

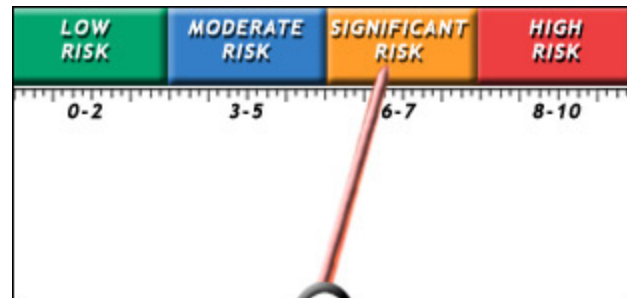


# CENTER ON BUDGET AND POLICY PRIORITIES

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## ARIZONA

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Arizona is rated as having a significant risk of a structural deficit based on its score of seven on the risk scale for structural deficits.



- In Arizona, the percent of sales subject to sales tax declined by 17.2 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points.
- Arizona has significant loopholes in its corporate income tax.
- Arizona could lose an estimated \$525 to \$820 million in revenue a year due to the growth of e-commerce. This loss is greater than the national average as a share of total revenue.
- During 2000-2004, Arizona increased cigarette taxes. This is problematic since cigarette taxes provide weaker growth over the long term than other taxes such as income taxes.
- Arizona has a constitutional spending limit equal to 7.41% of personal income, three different property tax limits (a rate limit, a revenue limit and an assessment increase limit), and a supermajority requirement to increase all taxes.
- Arizona remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated \$80 million per year.
- Three other national studies (Hovey 1998, and Besendorf & Kottlikoff 2002) found that Arizona has a structural gap.
- Lastly, although this paper did not categorize Arizona as having unusually high spending needs, it does face some spending pressures from: a growing elderly population and the number of high school graduates potentially entering college.