



Low Tax for Whom?

Arizona is a “Low Tax State” Overall, But Not for Families Living in Poverty

Annual data from the U.S. Census Bureau appear to lend support to Arizona’s reputation as a “low tax state,” ranking it **37th** nationally in taxes collected as a share of personal income.¹ But focusing on the state’s overall tax revenues has led many observers to overlook the fact that different taxpayers experience Arizona’s tax system very differently. In particular, the **poorest 20 percent** of Arizona residents pay significantly more of their income (**12.5 percent**) in state and local taxes than any other group in the state.² For low-income families, Arizona is far from being a low tax state. In fact, only four states tax their poorest residents more heavily than Arizona.

Very Low Income Tax, but High Sales and Excise Taxes

According to the Census Bureau, Arizona’s state and local tax collections totaled **9.59 percent** of personal income in fiscal year 2012, well below the national average of 10.54 percent. One reason for Arizona’s low ranking is that the state’s personal income tax collections as share of personal income are **43 percent** below the national average.

But having low personal income taxes comes at a cost. In order to pay for state and local government services, Arizona’s sales and excise taxes are **29 percent** above the national average. Measured relative to personal income, Arizona has the **10th highest** sales and excise tax collections in the entire country. According to the Institute on Taxation and Economic Policy (ITEP), the **poorest 20 percent** of Arizona households spend **8.1 percent** of their income on these taxes, compared to just **1 percent** of income for the state’s most affluent residents.

A High Tax State for the Poor

While Arizona’s state and local taxes average **9.59 percent** of income, differently positioned taxpayers experience Arizona’s tax system very differently. For the **top 1 percent** of Arizona households (a group with an average income of more than \$1.2 million), the Grand Canyon State’s decision to levy low income taxes has indeed been an enormous boon. This group pays just **4.6 percent** of their income in Arizona taxes—the **19th lowest** (or 33rd highest) state and local tax bill for this group in the entire country.

But while Arizona’s reputation as a “low tax state” is accurate for wealthy households, it bears little resemblance to reality for the state’s less affluent residents. The **poorest 20 percent** of Arizona taxpayers (earning an average income of \$13,100 per year) actually face the **5th highest** state and local tax bill in the entire country, at **12.5 percent** of income. Similarly, among the next 20 percent of taxpayers (with an average income of \$28,300 in Arizona), state and local taxes are the **5th highest** nationally.

Arizona’s imbalanced tax system, with its heavy reliance on sales and excise taxes, is pushing the state’s impoverished taxpayers deeper into poverty. The state’s low reliance on personal income taxes has been a major contributor to its reputation as a “low tax state,” but it comes at a steep price in terms of higher tax rates on low-income families.

Arizona State and Local Taxes Are:

37th

highest overall

5th

highest for the poorest 20% of taxpayers

¹ This brief reflects Census data for state and local tax collections for fiscal year 2012, the most recent year available.

² *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 5th Edition, ITEP 2015: www.whopays.org