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Report: Inequitable Tax Code Costs Arizonans up to $2.74 Billion

Taxing Top Incomes at the Same Rate as the Middle Class Could Fund Critical State Priorities, Restoring Cuts to Higher Education and Paying Down Pension Debt

Phoenix – Following the passage of a state budget that makes a 14 percent cut to higher education, a five percent cut to health care providers, and zeroes out funding for child abuse and neglect programs, a new report today shows that the state could generate up to $2.74 billion in revenue by fixing inequities in the state tax code.

Arizona’s highest-income one percent pay a significantly lower percentage of their income in state and local taxes than those in the middle of the income distribution—4.6 percent vs. 9.2 percent, respectively. The report, Tax Fairness: An Answer to Arizona’s Budget Problems, released by the Keystone Research Center and Good Jobs First, finds that if Arizona taxed the top one percent of taxpayers at the same rate as the middle 20 percent, the state could raise $1.2 billion per year. Similarly, if the top 20 percent of income earners paid a fair tax, Arizona would generate $2.74 billion per year.

“Revenue lost because of the one-two punch of rising inequality and regressive state tax codes has led states to impose years of unnecessary austerity—underfunding schools, cutting investments in higher education, and deferring maintenance of our aging infrastructure,” said Keystone Research Center economist Stephen Herzenberg. “After 30 years of a middle-class squeeze, it’s time to restore balance.”

In the 1970s, the top one percent of taxpayers received about one of every 10 dollars of income in Arizona. By 2012, their share of Arizona’s total income had roughly doubled—to nearly two in every 10 dollars. This shift means that, every year, $29 billion in income now goes to just one percent of Arizonans. For context: $29 billion is more than three times the Arizona state general fund budget and 60 times the annual cost of paying down the state’s pension debt.

There are many ways that Arizona could embrace tax fairness. For example, it could emulate other states by establishing a progressive income tax, or it could make all of capital gains income taxable.

Taxing upper income groups at the same overall tax rate as middle-class Arizona would relieve enormous pressure on the state’s budget. Just the revenue from tax fairness on the top one percent would more than fill Arizona’s budget hole (which could grow to $1 billion by FY 2016). Revenue from tax fairness on the top fifth could fill the budget hole, pay off pension debt, restore funding cut from...
higher education since 2007-08 and still leave a third of the $2.74 billion in additional revenue for other education investment, job creation, or infrastructure.

“The legislature has made harrowing cuts to education, health care, and other vital programs while moving forward on expensive tax cuts to corporations,” said Robbie Sherwood, Executive Director of ProgressNow Arizona. “Lawmakers face an ongoing choice – find new revenue, or spend the next few years devastating our schools and communities.”

The loss of revenue because top income groups pay low tax rates is not unique to Arizona. Nationally, the top one percent pays 5.4 percent of their income in taxes while the middle fifth pays 9.4 percent. Applying tax fairness to the one percent would generate $68 billion nationally, while taxing the top 20 percent at the same rate as the middle class would generate $128 billion.

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