Arizona Leadership Institute

Policy Research on behalf of Workers and their Families

PROPOSED ARIZONA CORPORATE TAX CUTS: Padding profits at the expense of kids

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EXECUTIVE SUMMARY

Arizona can take the high road or the low road to economic development. Unfortunately, the bills moving through the legislature would cut corporate taxes, regardless of whether such changes actually improve the ability of the state's residents to improve their economic status. This report complements the newly released Citizens for Tax Justice report "Not Just Corporate Tax Breaks: Options for Restructuring Arizona Taxes" and economist Robert Lynch's Economic Policy Institute study "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development" by combining issues of who pays taxes and benefits from tax cuts with their economic impact in Arizona.

Tax cuts do not pay for themselves, so typically tax cuts must be made up for with cuts in services or other taxes must be raised.[1] In Arizona population growth obscures this impact. Tax changes in Arizona have already reduced business taxes by more than $3 billion this year over what they would have been a decade ago, so the image of Arizona as a high business tax state needs to be discarded.[2]

The current proposal to increase the weight of the sales factor in corporate income taxes is unlikely to create any substantive job benefit. This paper critiques the dominant economic model that claims it increases manufacturing jobs and uses evidence from Illinois to illustrate its failings. Likewise, a push to eliminate the corporate personal property tax will negatively impact schools, while doing little to enhance economic vitality. Economist Robert Lynch and others effectively demonstrate the modest impact of such a change. Furthermore, to the degree either of these policies create jobs, they primarily create them for new residents who bring with them a demand for public services which in most cases cannot be paid for through their own taxes. By cutting taxes for corporations, we're undermining our ability to meet these demands. In addition, a proposal to shift corporate income tax revenue to private school scholarships, although better structured than the

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>
> -Utah State Tax Commission, 2004

1997 individual income tax credit for private school scholarships, may have unintended negative impacts on the public schools, thereby further hurting kids. In short, these proposals pad profits at the expense of kids.

INTRODUCTION

Arizona Legislators have submitted 27 bills this session that decrease corporate taxes.[3] The three ones with greatest likelihood of getting through both the State House and Senate would when fully phased in cost the state and local governments approximately $300 million. Most of these funding cuts directly target public schools at the same time the Governor has proposed expanding all day Kindergarten. By contrast, only one bill was submitted to address Arizona's woeful unemployment compensation system, and business interests have weakened that legislation, suggesting yet again that the fiscal needs of workers and their families don't count.

Despite having one of the best job creation rates in the country and a well-regarded business climate, legislative proponents of corporate tax cuts note that Arizona's business taxes "are some of the highest in the country." In fact, that's no longer accurate. In February 2004, the Utah State Tax Commission released their report which compares business tax burdens across seven Western states and noted that "since FY1994 Arizona has pushed its business tax burden down by 2.1 percent of GSP (Gross State Product). This amounts to business tax cuts of $3.7 billion [annually]." Arizona businesses are paying nearly half (46%) the amount they paid in FY1994. Only Oregon offers a comparable rate of decrease.[4]

Unfortunately when it comes to working families, rarely do policy makers take note that Arizona has one of the ten heaviest tax burdens on the poor. According to the Institute on Taxation and Economic Policy estimates, those in the bottom 20 percent among nonelderly families pay 12.5 percent of their incomes in state and local taxes, the 7th worst in the country. By contrast, the top 5 percent of earners pay less than 7 percent of their incomes in state and local taxes (see Table 1). This regressive nature of Arizona's tax system was also hammered home in the study conducted by KMPG that was commissioned for a state economic development group (not named) and presented to the Citizens Finance Review Commission in December. The KMPG study looked at firm and employee tax costs in Arizona compared to eight cities: Atlanta, Austin, Dallas, Denver, Las Vegas, San Diego, Seattle and Tampa, Fla. The *Arizona Daily Star* in reporting the study's findings noted, "Hardest hit are production-level employees earning $25,000 a year, with combined sales, property and income taxes exceeding 10 percent of gross income. That is higher than any other city surveyed other than Atlanta."[5]

Table 1

The Ten States with the Highest Taxes on the Poor	
Washington	17.6%
Florida	14.4%
Michigan	13.3%
Illinois	13.1%
New York	12.7%
Hawaii	12.6%
ARIZONA	**12.5%**
New Jersey	12.4%
Rhode Island	12.2%
New Mexico	12.1%
Source: "Who Pays?" Institute on Taxation and Economic Policy, January 2003.	

Unfortunately, reducing corporate tax burdens have the direct effect of increasing burdens on lower income Arizonans or reducing much needed public services. Thus, current proposals fail to create balanced tax reform. Although the Citizens Finance Review Commission failed to give sufficient credence to our regressive tax structure and needed public benefits for working families, it recognized the importance of addressing the system as a whole, not piecemeal.

The just released Citizens for Tax Justice's report "Not Just Corporate Tax Breaks: Options for Restructuring Arizona Taxes" demonstrates the regressive nature of many proposals offered by the commission and by state legislators. That report correctly notes that adjusting property tax structures to benefit business or reducing corporate income taxes redistribute the costs of government to working families. It's poor policy, especially during a fiscal year with the most recent legislative leadership budget proposal contained an estimated $310 million deficit, to be looking to cut taxes, much less only consider tax reforms that impact business without looking at the entire system.[6]

We all have a vested interest in creating an economic environment where Arizona's residents enjoy sufficient good paying jobs, quality accessible health care, schools that meet the education and developmental needs of our children, and a transportation system that meets the needs of a growing state. But if we want to get there, we need to be prudent in considering tax changes. Unfortunately, current legislation in the State House and Senate seems more driven by an ideological zeal that lower corporate taxes are an end in themselves, regardless of whether there is convincing evidence that such changes are cost effective or even useful in helping the state reach its economic development goals.

This report analyzes the three pieces of legislation that are moving most swiftly through the State House and Senate. They are analyzed for their cost effectiveness in meeting economic development goals. The three policies are:

- Giving corporations the option of increasing the sales factor in the determination of corporate income tax liability.

  As currently developed multi-state businesses would have the option of weighing in-state sales 70 percent or weighting them 50 percent in determining the corporate income tax liability. Once phased in the corporate income tax reform is estimated to cost up to $50 million annually.
- Allowing corporations to reduce their income tax liability by providing scholarship aid for Arizona residents to attend private schools.

  The private scholarship provision is not presently estimated but the potential cost to the state could potentially reach $50 million.
- Eliminating the corporate personal property tax (on locally assessed property).

  The elimination of the corporate personal property tax would cost $225 million in local revenues. According to the state funding formula the JLBC estimates this elimination of corporate personal property taxes will reduce school funding by $90 million.[7] If revenues are to be recovered, localities would need to increase property tax rates on residential and business property to make up the difference.

Since these are all static estimates that do not take into account the potential results of each of these policy changes, it's important to consider their likely impact, not just static costs. The corporate income tax reform is sold on the basis of job-creation, primarily in manufacturing, as it enables a multi-state corporation that manufacturers in Arizona but has few sales here to substantially reduce its tax liability, lowering the cost of doing business here. The private school scholarship program represents an effort to make private school more affordable. As such it's best seen not as tax reform, but as a form of state appropriation from public schools and other public services to private educational interests. However, the impacts on public schools and their students may not be benign and should be carefully examined before this legislation moves further. The repeal of the corporate personal property tax is also done on the basis of lowering the costs of doing business in the state.

As noted by Robert Lynch, in his new report for the Economic Policy Institute, "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development," when tax cuts occur at the expense of public services, studies do not find net gains. However, even if public service levels are somehow maintained, the promised economic growth from the cut is likely to fall well below expectations. Since Lynch does not specifically address corporate income taxes, this reports looks at the experience of Illinois, a state which in 1998 modified it corporate income taxes after an economic analysis estimated that it would increase manufacturing employment. Since it's now 2004, we have data by which to analyze the Illinois experiment and judge the accuracy of these estimates. We discover Illinois has done worse than the national average.

For the corporate personal property tax, Lynch's research can be complimented by the recent KMPG study's preliminary release in December, which gives us an in depth comparative analysis of how the tax structure of Arizona matches up with other states for select industries and households. In addition, the latest Utah State Tax Commission study clearly indicates that Arizona is not a high business tax state. All of these studies give credence to the concern that the job gains promised by further cutting corporate taxes are illusory, but the revenue losses would be quite real. Arizona has a competitive tax structure and many labor cost and property cost advantages that will continue to make for a strong business climate.

The challenge in Arizona is to take the high road of economic development and develop strategies to create higher paying jobs. To reach that goal, public investment in education and infrastructure would seem to be a better strategy than corporate tax cuts. If these corporate tax cuts are enacted, the net result is clear: corporations pad profits at the expense of kids.

LEGISLATIVE ANALYSIS

The paper first briefly examines the private scholarship program since it's a form of appropriation or tax expenditure. We then more thoroughly examine the single factor sales corporate income tax reform and the proposal to eliminate the business personal property tax.

CORPORATE PRIVIATE TUITION SCHOLARSHIPS IN LIEU OF STATE INCOME TAXES

The corporate private scholarship aid bill is more correctly noted as a form of appropriation, rather than a tax cut per se. As such it is not addressed in terms of economic benefit in the report. The version currently under greatest consideration limits eligibility to students whose families are within 125% income limits for the Federal reduced lunch program at school. As the income criteria for the reduced lunch program is 185% of the Federal Poverty Line, for the upcoming school year, a family of four with an income of up to $43,591 would qualify for the scholarship.[8] This represents an improvement over the individual taxpayer private scholarship credit passed in 1997, which had no income requirement for beneficiaries, and as a result did a poor job of targeting needy students. Donators could even designate the beneficiary, as long as it was not a blood relative. A study from Arizona State University in 2002 suggested the primary beneficiaries were students of affluent parents who were already attending private school.[9] By economic criteria the current program is inefficient, since it does little to give parents educational choice, as it primarily subsidizes parents who would have made the choice of a private school anyway. The net cost of $25 million to the state takes resources away from the General Fund, including funds for the 1.1 million students enrolled in K-12 public schools.

The new proposal may give parents whose children are in pubic school the option of private school (although capacity in private schools would have to expand). This result is because the proposed income eligibility limits (assuming they are properly enforced) exclude most families who currently use private schools. As such, it merits careful study to explore its impact on public schools. In short, the concern is that public school students could suffer from this proposal. Due to fixed costs like facilities and to some degree staff, the marginal cost of absorbing an additional student should be below the average cost of educating a student for a public school. However, the difference between the average cost (what the school might receive from the state) and the marginal cost of educating a student helps pay for those fixed costs and pay for enhancements to the learning environment which can benefit all students. But when school systems lose students, the process works in reverse, the school loses an amount greater than the cost they would have incurred to educate the student. As such, resources must be pulled that may adversely impact the education of remaining students. So while legislators may wish to increase the educational choices for parents, more careful analysis of possible consequences should be explored before this legislation is enacted, rather than face unintended consequences later.

SINGLE SALES FACTOR OPTION FOR CORPORATE INCOME TAXES

When corporations are profitable they owe state income taxes on those profits. When a corporation operates in just one state, the formula for determining taxes is irrelevant. However, when a corporation operates in multiple states, states have to determine what portion of those profits come from that state and should be taxed. Historically, states used an equally-weighted formula that gave 1/3 weight each to the percent of in-state sales to total sales, in-state property to total property and in-state payroll to total payroll in determining tax owed.

Up until 1991 that was the formula used in Arizona. But in 1990, the legislature enacted a double weighting of the sales factor. The rationale for double-weighting sales was to favor “export” industries that primarily sell out of state, but employ workers within the state. In 1989, only ten states double weighted sales and three even more heavily weighted sales (70 to 100 percent). Today 23 states use a double weighting of sales and a few others more heavily weight sales.[10] Among our neighboring states, California and New Mexico follow the same formula as Arizona. Nevada does not levy a corporate income tax, and Utah retains the equally weighted formula. The current proposal is to increase the sales weight to 70 percent, if the business so desires.

Proponents of increasing the weight on sales argue that it will create jobs. In fact, economists Austan Goolsbee and Edward Mayhew do estimate such a policy change increases employment in manufacturing and to a lesser extent elsewhere. Manufacturing jobs due to their better pay levels are highly coveted, but as it's a declining sector, states have been looking for ways to revive this source of higher paying employment. The Goolsbee and Mayhew model initially used data from 1978-1994 and later added five years through 1999. As Lynch notes in "Rethinking Growth Strategies" economic modeling is an imprecise science. Tax costs must be measured consistently across states and there must be sufficient measures that control for other possible influences, such as labor costs (also difficult to measure well due to the many kinds of labor), land and property costs, location advantages, the quality of public services of concern to business, national macroeconomic forces, and agglomeration (economies from numerous firms in the same industry together, e.g., Silicon Valley).[11] Unfortunately, not all of these are easily quantified. As a result it's quite easy for a model to be incomplete. When models leave out a pertinent variable, then the effect of the omitted variable may be picked up in the variables that are included, resulting in inaccurate estimates.

In Goolsbee and Mayhew's case the variables which they chose to use were:

Dependent Variable (to be explained)	Independent Variables
Manufacturing Employment	Payroll weight in corporate income tax formula
	State corporate tax rate
	State personal tax rate
	State unemployment rate
	National unemployment rate
	State personal income growth rate
	Employment/ Population

You'll note that they include no measure of other taxes businesses face such as property taxes—even though property taxes are much higher than income taxes, no measure of public services or educational quality of the workforce, no measure of land/property costs, and no measure of wage rates. In addition, even other measures can be misleading. For instance, they indicate that "state corporate tax rate is the top corporate statutory rate imposed by the state," but they make no correction for whether federal taxes are deductible from state liability.[12] Arizona, for instance, is one of only a few states that allows this deduction, which diminishes the amount of taxable profits more so than other states.[13]

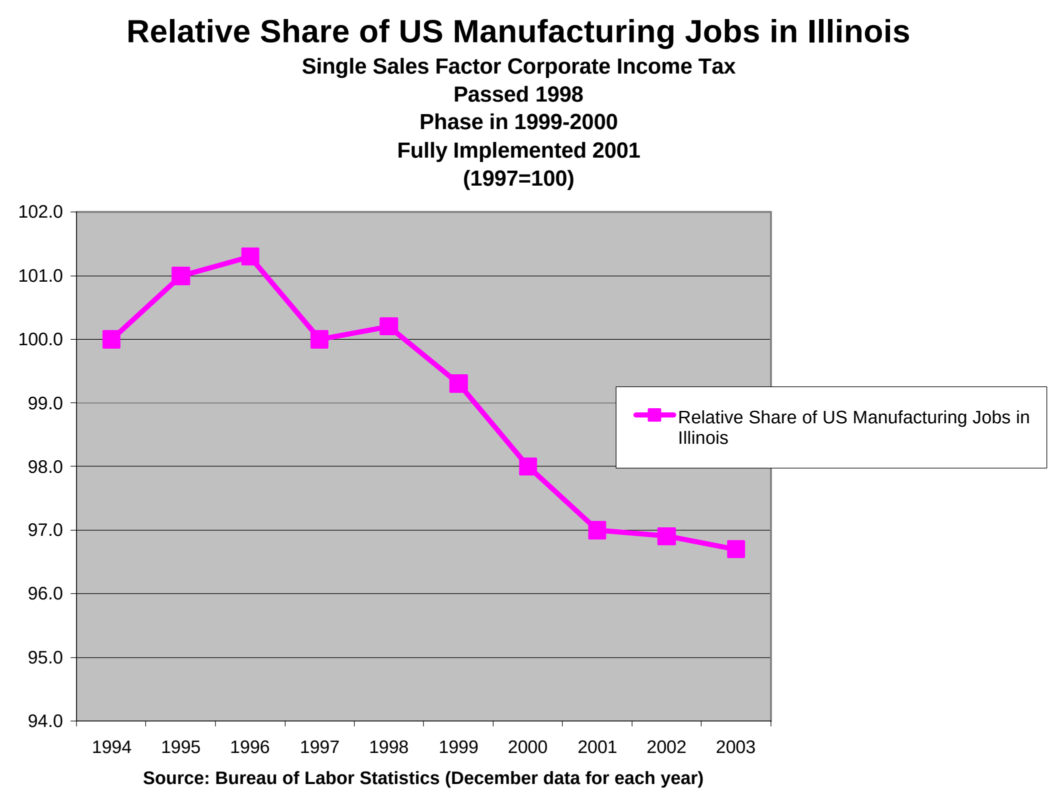
Goolsbee and Mayhew's model in 1996 initially forecast if a single factor sales tax was implemented an increase in manufacturing jobs in Illinois by 16 percent above what would have occurred. By 1998, they had revised their model and the forecast fell to 8.5 percent. In November 2000, they added five years to their data set to extend it to 1999 and estimated employment gains fell to 3.5 percent in manufacturing realized "in three years or more."[14]

Proponents of single factor sales cite these studies as proof that this policy is effective. At this point it seems prudent to test their model. As it's one thing to predict the future based on data from the past, it's another to evaluate the accuracy of those predictions.

For these purposes, Illinois makes an excellent case. Illinois switched to a single factor sales formula in 1998. Illinois recently attracted Boeing's headquarters to Chicago, so it's clearly a state that is attractive to major corporations. It's a large and diverse state, so its manufacturing base is not isolated in a few niche sectors. In addition, Goolsbee and Mayhew in 1996 made a forecast for Illinois, which like Arizona had a double weighted sales factor, that it would increase its manufacturing employment by 16 percent by changing formulas. Michael Mazerov of the Center on Budget and Policy Priorities has applied their subsequent findings as Goolsbee and Mayhew revised their model and data to Illinois. Most intriguingly though Goolsbee and Mayhew argue their impacts occur in three or more years. Mazerov finds this troubling as most business decisions take time to carry out and corporate income taxes are a miniscule part of doing business. Mazerov notes that on average corporate income taxes are only one-quarter of one percent of total business costs (25 cents out of every $100) and only 11 percent of total corporate taxes.[15]

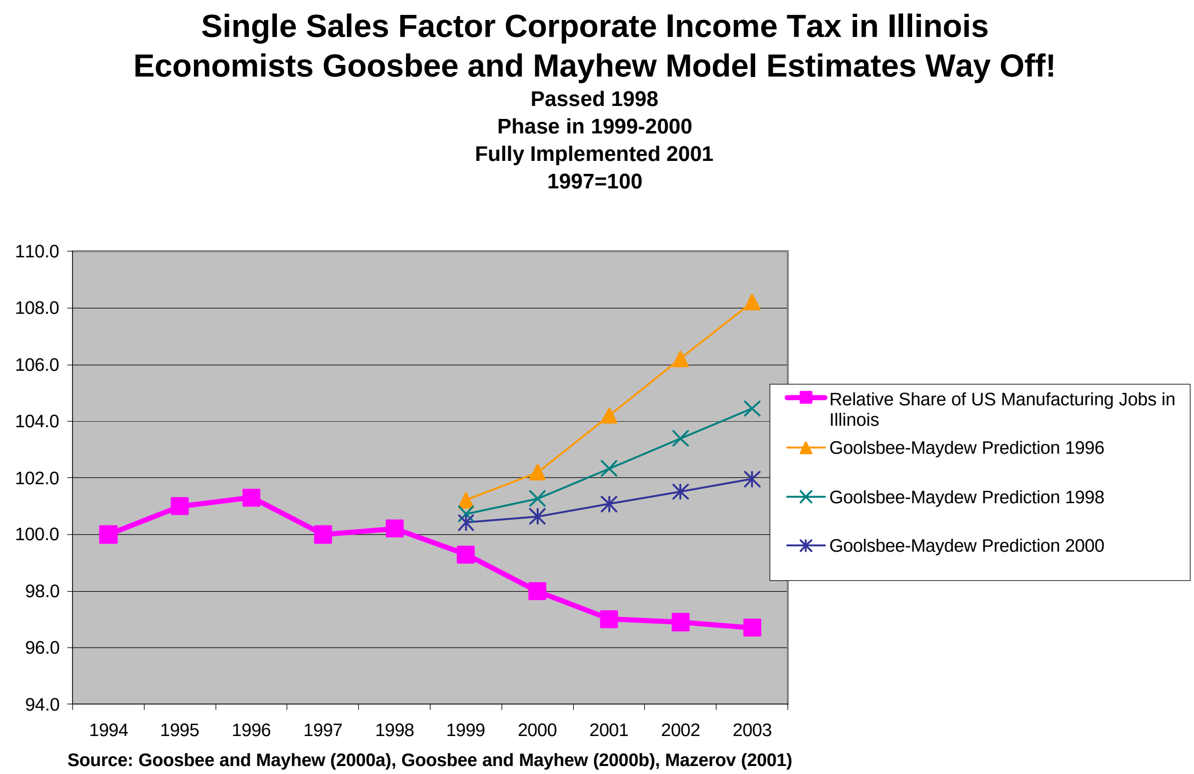
To test Goolsbee and Mayhew's predictions, we compare the relative share of manufacturing jobs in Illinois to the rest of the country. Based on their prediction, we'd expect that Illinois may have lost manufacturing jobs (as the rest of the country has), but that these losses should be less likely to occur in Illinois, resulting in an increase in Illinois' relative share of manufacturing employment. To be fair to Goolsbee and Mayhew, we relax their "three years or more" expectation for results. Due to the slow economy, we'd expect the results to phase in slower. So we model it based on a nine-year time frame. In Figure 1 below we first show Illinois' relative share of manufacturing employment. The chart runs from 1994-2003 to illustrate any trend prior to the passage of the single factor sales corporate income tax. Illinois was not on a downward

Figure 1



relative trend prior to 1998. Relative manufacturing in Illinois was fairly stable. 1997 was the year before the measure passed, so it is set to 100. After 1997, we would expect that corporations would make adjustments due to the new tax law. In 1999 and 2000 it was phased in, but starting in January 2001 it was fully implemented. Figure 1 clearly shows that Illinois rather than improve actually declined relative to the nation. The Figure 2 adds the predicted job creation by Goolsbee and Maydew assuming nine years to reach their estimates. Figure 2 clearly suggests their model is misspecified. Illinois is not unique. On a state by state analysis single factor sales states have failed to outperform states that use other apportionment mechanisms, including the traditional equally weighted one.[16]

Figure 2



One of the factors of production omitted from their model, labor, is particularly noteworthy. Labor costs exceed tax costs by twenty-fold (Lynch, p. 32). Hence, a locality that offers only a five percent improvement in labor costs (productivity of labor the same) would have the same influence as if a locality completely eliminated all business taxes (property, income, and business to business sales). The difference is even more stark when labor costs are compared to just the corporate income tax. Labor costs 180 times more than what a typical corporation pays in state corporate income tax. In other words, if a corporation saved only 1 percent on labor costs, it would exceed any possible savings in corporate income taxes. Likewise, property costs (not taxes) though not as costly as labor are also much more heavily weighted in total costs and are much more influential than taxes. Goolsbee and Mayhew's failure to include them makes their model flawed, but also demonstrate why Arizona is positioned to do well relative to other states that don't share these and other advantages.

Finally, the title of Goolsbee and Mayhew's paper ought to be considered, "Coveting thy neighbor's manufacturing: the dilemma of state income apportionment." The alleged job creation does not occur due to improvements in the workforce such as education or training that enhances productivity, or data or transportation networks that enhance the business process. Rather it's a zero-sum game. New jobs aren't created but simply taken from another state. This isn't productive competition, but race to the bottom competition. Fortunately, as this analysis demonstrates Arizona doesn't need to race to the bottom to be successful and should look to invest in public goods with broader benefits.

ELIMINATING THE CORPORATE PERSONAL PROPERTY TAX

It is a well-known fact that Arizona's business property taxes are higher than other states. The Minnesota Taxpayers Association ranks Arizona #3 for highest business property taxes.[17] Concerns such as this have spurred lawmakers to seek to lower this tax. However, looking at only one tax in isolation is misleading. Likewise, one needs to examine what the likely public benefit is (if any) that would result from lowering this tax. The following table from the Utah State Tax Commission illustrates their main premise; as you can see Arizona does rank higher in property taxes (See Table 2).

Table 2

Business Taxes Per $1,000 of Gross State Product
FY 2003

	Income	Property	Gen. Sales	Unemp. Ins.	Total*
ARIZONA	**$2.19**	**$10.50**	**$9.45**	**$0.86**	**$25.19**
CALIFORNIA	4.71	8.34	7.90	2.22	25.15
COLORADO	1.13	13.50	6.95	1.15	25.10
IDAHO	2.24	10.24	7.23	2.57	25.50
OREGON	1.62	9.43	0.00	3.91	17.76
UTAH	2.22	9.76	8.75	1.20	25.84
WASHINGTON	8.45	11.04	13.67	4.83	40.67
TOTAL	4.29	9.33	8.07	2.37	26.29

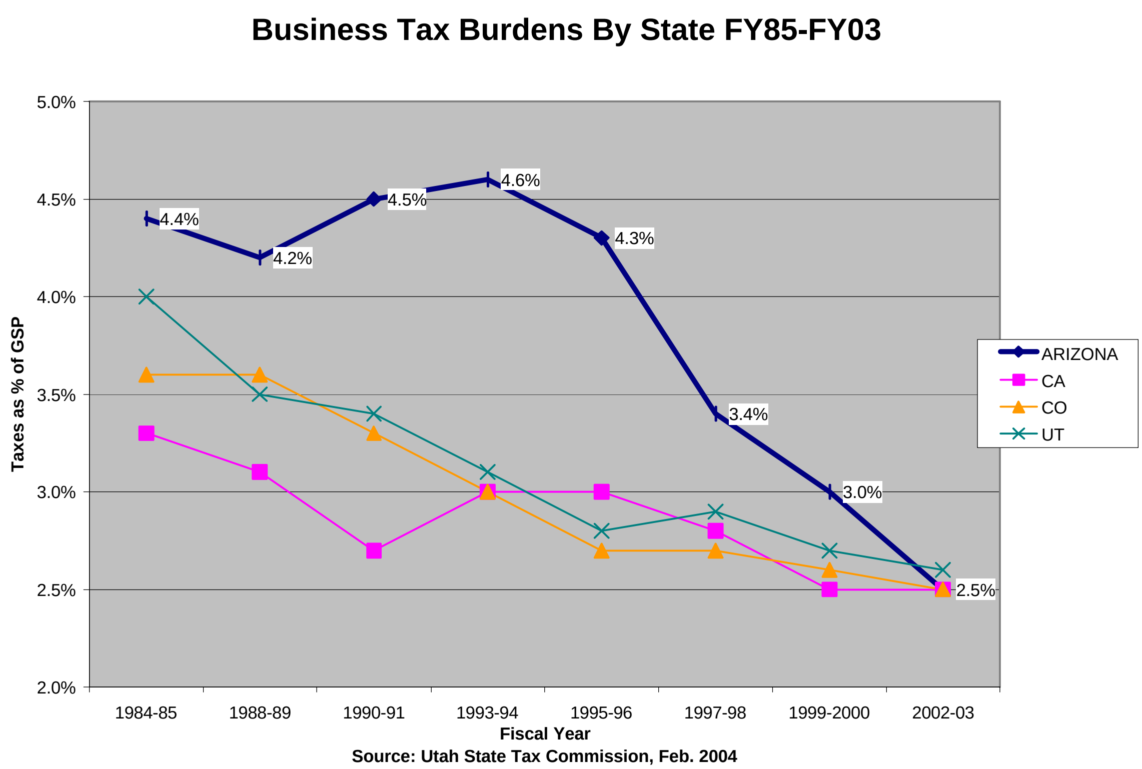
* includes some smaller tax categories not shown

Source: Utah State Tax Commission, "Western States' Tax Burdens Fiscal Year 2002-2003"

However, the table illustrates that the overall tax burden is similar to other states. In the recent comprehensive study by KMPG, Arizona's overall business taxes were in line with competing states. In particular, KMPG "financial consultant Alan Maguire said the taxes on business equipment are no higher than other cities that compete for the same kinds of firms."[18] Despite perceptions to the contrary, business personal property taxes are not out of line with other states. Any weaknesses are more than made up by tax credits. "The study suggests that Arizona's tax climate is already competitive for aerospace and other high-tech manufacturers because a substantial state 'research and development' tax credit, and other breaks, virtually eliminate corporate income taxes for the companies."[19]

In reviewing changes to the tax burden borne by business, the burden has fallen by nearly half in the past ten years, a huge drop. This equates to $3.7 billion less in corporate tax revenue this year alone for state and local governments in Arizona (see Figure 3).

Figure 3



CONCLUSION

Based on this data, it's hard to claim that Arizona's overall business tax structure is not competitive. It's also critical to recognize that public services will be cut, if any of these proposals are passed. Hence, any stimulatory effect will be counteracted. A recent study by economists Tim Bartik and George Erickcek examined the impacts of raising taxes versus cutting taxes for the state of Michigan to close its FY2004 deficit. They found raising taxes led to a significantly smaller loss in employment and stronger state economy than by cutting public services.[20]

While the comparison of Bartik and Erickcek involved a person income tax increase, not a corporate tax increase, their findings should still hold for a comparison between maintaining state services versus increasing corporate taxes. But in Arizona, during tight fiscal times, the proposals are to reduce corporate taxes, not increase them. Proponents argue forcefully about the supply-side effect, how cutting corporate taxes spurs job creation and productivity gains, spurring the "supply-side" of the economy. As argued previously, taxes are a very small cost of doing business (less than 1 percent after federal deductibility).[21] However, at the state level to the degree any of these stimulatory aspects exist, reducing taxes does not allow the state to capture much of the benefit, especially with multi-state corporations. Consider the four options a corporation has when they receive additional funds via an across the board Arizona corporate tax cut. The corporation could do any of the following, but in each case you'll note gains may occur outside the state or even outside the country.

1. The corporation could increase dividends to stockholders, but most stockholders reside outside Arizona, so there is little in state impact.
2. The corporation could retire debt. However, the financial institution or corporate bondholders may not be in Arizona, again mitigating the economic impact in the state.
3. The corporation could buy more supplies to expand production. However, suppliers would need to be in Arizona for the state to benefit.
4. The corporation could expand facilities and hire more workers. This is the outcome that proponents continually cite as the reason for the tax cuts, discounting the other options. But with across the board tax cuts, it need not expand facilities in Arizona or even the United States. The corporation could use the funds to invest in China, if it desired.

By contrast, state and local spending is locally focused (teachers, firefighters, police officers, road construction etc.), so a much greater portion of the expenditure stays within the state and is subject to local multiplier affects (others receiving the money and spending it again locally).[22]

Arizona has already conducted a massive tax cutting experiment and the empirical results are at best questionable as to whether the state is fiscally and economically better off as a result of these cuts.

As Table 3 illustrates, tax cuts do not correlate well with economic performance. Admittedly, the results in Table 3 are a gross simplification, but we need policy makers to start asking what Arizona's real return on investment was from the tax cuts of the 1990's.

Table 3

Were the Tax Cuts Worth it?

	Before Most Cuts		After/During Tax Cuts	
Employment Growth	1993-94	3.3%	1997-2000	1.7%
Earnings Growth		3.8%		2.0%

Percentages are differences between Arizona and the United States, so Arizona's growth rate is higher than the United States during the entire time period. Time period focuses on main period of national economic expansion to avoid business cycle bias.

Source: United States Chamber of Commerce, Bureau of Economic Analysis, and Joint Legislative Budget Committee.

The bottom line is that most tax differences are small relative to the cost of doing business and have very little effect on business decisions. By contrast, the lost funding for public services may paradoxically imperil the very businesses the tax cuts are supposed to promote. Even the degree to which lower taxes might attract investment capital is limited, as rates of return differ little across states if only tax rates are considered. As Lynch notes (p. 40), Papke's study of six Great Lakes states found with investments with a 20% pre-tax return resulted in after-tax differences of no more than 1 percent (12.7 to 11.7). Tannewald found after-tax rates of profit varied by 0.3 percentage points or less, leading Tannewald to conclude "states may be more likely to stimulate their economy by enhancing public services valued by business [than by cutting taxes]" (see Lynch, p. 40).[23]

For instance, education (and lowering our drop out rate) improves the workforce, reducing the costs incurred by business, but at the same time is a public good that benefits not just the employer, but society more broadly, as educated people are more likely to be effective functional and involved adults in the community. Likewise, public amenities like parks and recreation centers make a community more attractive for business because they know their employees will enjoy living there, decreasing costly turnover. As Lynch demonstrates, all of these public investments pay off (see Lynch's chapter 6).

To further buttress this point consider who gets the jobs. Ideally, new jobs would go to our presently unemployed population, increasing our tax base without increasing demand for public services. But that's not what occurs. When the economy creates jobs (regardless of the cause), studies estimate 60 to 90 percent of the jobs go to new residents.[24] Those new residents bring with them added demand for public services (schools, roads, etc.). As many of these new residents are young families, they do not pay sufficient taxes to support that demand. A typical Arizona family earning $45,000 a year with two young children does not pay sufficient income, sales and property taxes to cover the costs of educating their children. But they also have demands for water, sewer systems, roads, and parks. Public education is valued because it gives broad public benefits, but it requires those with greater means to help pay for the education of those with less because in the end we're all better off.

With this in mind, does cutting business taxes to attract jobs make more sense or does holding the line on taxes and investing in infrastructure and education make more sense? The business tax structure may be reformed, but it needs to be done in a comprehensive manner that is at least revenue neutral. Hopefully those in the legislature and business community will soon realize the high road to economic development requires public investment in our future, not cutting business taxes just so they can pad their profits.

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ENDNOTES:

[1] Lynch, Robert (2004), "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development," Economic Policy Institute.
[2] Utah State Tax Commission (2004), "Western States' Tax Burdens Fiscal Year 2002-2003," February revision, pp. 3, 17.
[3] List compiled by Protecting Arizona's Family Coalition (PAFCO).
[4] Utah State Tax Commission (2004), pp. 3, 17.
[5] Fischer, Howard (2003), "Business tax shift is needed, study says," *Arizona Daily Star*, December 16, p. D1. Note the newspaper report titles and content in both the *Daily Star* and *Republic* included a business slant that didn't match up well with the content of the articles.
[6] "Comparison of Selected Budget Issues 2005 Affecting Children and Families," Children's Action Alliance, March 1, 2004.
[7] The bill impacts just locally assessed corporate personal property (machines and equipment), not broader infrastructure like utilities and pipelines. Cost of $225 million is from Citizens Finance Review Commission Property Tax Research Committee, "Eliminate or Reduce the Business Personal Property Tax." The Senate fact sheet on the bill says, "The elimination of business personal property tax would have a negative impact on the state General Fund through the school finance formula and the use of the qualifying tax rate (QTR) formula and the county education equalization rate. The impact would be approximately $78 million for the QTR and $9.4 million for the county rate. Current truth-in-taxation (TNT) rate law allows rate adjustment to recoup most of the lost property tax revenue for local governments." The latter part means localities can raise property tax rates on other taxpayers to compensate.
[8] USDA, Food and Nutrition Service, Income Eligibility, School Year 2004-2005, http://www.fns.usda.gov/cnd/governance/notices/iegs/IEGs04-05.pdf
[9] There has also been very little oversight by the state of the private tuition scholarships at all. For a review of the first three years of the program see Wilson, Glen (2002), "The Equity Impact of Arizona's Education Tax Credit Program: A Review of the First Three Years (1998 – 2000)," Education Policy Studies, Arizona State University, March. Wilson notes the average size of a tuition award would be insufficient to make most private schools affordable for lower income families and reasons that most benefits went to existing students. For some abuses of the program see Bland, Kathryn (2000), "School tax credits wide open to abuse," *Arizona Republic*, April 9, pp. A1, A22.
[10] Mazerov, Michael (2001), "The 'Single Factor Sales' Formula for State Corporate Taxes, " Center on Budget and Policy Priorities.
[11] See also Bartik, Timothy (1991) *Who Benefits From State and Local Development Policies?,* chapter 2 for a discussion of the challenges of econometric modeling.
[12] Goosbee, Austan and Edward Mayhew (2000), "Coveting Thy Neighbor's Manufacturing: the dilemma of state income apportionment*," Journal of Public Economic,* p. 132.
[13] McGuire, Therese (1991), "The Corporation Income Tax," in *State and Local Finance for the 1990s: A Case Study of Arizona*, edited by Therese McGuire and Dana Naimark, School of Public Affairs, Arizona State University.
[14] Goosbee and Mayhew (2000), "Coveting Thy Neighbor's Manufacturing," Goosbee and Mayhew (2000), "The Economic Impact of Single Factor Sales Apportionment for the State of New York," Public Policy Institute of New York State, November.
[15] Mazerov (2001). The critical evaluation of the Goolsbee and Maydew study is primarily in Appendix D.
[16] Mazerov (2001).
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