



Santa for Schools: How Changes in Federal Tax Laws Could Bring Millions to Arizona's Classrooms

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Tax policy wonks must have been nice the past two years, because Santa has delivered them a steady stream of interesting changes in federal tax law. Last year, the Trump Administration successfully passed the Tax Cuts and Jobs Act (TCJA), one of the most significant tax reform in the last several decades. This law has significant ramifications on the federal budget, with the Congressional Budget Office projecting that it will increase the federal deficit by [\\$1.9 trillion](#) over ten years. While this figure may seem scary (as it should), there is a silver lining: the TCJA has the potential to have the opposite effect on Arizona's budget. More on that in a moment.

This year, the excitement came not from the presidency or Congress, but from the Supreme Court. In [South Dakota v. Wayfair, Inc.](#), the court overturned the precedent it set in 1992 that states could not require sellers which did not have a physical presence to pay taxes on transactions, even if those transactions occurred within the state. While the 1992 decision had revolved around mail-order catalogues, the market cap of which was \$180 million in 1992, modern e-commerce currently adds up to \$450 billion, leading Justice Kennedy, in one of his last Rudolf-esque moments, to vote to overturn the precedent and write the majority opinion for the court.

For Arizona, the *Wayfair* decision was like Christmas in July. GCI had been [following this case closely](#), and advocated the decision as one that could both improve state revenue and tax fairness. An estimation by the Government Accountability Office found that Arizona is currently missing out on between \$190 million to \$293 million per year at the state and local level because of its inability to tax online purchases. [GCI estimated](#) that expanding the transaction privilege tax (TPT, commonly known as the sales tax), would result in an additional \$80 million for the state General fund, \$96 million for county and local governments, and \$14 million via the Prop. 301 education sales tax.

It turns out that state lawmakers have a different plan in mind. While State House Speaker J.D. Mesnard [told Capitol Media Services](#) that he wants to expand the TPT nexus to include online

purchases, he plans on using the increase in funds to trim income taxes for corporations or individuals. Mesnard's colleague Senator Eddie Farnsworth has expressed similar desires.

Arizona is in a similar position when it comes to the TCJA. Arizona's tax law mirrors that on the federal level. Because TCJA removed numerous itemized deductions, conforming state law to match TCJA would eliminate those on the state level. Eliminating these deductions would raise state revenues significantly; the Joint Legislative Budget Council estimates that amount to be [\\$184 million](#) for FY 2020. This includes \$58 million from miscellaneous business expenses, \$54 million from state and local tax deductions above \$10,000, and \$45 million from mortgage and home equity loan deductions, which primarily targets mortgages of \$750,000. These folks generally made a windfall on federal tax rate reductions, so, even with higher state taxes from conforming, their incomes will rise 2 percent or more according to the [Tax Foundation](#).

Speaker Mesnard has taken a [similar stance](#) on conforming to TCJA as he has on *Wayfair*, albeit a bit more aggressive. In November he called for a lame-duck special session to pass a conformity law with the stronger Republican majority than will exist come January. He and Rep. Rusty Bowers, who is replacing him as speaker, want to ensure that this conformity results in lower taxes for taxpayers rather than more revenue for the state government.

While last year, #REDFORED forced the state to invest in teachers, the money could be scraped together largely because of a robust economy. That is not going to last. [Corporate debt](#) is now higher than 2008, the portion of risky bonds has been rising as has interest rates. While revenues have recovered somewhat, we're still far behind. GCI found in a study a couple years ago Arizona was bringing in only [\\$3 now for every \\$4](#) that it brought in during FY2007, a \$5 billion deficit. Another report by GCI found that the state stands to lose [\\$250 million per year of education funding](#) starting in 2021 when its reauthorization starts thanks to the passage of Prop 126 which banned the taxing of services.

The #REDforED protests this spring personified the massive funding shortfalls facing our education system. Arizona [continues to trail](#) at the pack when it comes to education rankings. To improve the effectiveness of our education system, several aspirational goals have been put forward. These goals include a 60 percent postsecondary degree attainment rate for adults (that rate is currently 42 percent), a 45 percent enrollment rate in high-quality preschool (currently at 21 percent), a 90 percent high school graduation rate in four years (78 percent now), and several others. [GCI calculated the cost](#) of achieving these goals at \$2 billion annually in additional state revenues.

\$2 billion annually is not cheap, but Arizona's educational needs are monumental. Paving a bright future for Arizona's children will require a significant investment. The people of Arizona realize this and are willing to pay to make it happen. [65 percent of Arizona voters](#) supported the Invest in Ed measure (before it was booted from the ballot), including 43 percent of Republican voters. [Arizona approved 77 percent](#) of school bond and override measures in the midterm election.

Arizona lawmakers should take advantage of additional funds when they are made available as an opportunity to invest in Arizona's future by allocating that funding into its education system.

Using these funds for education would win points with the thousands of education supporters who protested at the capitol earlier this spring and would help create a stronger economy with a more educated workforce in the years to come. GCI hopes that, this holiday season, lawmaker will ask themselves: What Would Santa Do?

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