development and will add to the state’s fiscal problems.

- It will cost the state treasury millions of dollars beginning in FY 12 and growing over the next three years. We cannot afford this additional hit on our state dollars. JLBC projects that by FY 2013, general fund revenues will remain \$1.71 billion – 18% -- below FY 2007 levels.<sup>1</sup> Similarly, the Governor’s budget office projects that the number of Arizona jobs will not recover to FY 2007 levels until FY 2014.<sup>2</sup> The provisions of this bill will only add to the deficit.
- Cutting taxes across the board at a time of revenue shortfalls will not spur economic growth. Business and conservative organizations that look at a wide variety of factors already rank Arizona as high to medium for business climate.<sup>3</sup> An Economic Policy Institute summary of multiple research studies confirmed that the costs of taxes are much less important to business than other location specific costs, such as qualified workers, proximity to customers and quality public services.<sup>4</sup>
- Arizona already has a long history of tax cuts. Since 1989, the legislature has passed tax cuts every year except one (2003). These cuts have resulted in a revenue loss of more than \$1.5 billion in FY 12.<sup>5</sup> Considering inflation and population growth, revenue in the current fiscal year is nearly \$2.6 billion less than it would have been had the long series of tax cuts not taken place.<sup>6</sup>
- An analysis by the Center on Budget and Policy Priorities found no positive link between large tax cuts made in the 1990s and later economic success. In fact, the big tax-cutting states generally faced larger deficits, more downgrading of their credit ratings, and lower job growth than other states that were more cautious about tax cuts.<sup>7</sup> An analysis by the Office of the University Economist at Arizona State University found no noticeable effect on Arizona’s economic growth from either state tax increases or tax cuts during the last 30 years.<sup>8</sup>
- Businesses need and value public services – assets like education, health care and infrastructure – which are already in jeopardy because revenues have fallen.<sup>9</sup>
- Many of the provisions of H.B. 2250 have already been done. For instance, Arizona’s corporate income tax rate has been cut 4 times since 1990 and the individual income tax has been cut 7 times. The state already has several job training programs as well as a corporate tax credit for technology skills training.

### H.B. 2250 doesn’t provide solutions – it creates bigger problems

*ABC Includes more than 50 organizations throughout Arizona standing for jobs, education, health and human services.*

*Steering Committee: Arizona Education Association, Children’s Action Alliance,  
Protecting Arizona’s Family Coalition, and Service Employees International Union*

<sup>1</sup>JLBC Baseline Budget presentation to Joint Appropriations Committees, 1/20/2010.

<sup>2</sup>Governor's Office of Strategic Planning and Budgeting, Media Presentation on FY 2010 and 2011 budgets.

<sup>3</sup>American Legislative Exchange Council, *Rich States, Poor States, Laffer State Economic Competitiveness Index*, 2009; Chief Executive Magazine, CEO's *Select Best, Worst States for Job Growth and Business*, [www.chiefexecutive.net](http://www.chiefexecutive.net); Entrepreneur.com, *Relocate Your Business*, Mark Henricks,

<sup>4</sup>Economic Policy Institute, *Grading Places: What Do the Business Climate Rankings Really Tell Us*, Peter Fisher, 2005.

<sup>5</sup>Joint Legislative Budget Committee, *Tax Handbook*, various years, [www.azleg.gov/jlbc](http://www.azleg.gov/jlbc).

<sup>6</sup>W.P. Carey School of Business, Arizona State University, *A Summary of the Arizona State Government Fiscal Situation, A Report from the Office of the University Economist*, Dennis Hoffman and Tom Rex, March 2009.

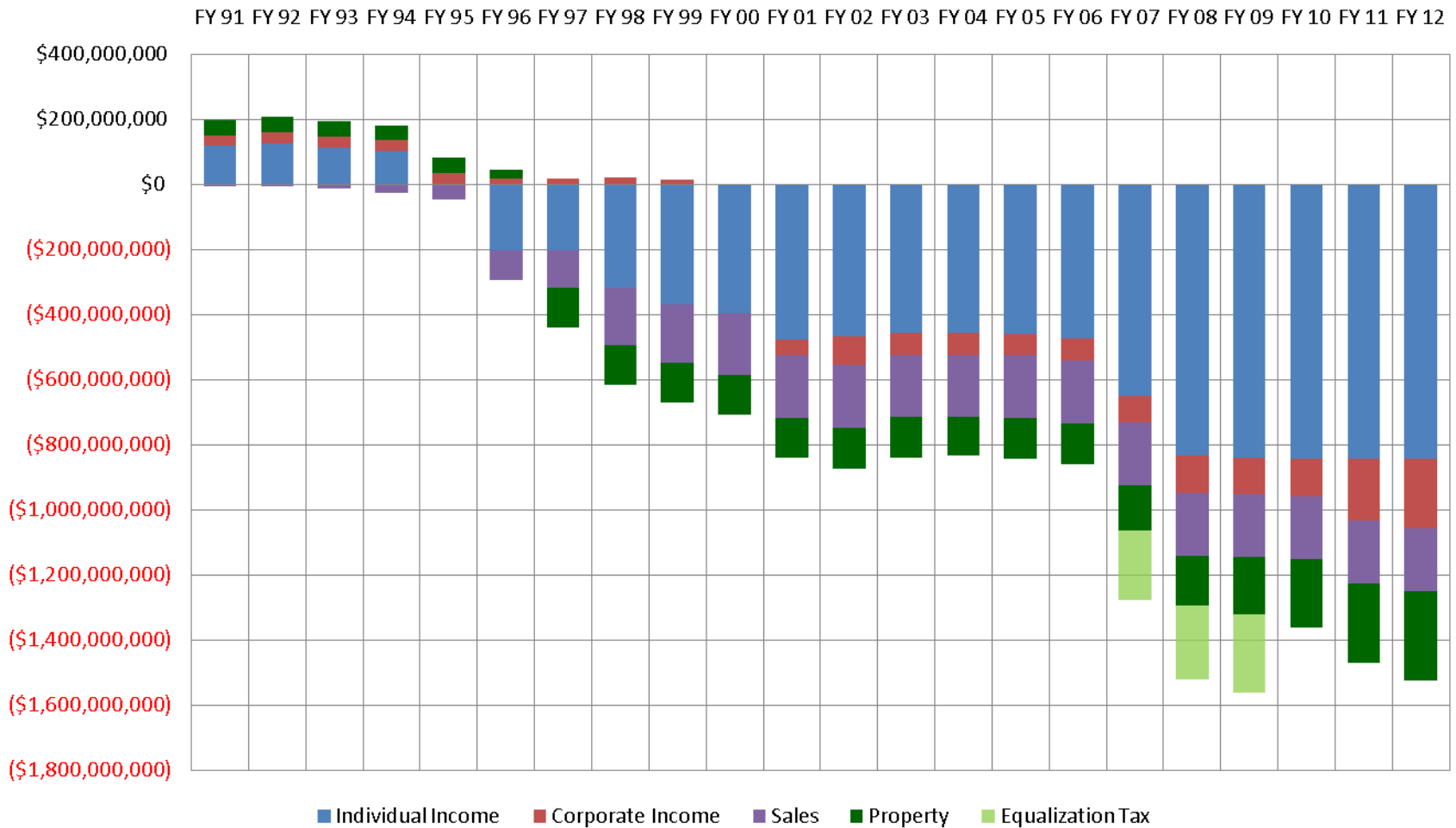
<sup>7</sup>Center on Budget and Policy Priorities, *Tax Cuts and Continued Consequences: States That Cut Taxes Still Lag Behind*, Brian Filipowich and Nicholas Johnson, December 2006.

<sup>8</sup>W.P. Carey School of Business, Arizona State University, *Public Finance in Arizona Volume II: Concepts and Issues, a Report from the Office of the University Economist*, Dennis Hoffman and Tom R. Rex, December 2008.

<sup>9</sup>Whittaker Associates, Inc., *Predicting Corporate Behavior: Why Companies Relocate or Expand*, Dean Whittaker  
CEd, President, Whittaker Associates.

## Tax Cuts Dig the Revenue Deficit Deeper

### Annual Gains and **Losses** to the State General Fund from Tax Changes



Source: Joint Legislative Budget Committee, Tax Handbook, various years. [www.azleg.gov/jlbc](http://www.azleg.gov/jlbc)