

# Budget deficit could affect tax cuts in 2015

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In five weeks, new Gov. [Doug Ducey](#) and the Arizona Legislature are facing a \$500 million deficit and \$300 million-plus in a court-ordered payout to schools. Next fiscal year has a \$1 billion shortfall projected.

With Arizona's economic recovery stumbling at half the previously projected growth rate, changes in the tax laws loom big as the calendar moves towards the new year. Talking with [Michael Galloway](#), shareholder with [Gallagher & Kennedy PA](#), about taxes and trying to predict what's ahead, Valley businesses need to get some tax planning in order.

Despite assurances from the governor-elect and legislators, Galloway said businesses need to "stay tuned" to the way the state deals with the revenue shortage.

"I have not heard how the state expects to deal with this (\$1.5 billion) budget deficit," he added. "The specifics are short. One way to maintain revenue is to defer or do away with exemptions to tax payments. Business needs to keep an eye on the solutions."

One change in the law unlikely to shift is the Proposition 117 limit on property tax valuations. Values for tax determination are limited to 5 percent growth per year under the proposition.

"This keeps valuations at predictable and manageable levels, but it does not eliminate the potential for cities to increase the property tax rate," Galloway said. "The value is locked, but not the taxes under the terms of the law."

He also said businesses need to be ready for changes in the transaction privilege tax.

"The law changed, and the cost of energy is now exempt from sales taxes," he explained. "This is a big savings for manufacturers, but it is revenue that will need to be made up somewhere."

The state has also changed how tax is calculated for service contractors such as plumbers, handymen and builders.

"Maintenance, repair and replacement are affected. The taxes are now collected on parts, not the labor," he said. "This should make it a little easier for these companies to calculate what is taxed and what is exempt."

Eric covers economic development, banking and finance, infrastructure, transportation and utilities.