



TAX CUTS AND TAX CREDITS

What would happen if Arizona eliminated the income tax?

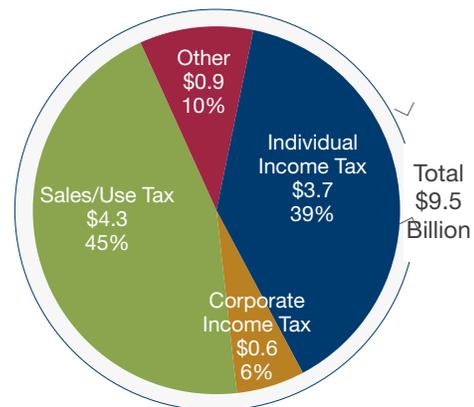
State income taxes for individuals and corporations make up nearly half of all revenue to the state general fund. Eliminating these taxes would have a dramatic impact on Arizona families—including a potentially huge loss of state services or huge shifts in taxes from wealthier Arizonans to middle and lower income families.

If Arizona were to eliminate the income tax and increase the sales tax to make up for the revenue loss, Arizona's sales tax rate would grow from the current 5.6 percent to about 10.6 percent. Arizona's rate would become the highest the nation, significantly higher than the current top spot of California at 7.5 percent.

Replacing income taxes with sales taxes would also shift tax responsibility away from higher income Arizonans to those earning middle and low incomes. Under this approach, 80 percent of Arizonans would see their state taxes go up, while the wealthiest 20 percent would see a tax cut.

Alternatively, trying to cut spending to make up for the lost income tax revenue would drastically disrupt basic state priorities. Would the legislature simply cut all state agency budgets in half, regardless of the impact? Would the general fund cover just K-12 education and Child Safety with zero funding for prisons, universities, health care, and the Department of Public Safety? Would the group homes and services for people with developmental disabilities be closed? Would the 1.6 million Arizonans who depend on AHCCCS for health care suddenly be without any coverage, disrupting the health care system statewide?

Sources for General Fund, FY 2016
(Dollars in Billions)



Source: Joint Legislative Budget Committee Staff, Appropriations Report FY 2016.