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Removing state income tax would be boon for economy

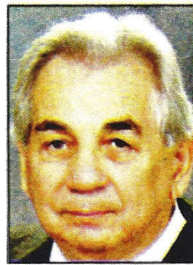
A stroke of the legislative pen can give every Arizonan an annual pay raise of \$3,000 to \$6,000 — a total increase of \$19 billion to \$38 billion a year in personal income. State income tax revenue would increase by \$248 million to \$525 million a year.

Outdated laws that determine the flow of bank deposits into and out of Arizona reduce tax revenue, stunt per-capita income growth, job opportunities, economic potential and capital availability for small businesses.

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Arizona-chartered banks paid only \$20 million in state income tax last year toward our \$12 billion budget.

Banks in Arizona held \$61.8 billion in deposits in 2004. Four years later, they had increased by only 27 percent, to \$78.6 billion, in spite of one of the greatest



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Nevada is 18th in the U.S. in annual per-capita income, at \$31,266. South Dakota is 32nd, at \$29,234. Arizona is 39th, at \$26,838. Nevada beats us by \$4,428 per person and South Dakota by \$2,655. These are real dollar differences that affect Arizonans' standard of living and purchasing power.

We can give an annual pay raise to every Arizonan if we eliminate state income tax on locally chartered banks. Financial institutions will flock here with their high-paying jobs and assets to invest, just as they did to Nevada and South Dakota.

economic booms ever seen in Arizona. By comparison, Nevada banks held \$40.7 billion in deposits in 2004, and their 2008 total was nearly five times that amount: \$199.7 billion. South Dakota nearly quadrupled, from \$15.7 billion in deposits in 2003 to \$74.8 billion in 2008 — nearly the same total as in Arizona, a much larger state.

As of June, Arizona had two locally chartered banks with 29 out-of-state branches, controlling \$609 million in deposits from other states. Nevada, by comparison, had seven banks with 3,227 out-of-state branches, controlling \$286.5 billion out-of-state deposits. South Dakota has seven banks with 3,411 branches, controlling \$258 billion in out-of-state deposits.

Arizona could act as a magnet to major global financial firms that want to locate to the U.S., as well as to out-of-state banks and their subsidiaries, if it eliminated the state income tax. This change would increase the value of their charters and their stock.

We need to keep Arizona money in Arizona. Our deposit growth is restricted, and our deposits are sucked out of state. We no longer control our own economic destiny. Decisions are made for us by out-of-state money centers.

Our local control of bank assets has gone from 95 percent at the time I was the state treasurer down to 4 percent. We can reverse this trend by providing a statutory environment that will encourage bank headquarters or their subsidiaries to move to Arizona.

Ernest Garfield, chairman of Interstate Bank Developers Inc., has served in the past as state treasurer, a state senator and an Arizona Corporation Commission member. He can be reached at egarfield@qwest.net.