



Why Tax Reform

2009 Mesa Chamber of Commerce Economic Forum

How does Arizona's tax system stack up?

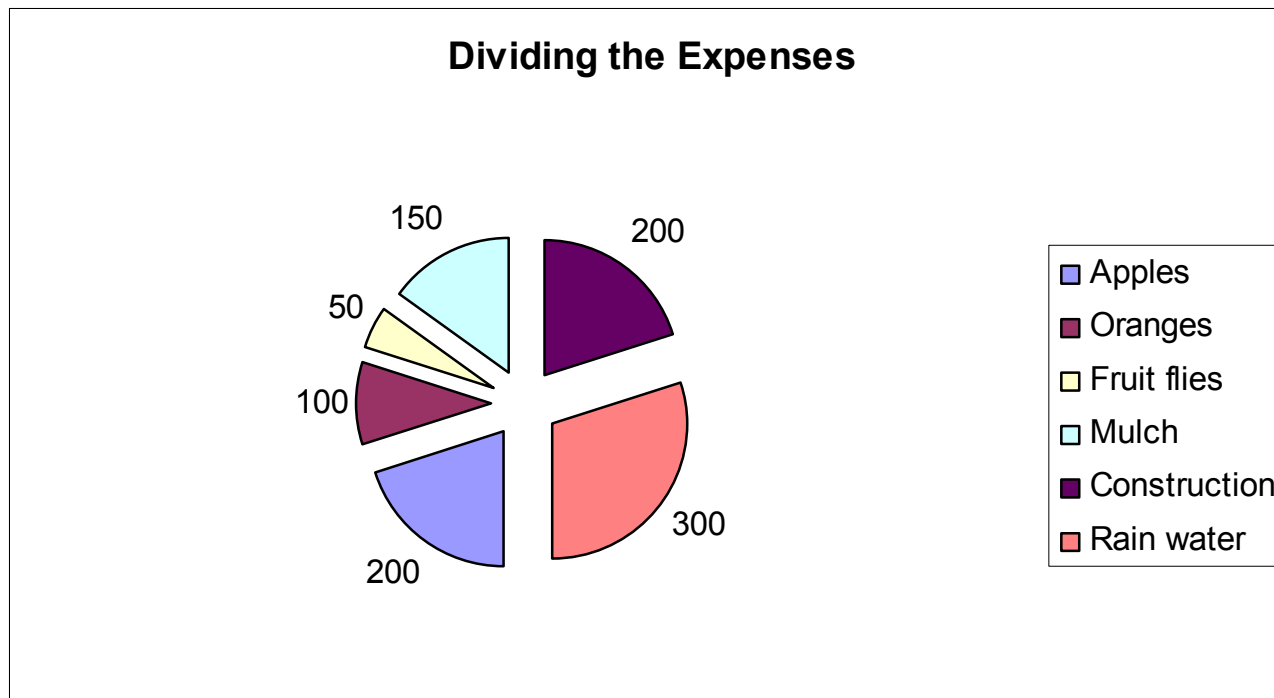
- Arizona sits in a very competitive regional environment.
- Nevada has no personal or corporate income tax or capital gains tax.
- Texas has no income or capital gains tax.
- Wyoming has no income or capital gains tax.
- Colorado has a flat tax (4.63%).
- Utah has a flat tax (5%).
- Tax Foundation ranks Arizona 28th in business climate index (2nd worst in West).
- Thank goodness for California.

Snapshot of Arizona taxes

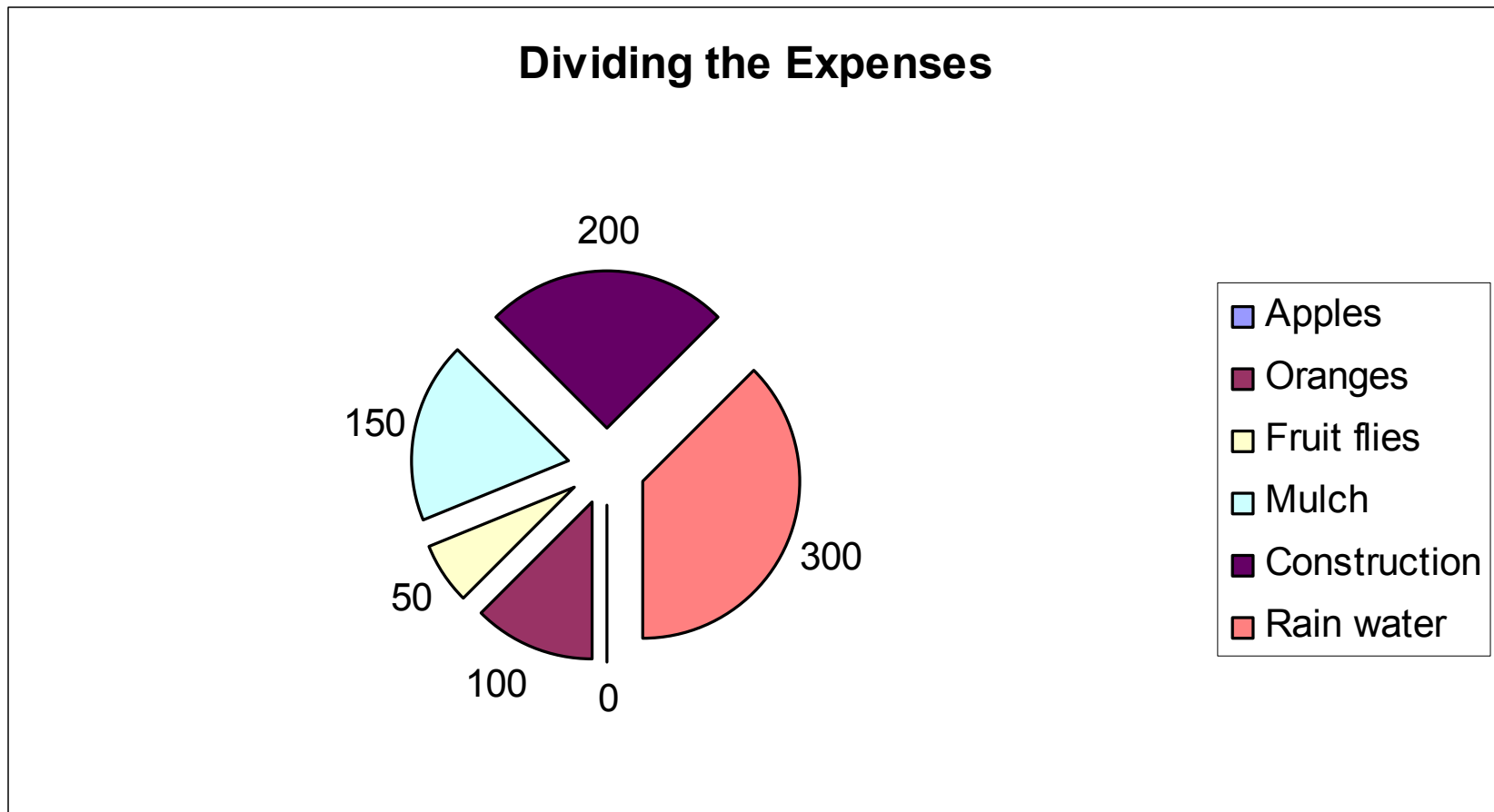
- Retail sales tax rates are high. The combined state and local sales tax rate is now over 9% in many Arizona localities and over 10% in a few.
- Personal income tax system is progressive (bad), but rates are low (good).
- Corporate income tax system is flat (good), but rate is high and uncompetitive in region (bad).
- Commercial property taxes are 5th highest in country and subsidize relatively low residential property taxes.

What about economic incentives?

- The problem with subsidies
- Everyone else pays higher taxes



Subsidize apples = higher taxes for others



The problem with incentives

- Arizona has 20 different corporate tax credits
- What's the value of the subsidy?
- Who qualifies?
- What's the effect on the rest of the budget?
- Who decided the value and why and is that rationale still valid?
- Result: some businesses are viewed more favorably by government
- Rock-n-roll theme parks
- The Movie Production Tax Credit
 - \$8.6 million in tax credits in exchange for \$2.3 million in additional state and local taxes.
- Renewed push for MORE incentives and MORE tools in toolbox.

Ideal tax code: transparent, neutral, simple

- Transparent
 - Taxpayers should understand how taxes are assessed, collected and complied with, and who and what is being taxed.
- Neutral
 - Primary purpose of tax system is to raise revenue, not micromanage the economy
 - Wonder why there's been an explosion in subchapter S filings?
- Simple
 - Tax system should mitigate complexity. Complex systems with high rates incent tax shelters, unreported income, etc.

Reforms that encourage economic growth

- Attack worst problems
 - Commercial property taxes
 - Corporate income taxes
- Attack problems that inhibit investment
 - Capital gains
 - Income taxes (progressivity)
- Assume government doesn't know best
 - Eliminate credits, exemptions (broadens the tax base)
 - Lower rates for all