

State bill to cut taxes raises budget concerns

BY MIKE SUNNUCKS

msunnucks@bizjournals.com

A measure that aims to lower taxes and expand Arizona business incentive programs is running into resistance because of concerns that it might exacerbate budget deficits.

House Bill 2250 would reduce business property, corporate and personal income taxes and expand tax breaks to semiconductor makers, manufacturers and businesses creating high-wage jobs.

The package has the backing of House Speaker Kirk Adams, R-Mesa, and some

business interests that say the tax cuts are needed to help small businesses and to lift the state out of the recession.

"We have to do something," Adams said.

The price tag of the cuts when fully phased in is expected to be about \$942 million. If approved, the bill could boost hir-



Adams

ing by companies that receive tax breaks.

Two influential business groups, the Greater Phoenix Chamber of Commerce and Westmarc, are bucking the traditional business stance of backing tax cuts. Neither group is formally opposing the bill.

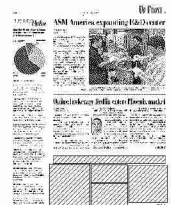
Phoenix Chamber CEO Todd Sanders said his group likes the idea of a state effort to help create jobs, but wants to make sure those tax cuts don't magnify state budget problems.

"Any type of jobs and economic recovery legislation should be crafted in a fiscally responsible manner, not adversely impact the state's ability to balance the current budget, and ... not impede efforts to resolve the ongoing structural deficit," Sanders said.



Sanders

The state is wrestling with multibillion-dollar budget deficits. Business groups and Gov. Jan Brewer back a May 18 referendum that would add 1 point to the state's 5.6 percent sales tax. That three-year increase could



bring in \$3 billion to help with budget shortfalls.

There is some sensitivity at the Legislature to cutting business and income taxes at the same time the state is slashing education spending and programs for the poor — and asking voters to raise the sales tax.

“When you are in a hole, stop digging,” said Sen. Carolyn Allen, R-Scottsdale. Allen backed previous tax cut plans, but said she won’t support HB 2250.

“I believe now is not the time to reduce resources until this recession/depression starts to turn around,” she said. “By the slash-and-burn budget Arizona just passed, I sincerely doubt more big tax cuts will woo businesses to Arizona until



Brewer

our education and health areas are stabilized.”

The bill passed the House and is being considered by the Senate.

Adams said most of the tax cuts would be phased in and wouldn’t hit until 2012. The Mesa Republican said he was open to extending those phase-ins to ease concerns about the fiscal impact.

The state’s gloomy economy and job losses compel action, he said.

“This is a crisis of jobs as big and as difficult as the budget,” said Adams, citing double-digit unemployment in Yuma and rural areas of the state, and the fact Arizona has lost 300,000 jobs during the recession.

The bill also includes a \$100 million “close the deal” fund for Brewer to ink incentive agreements with prospective employers. The idea is to help stimulate economic development and business investment deals quickly.

HOUSE BILL 2250 WOULD:

- Cut business property taxes from 20 percent to 15 percent.
- Reduce corporate income taxes from 6.97 percent to 5 percent.
- Cut personal income taxes over four years.
- Expand tax breaks for semiconductor makers, manufacturers and businesses creating high-wage jobs in enterprise zones.
- Phase in most of the tax cuts over four or five years, starting in 2012.
- Cost the state \$942 million once fully implemented in 2017.

A number of other business groups and chambers of commerce back HB 2250. Enterprise zones are areas designated to offer tax credits to businesses that create higher-wage jobs.

Tim Lawless, president of NAIOP-Arizona, a commercial real estate industry group, backs the bill.



Lawless

“This holistic package will do much to reposition our state to be more economically competitive,” he said. “For instance, Arizona has among the highest business property taxes in the nation, and we would welcome any attempt to address this economic development impediment.”

Brewer spokesman Paul Senseman said the governor backs pro-growth policies, but has not taken a position on HB 2250.

GET CONNECTED

Arizona Legislature: www.azleg.gov