



H.B. 2250 - CORPORATE WELFARE PAID FOR BY ARIZONA FAMILIES

April 8, 2010

H.B. 2250 enacts a multiple tax breaks for corporations beginning in FY 12 when Arizona will still be facing multibillion dollar deficits and cuts to education and health care. This will enlarge our structural deficit.

- HB 2250 redistributes taxes away from businesses to homeowners and families.
- HB 2250 threatens K-12 education. It eliminates the only statewide property tax that supports general fund education costs and lowers the tax base for school districts' bond and budget override elections. This will create higher taxes for homeowners and less funding for schools.
- The bill includes tax giveaways in corporate income taxes and business property taxes that have **no accountability for creating jobs**. Only 2% of the tax cuts are tied to creating new jobs – the other 98% - \$2 billion over the next 8 years – will be given away whether or not a single job is created.
- HB 2250 will cost the state treasury millions of dollars beginning in FY 12 and growing to more than \$640 million annually over the next 8 years. Arizona is still struggling to pay our bills and we will have large debts to repay. JLBC projects that by FY 2013, general fund revenues will remain \$1.71 billion – 18% -- below FY 2007 levels.¹
- HB 2250 will create a new “cliff effect” – phasing in corporate welfare at the same time the temporary sales tax expires, and adding to Arizona’s budget deficit.
- Giving more tax breaks to corporations at a time of revenue shortfalls will not spur economic growth. In 2009 and 2010, ALEC already ranks Arizona 3rd best for economic outlook.² 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.³
- Arizona already has a long history of tax giveaways. Since 1989, the legislature has passed tax breaks every year except one (2003). These cuts have resulted in a revenue loss of more than \$1.5 billion in FY 12.⁴ Considering inflation and population growth, these cuts have deepened the structural deficit by nearly \$2.6 billion.⁵
- An analysis by the Center on Budget and Policy Priorities found no positive link between large tax breaks 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.⁶ 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.⁷
- Businesses need and value public services – assets like education, health care and infrastructure – which are already in jeopardy because revenues have fallen.⁸

(Footnotes on reverse side)

H.B. 2250 makes Arizona’s budget deficit bigger

*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*

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

²American Legislative Exchange Council, *Rich States, Poor States, Laffer State Economic Competitiveness Index*, 2010.

³Economic Policy Institute, *Grading Places: What Do the Business Climate Rankings Really Tell Us*, Peter Fisher, 2005.

⁴Joint Legislative Budget Committee, *Tax Handbook*, various years, www.azleg.gov/jlbc.

⁵W.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.

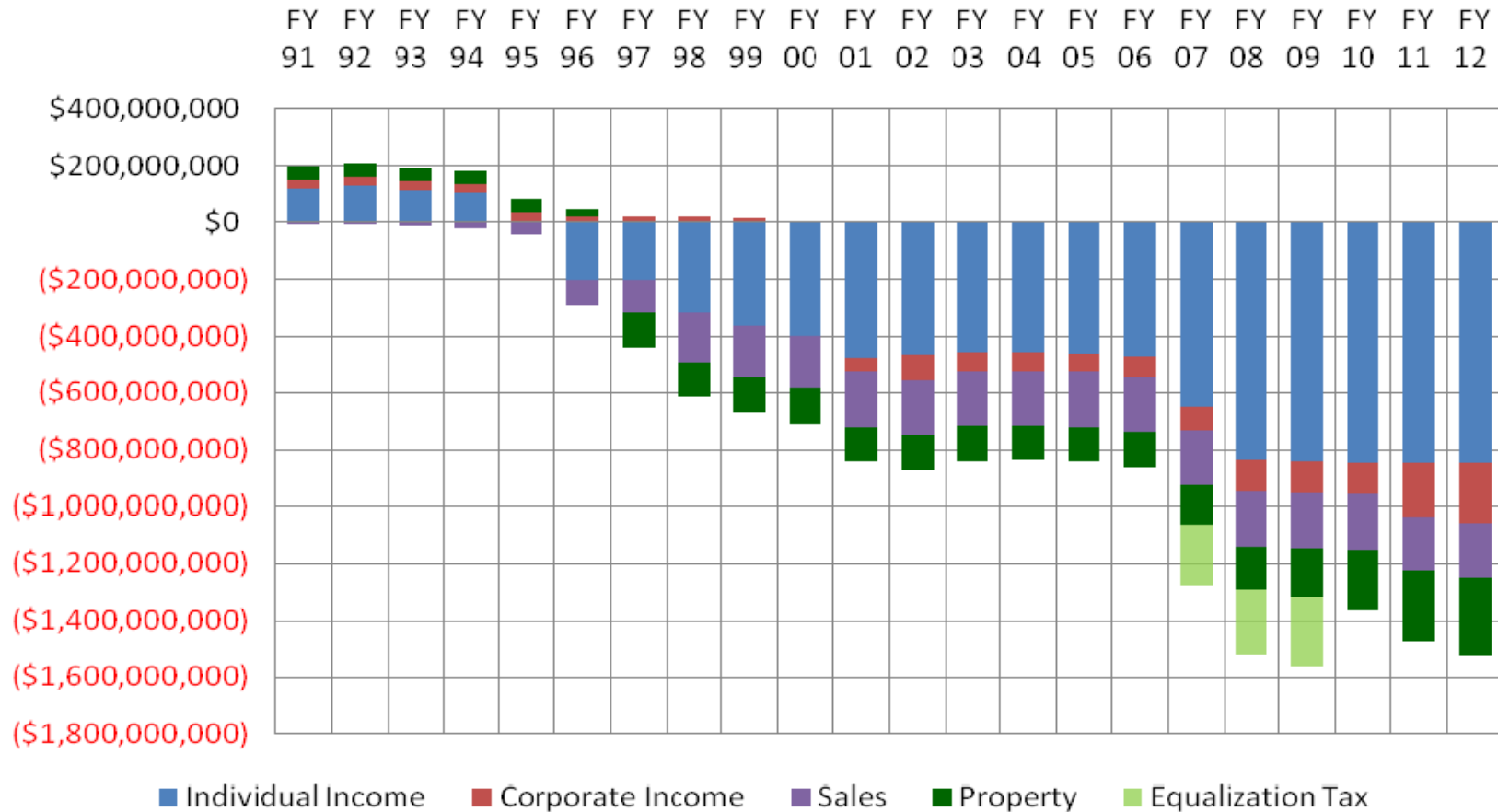
⁶Center on Budget and Policy Priorities, *Tax Cuts and Continued Consequences: States That Cut Taxes Still Lag Behind*, Brian Filipowich and Nicholas Johnson, December 2006.

⁷W.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.

⁸Whittaker Associates, Inc., *Predicting Corporate Behavior: Why Companies Relocate or Expand*, Dean Whittaker CEcD, President, Whittaker Associates.

Tax Cuts Increase Structural Deficit

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



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HB 2250 – Tax Cut Plan	Arizona’s History
<p>Reduces the commercial property tax ratio for local government and school bonds and budget overrides from 20% to 16%.</p>	<p>Laws passed in 2005 began reducing the commercial property ratio from 25% to 20% over a 10 year period. Laws passed in 2007 accelerated this, so that the current phase-down will be completed in tax year 2011 (fiscal year 2012). This provision would reduce the property ratio further – to 16% - when determining the tax base for bonds and budget overrides that support counties, cities, towns, community colleges and school districts. This will have the effect of shifting the tax burden from commercial property owners to homeowners.</p>
<p>Eliminates the State Equalization Tax over a four-year period.</p> <p>When fully phased in, this will cost the general fund \$302 million in additional support for K-12 education or reduce K-12 funding by a like amount.</p>	<p>This tax, which supports K-12 education, was suspended for 3 years (FY 07 – FY 09).</p> <p>This is the only statewide property tax that supports K-12 education.</p>
<p>Reduces the corporate income taxes paid by multi-state businesses with a majority of their sales out of state (the “single sales factor”).</p> <p>This will cost the general fund \$44 million.</p>	<p>The formula for corporate income taxes already favors businesses that have significant payrolls and property located in Arizona but most sales out of state. This bill allows corporations to choose an even more favorable formula to reduce their taxes even more.</p>
<p>Increases the incentives to businesses to locate in Arizona. Tax breaks include lowered property assessment ratios (and therefore lower property taxes) and tax credits for new qualifying jobs.</p>	<p>The Department of Commerce operates several programs to help distressed areas:</p> <ul style="list-style-type: none"> • The Main Street Program which provides rural economic development initiative with matching grants. • The Arizona Commerce and Economic Development Commission Loans and Grants program which supports economic development projects that result in job retention or creation with salaries at or above the average county wage. • The Rural Economic Development Initiative. • Solar Powers America Grants for Renewable Energy.



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<p>Creates a new (supplemental) job training program.</p> <p>Funds to support this program will come from withholding taxes diverted from new jobs and new hires created as a result of this bill.</p> <p>Unlike the current Job Training Fund, which is funded through an employer wage tax, this proposal will divert employee withholding taxes that would otherwise go to the general fund. The estimated cost over a five-year period is \$18 million, after which the tax credits will expire.</p>	<p>Arizona already has several job training programs.</p> <p>The Job Training Fund exists at the Department of Commerce to providing training and retraining for employment opportunities with new and expanding businesses or business undergoing economic conversion. 25% of the funds appropriated are set aside for small and rural businesses.</p> <p>The primary source for this fund is a 0.1% employer wage tax. \$22.2 million of this fund was swept into the General Fund in FY 09 and another \$20.1 million in FY 10 as part of the budget-balancing strategies.</p> <p>The Department of Economic Security also houses several job training programs, the largest of which is the Workforce Investment Act programs which fund workforce training for workers at the local level. In FY 10, \$48 million is designated for this local training.</p> <p>A refundable corporation income tax credit exists for providing technological skills training. The credit is 50% of the amount spent on training, not to exceed \$1500 per employee.</p>

4/12/10