

Tax-cut bills leap forward

2 measures would ax \$400 million

Robbie Sherwood

The Arizona Republic

Mar. 7, 2006

With a revenue surplus now topping \$1.1 billion, 2006 is shaping up to be the year of the tax cut at the Arizona Legislature.

A pair of competing income and property tax cuts of more than \$400 million took major steps toward approval Monday and appear headed for a collision course in the Legislature's impending budget debate. Arizonans could get a slight election-year boost to their wallets to help encourage consumer spending or ease the pain of ballooning home values.

The problem: House and Senate Republican leaders have publicly promised only \$250 million this year for tax cuts. House Speaker Jim Weiers and Senate President Ken Bennett made that pledge when the state's revenue surplus was \$850 million. But revenues continue to pour in ahead of expectations and there is increasing political pressure to give more money back to taxpayers. Neither leader has said whether he supports deeper tax cuts in light of the growing surplus.

"With all the surpluses, we should have at least \$350 million in tax relief," said Steve Voeller, president of the Arizona Free Enterprise Club, a group of businessmen pushing for income tax cuts. "The Legislature has passed a state employee pay raise already, they've passed an English-learner bill three times. Before they spend any more, they should pass tax relief and show the taxpayers that they also rank in the top priorities."

Some form of tax cut would appear to be a foregone conclusion. But social-service advocates say Arizona has deep-rooted problems that will go unattended in exchange for giving taxpayers what one critic described as "the price of a steak dinner."

"The only people who seem to be all exercised about tax cuts are legislators," said Carol Kamin, executive director of Children's Action Alliance. "Voters want decent education, they want health care, they want clean air, they want transportation. They say it over and over again, but the Legislature is not listening."

Lawmakers, meanwhile, would appear to be following Voeller's script:

- The House gave preliminary approval Monday to a scaled-back \$200 million personal

and corporate income tax cut of about 5 percent next year. It would be followed in 2007 by another \$200 million cut of 5 percent. Though House Bill 2489 would give back only about \$60 to someone with a \$50,000 salary and about \$190 to someone making \$100,000, backers such as the Free Enterprise Club say it would spur consumers to spend and businesses to hire and expand.

- Also Monday, the Senate approved a bill that would eliminate the county education property tax, which is 43 cents per \$100 of assessed valuation. Backers hope this \$200 million measure will cushion the blow for homeowners concerned about soaring property valuations that may result in higher property taxes. Senate Bill 1289, sponsored by Senate Finance Chairman Dean Martin, would save homeowners about \$100 a year for a house worth \$250,000. The bill passed the Senate 17-12. A companion bill by House Ways and Means Chairman Steve Huffman has passed the House.

Martin predicted that Senate and House leaders will ultimately divide the tax-cut pie among the property and income tax cut supporters. Then they will coalesce the plans into one major bill that will be sent to Gov. Janet Napolitano or considered as part of the state budget. Martin, R-Phoenix, said it would likely all go into his Senate Bill 1545, a tax package that already includes the property tax reduction and an income tax reduction of 25 percent over five years.

That bill could get a Senate floor vote later this week. Napolitano has given no clues whether she favors either tax-cutting measure. She signed a business-property tax cut last year but has expressed no support for income tax cuts, an idea at odds with some of her strongest supporters, such as the Children's Action Alliance, who feel education and social services need help first.

Martin's idea for a phase-out of the state income tax is contained in another bill, Senate Bill 1465, that also gained approval Monday on a 16-13 vote. But that bill had even some GOP lawmakers grouching that the state's already-low income tax needs no more cuts.

Sen. Carolyn Allen, R-Scottsdale, said lawmakers should focus on helping voters cope with rising property values: "If we put all our eggs in the income tax basket, when our constituents get their property taxes in 2007, we're going to have a riot on our hands."

Kevin McCarthy of the Arizona Tax Research Association hopes lawmakers focus on property taxes.

He warned that if lawmakers don't provide tangible help, that an initiative to impose a California-style property tax freeze will gain popularity with voters.