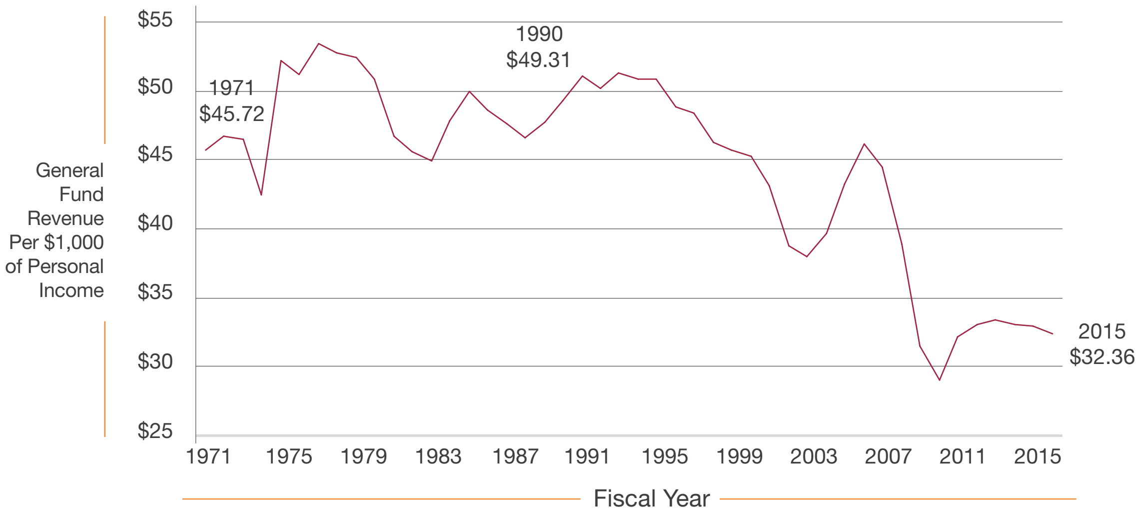
TAX CUTS AND TAX CREDITS

Has Arizona been cutting taxes?

Yes. With the exception of 2003, the Arizona legislature has reduced tax rates and/or increased exemptions and credits in every year since 1990. By fiscal year 2017, the cumulative impact of this steady stream of tax cuts enacted since 1990 will reach $1.8 billion less in general fund revenues—more than double that when you adjust for inflation.

Even during the Great Recession when drastic spending cuts were made to keep the budget balanced, hundreds of millions of dollars in tax cuts were passed. In 2015, state general fund revenues were $32.36 per $1,000 of income—one-third lower than in 1990 and 17 percent lower than right before the Great Recession.

State General Fund Revenue as a Share of Personal Income Has Dropped Significantly Since the Early 1990s



Source: Tabulations prepared by Tom Rex, Associate Director, Center for Competitiveness and Prosperity Research, Arizona State University, based on data from Joint Legislative Budget Committee Staff, *Appropriations Report,* and the U.S. Bureau of Economic Analysis.

All types of taxes have been cut since 1990. Examples include:

- Both the corporate and individual income tax rates have been cut 5 times at a total annual cost to the general fund of $1.2 billion, not adjusted for inflation. Today, the individual income tax rate for the highest income bracket is less than two-thirds of what it was in 1990, while the corporate income tax rate is currently in a four-year phase down. In tax year 2017, the corporate income tax will be just over half (52 percent) of what it was in 1992.
- 33 individual income tax credits have been adopted, with 27 of them still being in place. The total annual cost of these credits, excluding any carry forward amounts, is approximately $202 million.
- 26 corporate income tax credits have been adopted, with 21 of them still being in effect. The annual cost of these credits, excluding any carry forward amounts, is approximately $129 million.
- New exemptions and increased deductions for both corporate and individual income taxes amount to $210.8 million annually, not adjusted for inflation.
- Allowing multistate corporations to choose their preferred method for determining their taxable income, called single sales factor, means $122 million less per year in state revenues.

Many of the tax cuts passed since the Great Recession began are phasing in over a number of years, starting out relatively small but growing into the future. In particular, the so-called “Jobs” bill passed in 2011 was estimated to cost the general fund $38.2 million in fiscal year 2012 but has an estimated $538 million impact by the time it is completely phased in fiscal year 2018. The phased provisions include reducing the corporate income tax rate, reducing the commercial property tax assessment, and reducing the corporate sales factor, which affects multistate corporations.

The most recent legislature continued this practice of passing tax cuts that have little impact now but will grow over time. A reduction in the insurance premium tax rate is estimated to cost the general fund $1.3 million in fiscal year 2017, but will grow to $35.2 million annually over 10 years.

The assumption behind this phasing in of tax cuts is that the economy will improve over time so that the revenues lost due to the tax cuts will be made up by growth in the overall economy. Unfortunately, this has not worked out—over one-third of the $1 billion deficit for fiscal year 2016 is attributable to tax cuts passed since 2009.