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Flat Unfair

In Arizona, poor and middle-class residents are paying more for less—and Republicans keep lowering the tax burden on the rich

by [Jim Nintzel](#)



David Cay Johnston proves that the notion that half of all Americans skip out on paying taxes is a load of hogwash.

Even if some citizens don't owe anything in federal income taxes, they pay sales taxes, gas taxes, Social Security taxes, Medicare taxes and plenty of other taxes—and for low- and middle-income Americans who don't have money left over to save, that's a big bite out of the dollars that they earn.

We often hear the same argument in Arizona when personal state income taxes are discussed, because the majority of income from those taxes comes from the top earners. However, in terms of percentages, Arizona happens to have one of the most regressive tax systems in the country, according to a 2009 study by the Institute on Taxation and Economic Policy.

Non-elderly Arizona families that earned less than \$20,000—which amounts to the bottom 20 percent of earners—paid about 12.5 percent of their income in taxes; the middle 60 percent paid 8.5 percent of their income in state taxes; and top 1 percent paid just 5.6 percent of their total income in taxes. (As you can see from the chart on Page 21, the more money you make, the smaller the percentage of that income that you pay to the state.)

The numbers are a few years old, but Arizona's regressive structure has almost certainly gotten worse since the study was done, given that voters increased the sales tax by a penny per dollar last year. And while taxes have gotten more regressive, programs that benefit the poor and the middle-class have been steadily cut back—so the average Arizonan is now getting fewer services while paying more in taxes.

Income taxes are actually a pretty good deal for the vast majority of Arizonans, given that 85 percent of households paid more in sales taxes than income taxes in Arizona.

Nonetheless, Arizonans have a dim view of income taxes and would rather raise their sales taxes, according to a 2010 survey of 1,000 state residents by the Pew Center on the States. Only one in five people surveyed supported increasing state income taxes, while 29 percent supported the idea of making the 1-cent sales tax permanent. Roughly one-third liked the idea of expanding sales taxes to services that are now untaxed, an idea that's been pushed by legislative Democrats and other tax reformers as a way to lower the overall sales tax while expanding the base.

That kind of sales-tax reform, however, isn't under serious consideration by the GOP-controlled Legislature. Instead, this year, Republicans continued to push the supply-side tax policies that have shifted the tax burden from the wealthy onto the middle class and the poor.

Earlier this year, lawmakers—in a three-day special session, and without a single Democratic vote—passed a package of corporate tax cuts that will be phased in over the next five years. The cuts to corporate income taxes and some business property taxes will cost \$38 million in the upcoming fiscal year, and \$538 million when fully implemented in 2018.

House Speaker Kirk Adams argues that the tax cuts will encourage corporations to move to Arizona—but if that gamble doesn't pay off, the state will be forced to slash hundreds of millions of dollars from a state budget that has already been cut to the bone, which will force even deeper cuts to education and other programs in upcoming years, even though business leaders warn that cutting education and universities will ruin Arizona's ability to compete for jobs.

Republican lawmakers also proposed shifting even more of the burden onto the poor and middle class while giving the highest-earning Arizonans a tax break.

House Bill 2636, which would have created a flat tax in Arizona, passed the House of Representatives last month, despite the fact that the proposal would have raised taxes on nearly nine out of 10 households.

Even though Republicans control the Legislature, they can't repeal the law of mathematics—and any tax reform that reduces taxes on the wealthy while trying to bring in the same amount of revenue must raise taxes on everyone else.

In addition to lowering the tax rate for higher earners, HB 2636 would have eliminated many popular deductions, such as the mortgage-interest deduction and breaks for having children.

The Arizona House of Representatives passed the bill on a party-line vote without waiting for an economic analysis, but the proposal stalled in the Senate after a Joint Legislative Budget Committee review showed that it would have increased taxes for every income group with a federal adjusted gross income of less than \$100,000—which accounts for about 88 percent of the Arizona households that file taxes.

The shift to a flat tax would have "winners and losers," said Karen McLaughlin of the Children's Action Alliance. "And most of the middle class and the lower class would be the losers. They'd be paying more in taxes, and those at the high end of the income scale would be paying less."

The flat-tax proposal would have delivered an average state tax cut of \$918 for taxpayers earning between \$152,000 and \$354,000, while those earning more than \$354,000 would see an average cut of \$11,676, according to an analysis by the Institute on Taxation and Economic Policy. Meanwhile, middle-income earners would have seen their taxes increase by between \$179 and \$247.

In a recent radio interview on Bill Buckmaster's radio show, Sen. Frank Antenori fell back on the argument that too many people don't pay income taxes—even though the data shows that they're paying a higher percentage of their overall income in taxes because of Arizona's regressive structure.

Antenori says he supports raising income taxes on the majority of Arizonans while giving the top 12 percent a massive break, because it will make citizens pay more attention to how their tax dollars are being spent.

"The progressive tax code is destroying the country," says Antenori, a Republican who represents Tucson, Green Valley and Sierra Vista. "It is creating an opportunity to wage class warfare. ... A flat tax spreads the burden of the state services that everyone demands equally. And everybody is an investor in the state of Arizona. And when you get rid of the progressive tax, and you say everybody is a taxpayer, (and) everybody's a shareholder based on a percentage of income, then when everybody starts talking about raising taxes, people will pay more attention."