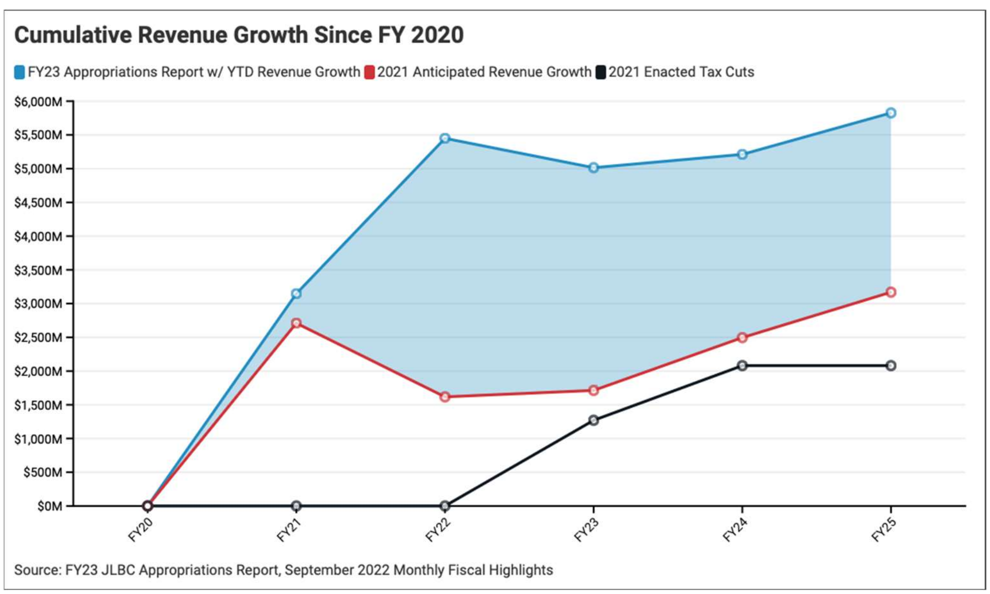
Accelerating Arizona's New Tax Structure

Economic Impacts of Implementing the 2.50% Flat Tax in 2023

In April, the Common Sense Institute (CSI) released its economic simulation of the long-run impacts of moving from an 8.00% progressive income tax structure to a 2.50% flat income tax in Arizona (available online here). That analysis found the state would have 58,800 more workers and add $11.9 billion to its economy by 2032 due to this change.

As part of the law signed by Gov. Ducey in 2021, and in response to concern from some legislators that surging state revenues were transitory and the tax plan unsustainable, the state was to phase in the 2.50% flat income tax over three years and subject to two General Fund (GF) revenue triggers. Legislative forecasters at the time projected that the state would not exceed $13.0 billion in annual GF revenues (the second and final trigger) until Fiscal Year 2024. According to the July 2022 JLBC Monthly Fiscal Highlights, GF revenues reached $16.7 billion in FY 2022 – more than two years ahead of schedule. This led the Governor's Office and the Joint Legislative Budget Committee to issue the statutorily required letter authorizing implementation of the state's 2.50% flat tax earlier than our April analysis anticipated.

CSI's updated analysis finds that accelerating the implementation of the flat income tax will increase Arizona employment by 8,033 jobs and increase state GDP by $1.6 billion next year, relative to our April analysis. The long-run effects of the new income tax policy are effectively unchanged relative to our original analysis. By 2032, **we continue to expect that the Arizona economy will be about 2.8% larger than it would have been under an 8.0% progressive income tax regime**.



Since enactment of the *2021 Tax Omnibus* that put the state on a path towards a 2.50% flat tax, **the General Fund has added nearly $4.0 billion in unanticipated new surplus revenues**, despite record tax cuts. CSI continues to believe these revenues are ongoing and attributable to enactment of – and state conformity to – 2017's *Tax Cuts & Jobs Act*, as well as relatively rapid state economic growth since 2017.