

FICTION: THE FLAT TAX IS THE CAUSE OF THE STATE BUDGET WOES.

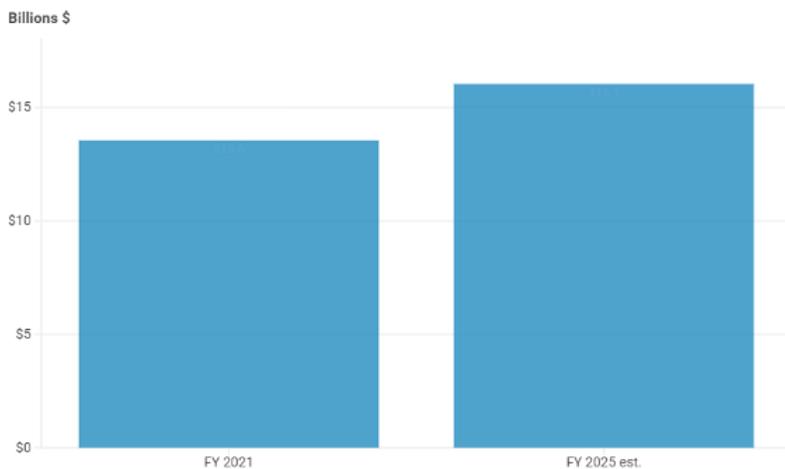
“Arizona is facing sweeping budget cuts thanks to the exorbitant costs of implementing a flat personal income tax and universal private school vouchers. Enacted one after the other, these policies have led to a nearly \$1.6 billion deficit through fiscal year 2025, an eye-popping figure and warning signal for legislators elsewhere.”ⁱ

FACTS:

- **Since passage of the flat tax, state spending has grown by almost \$2.5 billion (+18%),** up from \$13.6 billion to \$16.1 billion.
- **Arizona doesn't have a revenue problem:** Between 2010 and 2020, General Fund revenue grew at an average rate of 2.8%. Since 2020, the average annual revenue growth rate has been 9.3%. **General Fund revenues are \$3.3 billion higher today than they were prior to enacting the Flat Tax.**
- **State spending grew too quickly, and policymakers left just \$10 million in reserve funds on an \$18 billion budget – leading directly to the FY25 projected shortfall:** Between 2012 and 2022, annual General Fund spending growth in Arizona was 4.15%; in 2023 and 2024, spending grew approximately 40% (at an average annual rate more than four times the long-run rate).

The State Budget Since Passage of the Flat Tax

Since passage and implementation of the flat tax, the state budget is up another almost \$2.5 billion.

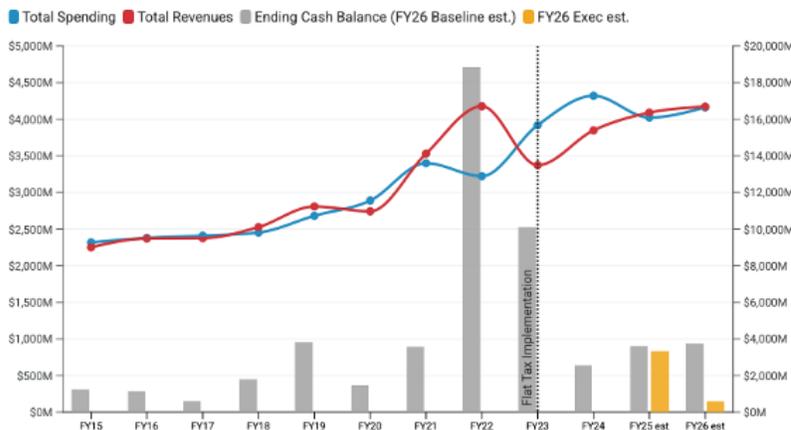


Source: CSI Research and Analysis



Total General Fund Revenues and Spending w/ Cash Balances, FY15 - FY26 Exec

Following implementation of the 2.50% Flat Tax, revenue's experienced a reversion to more historical levels, but spending growth continued accelerating - exhausting the states cash resources.



- Had the state limited spending growth over these two budgets to the long-run trend, it would have spent \$5.9 billion less – **turning a \$1.6 billion cash shortfall into a \$4.3 billion surplus**. We still would have grown General Fund spending by over \$1 billion in this scenario.
- This assumes no change in revenue – *even after the 2.5% Flat Tax, the state still could have continued historic surpluses by moderating expenditure growth.*
- Even after the Flat Tax was passed, revenue growth has been robust. **Over the five years following the Flat Tax, average annual ongoing revenue growth has been 4.5%/year.** Over the five years after the Great Recession (FY12-FY17), average annual growth was 4.1%/year.

Total General Fund Spending (Actual and Hypothetical), FY11 - FY24

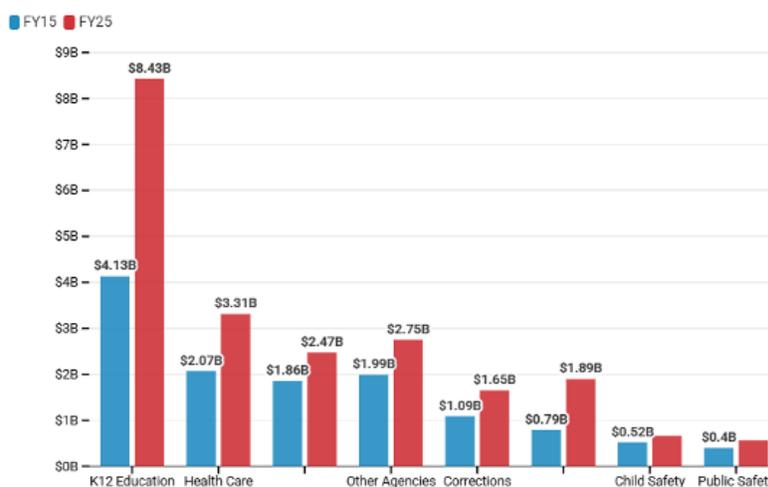
Had the state limited spending growth over FY 2023/2024 budgets to the long-run trend, it would have spent \$5.9 billion less – turning a \$1.6 billion cash shortfall into a \$4.3 billion surplus



Source: Arizona Joint Legislative Budget Committee, Common Sense Policy Institute Modeling and Analysis

Nominal Total Spending (All Funds)

Across the board, spending is up. It is up the most, by far, for K-12 education.



Source: Arizona Joint Legislative Budget Committee, Common Sense Policy Institute, Budget Then and Now

BOTTOM LINE

Arizona has seen its budget grow by almost \$2.5 billion since implementation of the flat tax. Policymakers should have anticipated a return to normal revenue trends after five years of unprecedented tax revenue growth beginning after federal and state tax cuts (the Tax Cuts & Jobs Act and the 2.5% Flat Tax). Instead, policymakers allowed spending growth to rapidly catch up with revenues over just two budget years, and exhausted cash reserves in a single budget – right as revenue growth had already started slowing.