



More Money for Public Education Will Benefit Arizona Small Businesses

A proposal to raise millions in new, permanent funding for public education in Arizona by increasing state personal income taxes on the top 1% of earners will *benefit* small business growth and job creation. Small businesses benefit when public schools have the resources they need to close the achievement gap, increase educational attainment overall and prepare a highly skilled workforce. In challenging economic times, a tax on the wealthiest Arizonans makes the most sense because it will not raise taxes on people struggling to put food on the table or on struggling small business owners. The Invest in Education Act will only tax individuals – not businesses - who are still earning more than \$500,000 (married filers) or \$250,000 (single filers) per year.

- ***One of the best ways to help Arizona small businesses grow and succeed is to graduate skilled workers from our high schools and colleges.*** The Invest in Ed initiative will set aside millions of dollars to help build stronger career and vocational education programs in Arizona’s public high schools so students who may not get to college immediately can graduate with the skills that employers are looking for.
- ***Most small business owners don’t have taxable income anywhere near the level being impacted by the proposed (Invest in Ed) tax increase.*** The median income for Arizona small business owners is \$48,698 according the U.S. Small Business Administration – well below being impacted by the proposed income tax surcharge which will only tax income above \$250,000 for single filers and \$500,00 for married filers.
- ***Invest in Ed does not raise taxes on mom and pop small business owners.*** Invest in Ed will only tax wealthy owners of small businesses whose take-home profits put their taxable income in the top 1% of income earners – not your typical mom and pop small business owners. They will still have the first \$250,000 they earn as individual filers or the first \$500,000 they earn as married filers taxed at some of the lowest individual income tax rates in the nation. It is only the amount those small business owners earn in excess of \$250,000 (individual) or \$500,000 (married) that may be subject to the proposed new surcharge. The effective tax rate for these wealthy owners who fall within the top 1% of earners will still be less or the same as the effective tax rate of those in the top 1% in 25 other states and below the national average.

Top 1% of Earners in Arizona Will Still Pay Among the Lowest State Taxes in the Nation

Rank	State	Effective Tax Rate
1	California	9.8%
26	Arizona (with Invest in Ed)	4.4%
34	Arizona (Currently)	3.1%
--	U.S. Average	4.6%

Source: Institute on Taxation and Economic Policy using 2018 “Who Pays” data

- ***Small business owners will still pay a lower tax rate than corporations.*** In Arizona, corporations are taxed at a flat rate of 4.9%. Under Invest in Ed, the effective tax rate for small business owners is much lower and even for the wealthiest small business owners who are profitable enough to be in the top 1% of income earners, their effective rate will still be less at 4.4%.
- ***State tax levels have a negligible impact on small business job growth.*** A study commissioned by the U.S. Small Business Administration, for example, found “no evidence of an economically significant effect of state tax policy portfolios on entrepreneurial activity.”
- ***The country’s most successful entrepreneurs rarely cite taxes as a key factor in their location decisions.*** In a survey of the founders of many of the country’s fastest-growing firms, only 5% cited low tax rates as a factor in deciding where to launch their company. The quality of the local workforce and the general quality of life in the area are much more important factors to these entrepreneurs.
- ***Product demand, not tax cuts, is what drives a small business to hire.*** If the COVID-19 pandemic has taught us anything it is that economic growth is driven by everyday people spending money in stores and restaurants, going on vacations and supporting small businesses. Increasing Arizonans earning capacity by increasing educational attainment is one of the most effective strategies to drive consumer demand for small businesses. Savvy business owners won’t expand unless they have (or expect) more customers, no matter what their taxes are. As the nonpartisan Congressional Budget Office found, “Increasing the after-tax income of businesses typically does not create much incentive for them to hire more workers in order to produce more, because production depends principally on their ability to sell products.”

Investing in Arizona’s public schools is an investment in Arizona’s small businesses. Providing our public schools with the resources they need to hire and retain quality teachers, reduce class sizes, and provide all students with the skills they will need to succeed in college and career is one of the best things we can do for small businesses. Improving educational attainment will provide small businesses with a more skilled workforce and it will increase demand for their products and services by helping more Arizonans move up the economic ladder.

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