

Arizona flat income tax a hike for many

Study: 88% of Ariz. filers would pay more

by **Mary Jo Pitzl** - Mar. 25, 2011 12:00 AM
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If Arizona shifts to a one-size-fits-all income tax, it would raise taxes for 88 percent of Arizona filers while cutting them for the 12 percent with a taxable income of more than \$100,000 a year, a legislative analysis shows.

The teeter-totter effect of moving to a flat tax by cutting some taxes while hiking others has reignited the debate that flares every time lawmakers toy with the idea.

Proponents say the tax - in this case, a 2.13 percent rate - is a fair way of imposing an income tax because everyone pays the same rate. Currently, Arizona has a progressive tax rate, ranging from 2.59 percent to 4.54 percent. It increases with income level.

Opponents say House Bill 2636 would increase the tax burden on lower- and middle-class taxpayers while giving the wealthy a tax cut.

On Thursday, the Senate Finance Committee approved the bill on a 4-2 vote. Last week, the House of Representatives gave it a party-line OK, with Republicans in favor and Democrats opposed. It's now up to Senate President Russell Pearce to decide whether to assign it to the Rules Committee and move it on to the full Senate. It's unclear what Pearce will do.

Rep. Steve Court, R-Mesa and the bill's sponsor, said he's trying to simplify the state's tax structure by moving to one rate instead of the current five rates.

"It would be the flattest tax in the country, other than those (states) that don't have a tax at all," Court said.

He acknowledged the shift in tax policy would mean higher income taxes for many but said it would not be a huge increase.

"The average in each of those categories is the individual would not pay more than \$200," he said, citing information the state Department of Revenue prepared for him.

He declined to share that information. He also said he didn't know the impact of tax cuts on those with an adjusted income of \$100,000 or more.

But the Children's Action Alliance said an analysis it commissioned from the Washington, D.C.-based Institute on Taxation and Economic Policy shows higher-income earners would gain an average tax savings of \$918. That was based on taxable incomes ranging from \$152,000 to \$354,000.

The advocacy group's analysis agrees with Court's estimate of an average increase of about \$200 for those with incomes below \$100,000.

Dana Naimark, president and CEO of the Children's Action Alliance, said the math didn't strike her as fair.

"I just cannot see (how) Arizonans are going to see this as fair, which is how it's being touted," she said.

The flat tax would be phased in and would be fully in place by 2015. An amendment in the Senate made it revenue neutral.

The Joint Legislative Budget Committee did not analyze the impact on individual taxpayers but instead calculated the cumulative effect on taxpayers in different income brackets.

To flatten the tax, numerous deductions and exemptions - such as for mortgage interest, dependent children and personal exemptions - would be eliminated.

But the bill retains most tax credits, which are taken after a person's Arizona taxable income has been calculated. They include credits for contributions to school-tuition organizations, contributions to after-school activities in the public schools and donations to the working poor.

The prospective loss of the mortgage deduction has drawn the opposition of the Arizona Association of Realtors, a powerful Capitol lobbying group.

Lawmakers lamented the loss of the popular mortgage and charitable deductions but said it's necessary to make the tax flat.

"We have to take the bitter with the sweet," said Sen. Steve Yarbrough, chairman of the Finance Committee.

Yarbrough said the bill may not win legislative approval this year, but he said lawmakers needed to pursue this change to tax policy.

"It may take a year or two, but I think we need to keep trying," said Yarbrough, R-Gilbert. "The underlying objective is meritorious."

Potential changes in taxes owed

How a flat tax of 2.13 percent would affect Arizona taxpayers.

Taxable income	Pct. of tax filers	Total tax now	Total tax with flat tax
\$0-\$10,000	15.0	\$600,000	\$57.5 million
\$10,000-\$20,000	16.4	\$27.3 million	\$123.9 million
\$20,000-\$30,000	14.4	\$69.6 million	\$134.8 million
\$30,000-\$40,000	11.4	\$107.4 million	\$158.3 million
\$40,000-\$50,000	8.4	\$116.5 million	\$150.3 million
\$50,000-\$75,000	14.0	\$299.9 million	\$359.4 million
\$75,000-\$100,000	8.5	\$289.6 million	\$318.7 million
\$100,000-\$200,000	9.5	\$596.8 million	\$521.8 million
\$200,000-\$500,000	2.1	\$350.6 million	\$246.6 million
\$500,000-\$1 million	0.3	\$158.4 million	\$92.4 million
\$1 million-\$5 million	0.1	\$183.9 million	\$100.4 million
\$5 million plus	0.01	\$148.6 million	\$81.4 million

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