

Senate panel OKs bill to flatten state income tax

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A House proposal to implement a flat income cleared a Senate panel today, but the favorable vote in committee is no assurance the major policy change would get to the finish line.

Legislative economists said in a memo that the shift to a flat tax will increase taxes for all Arizonans who make less than \$100,000 a year. They said that 88 percent of taxpayers would see their taxes increased.

Meanwhile, those who earn more than \$100,000 annually would receive a tax cut.

As amended, the bill proposes a flat individual income tax rate of 2.13 percent, which would be fully phased in by 2015. It would also eliminate itemized deductions, and, in 2015, repeal the income tax credit for low-income families.

Rep. Steve Court, R-Mesa, the bill's author, is doggedly pursuing the measure. He has already managed to persuade all of his party-mates in the House to support it.

He also convinced the Senate Finance Committee to approve it, 4-2. The vote in the House and the Senate hewed along party lines, with Republicans supporting and Democrats opposing the proposal.

Court said the legislation has no impact on the state's general fund, and it won't start to take effect until 2013, with the full implementation taking place two years after. The Mesa Republican also said that, for those tax brackets that would see a tax hike, the average increase is less than \$200 a year, which he characterized as "not a huge hit."

But Court said because it lowers and flattens the tax rate, it is a fairer system.

"It takes away government's involvement in incentivizing how you spend your money," he said. "It'd also put everybody at a level playing field."

Critics, however, said there's nothing fair about a proposal that raises the taxes for majority of Arizonans during an economic downturn, but lowers taxes for those who can afford to pay more.

"In these times of financial hardship for so many working families, this is so wrong," said Sen. Paula Aboud, D-Tucson. "This is an attack on working families that are struggling."

Dana Naimark of the Children's Action Alliance described the bill as a "shift in taxes from the rich to the middle, masquerading as tax simplification."

In a written statement, Naimark quoted an analysis from the Institute on Taxation and Economic Policy on an earlier version of the bill – which used a slightly different tax rate – as saying Arizona households earning less than \$152,000 would see an average increase of \$169 while households earning between \$152,000 and \$354,000 would get an average decrease of \$918.

After a constitutional check in the Rules Committee, the bill will be ready for consideration by the entire Senate.

It remains to be seen what kind of support the proposal will receive on the floor. Most Republicans are supportive of lowering tax rates, but they are generally cautious about enacting big tax changes.

The complexity of the state's tax structure means any effort to "simplify" it will also be complicated.

Historically, major changes to the tax system have been more successful when the state is flush with money, which legislators used to soften any potential hit to taxpayers.

Meanwhile, the Arizona Society of Certified Public Accountants is asking lawmakers to slow down pending a review of the bill's proposed changes.

What the committee's approval does, however, is bring the flat tax proposal closer to the fore, assuring the idea of more serious discussion.

"I wanted to give Rep. Court the best opportunity to start having that discussion, to get the bill in the public domain, and get people talking about it," said Sen. Steve Yarbrough, chair of the Senate Finance Committee.

During the committee hearing, Aboud complained that her Republican colleagues seemed to have taken a ledger, tweaked some numbers, and then decided it works. In practice, a flat tax hits the poor and working families, she said.

"The human impact is what's missing in this," she said.

But Byron Schlomach, an economist with the Goldwater Institute, defended the idea.

Schlomach said he'd still prefer to eliminate income taxes altogether, but short of that a flat tax is good for the economy.

"The overwhelming economic (and) empirical evidence is (that), the simpler the tax, the flatter the tax, the lower the tax, the better off your economy is and, therefore, the better off everybody is in your economy," he said.