

FICTION: THE FLAT TAX AND OTHER STATE ECONOMIC DEVELOPMENT POLICIES HAVEN'T MADE THINGS BETTER FOR THE AVERAGE ARIZONAN

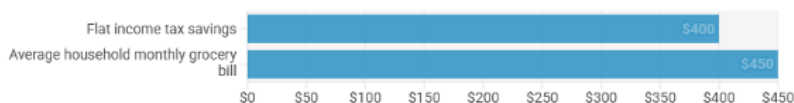
"Everyday Arizonans don't want tax cuts for the rich."^{viii}

FACTS:

- The average annual income tax savings per Arizonan is about \$400^{ix}, nearly enough to cover the average monthly household grocery bill in Arizona.^x
- The state has experienced generational economic growth over the last 5-10 years, due in large part to both its deliberate pursuit of pro-growth, low-cost policies, while its neighbors have gone in another direction. As a result, the state is much richer today than it was in 2015 (per-capita personal income +68%).^{xi}
- This growth has supported a growing State Budget. In 2021, budget forecasters expected the General Fund to grow by ~\$3 billion over the next five years, and that the tax cuts would consume 2/3 of that growth.
- Actual growth: \$6.7 billion, or nearly \$4 billion in "extra" revenue Arizona received after implementation of the 2.5% flat tax. Should policymakers reverse these policies, the economic and historic evidence suggest fewer jobs, less GDP and personal income, and an ultimately smaller budget providing fewer services.

Flat Income Tax and Grocery Bills

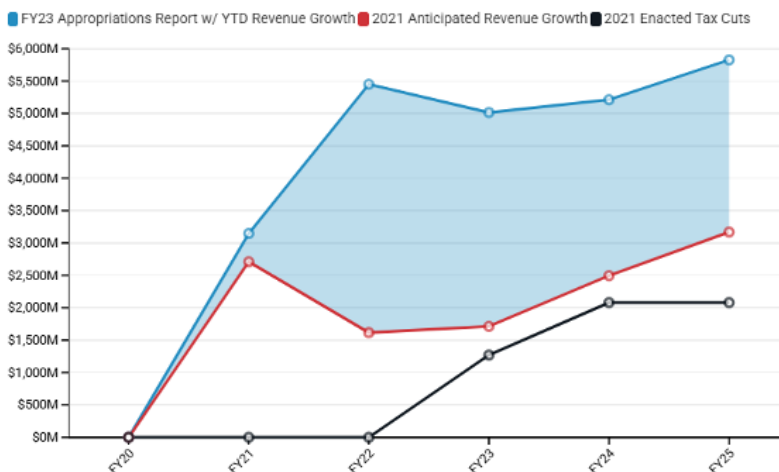
The average household savings from the flat income tax covers almost all of the average household's monthly grocery bill.



Source: Bureau of Labor Statistics, Arizona Governor's Office

Cumulative Revenue Growth Since FY 2020

Revenue growth has been much stronger than anticipated even with the tax cuts.



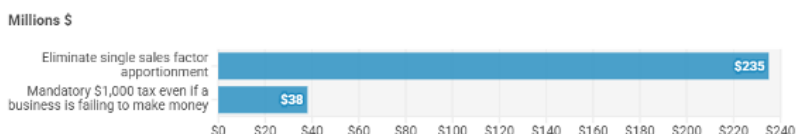
Source: FY23 JLBC Appropriations Report, September 2022 Monthly Fiscal Highlights

- Arizona's business conditions were also improved by [HB 2822](#), which lowered and simplified the tax burden on new capital investments. In the process, the return-on-investment for a given asset rose, and the equilibrium level of investment increased, resulting in—
 - Approximately 3,000 more net jobs relative to current law, depending on the degree to which business capital cost savings are offset elsewhere by tax increases or government spending cuts.
 - Between +\$204 million and +\$438 million in state personal income.
 - Between \$263 million and \$452 million in Gross State Product, including up to \$264 million in new capital investment.
 - After accounting for increased revenues on new economic activity, total state and government revenue could increase in 2032 by up to +\$50 million on a dynamic basis.
 - Undoing HB 2822 would have the opposite, missing economic growth impacts.

- Arizona lawmakers considered seven bills during the 2024 legislative session that created new or significantly increased taxes, **summing to more than \$300 million**. The two bills with the largest fiscal impact were an

Two Main Tax Increases Considered by the 2024 AZ Legislature

In addition to these two, five other tax increases were considered by the Arizona Legislature, summing to more than \$300 million.



elimination of the single sales factor corporate apportionment (\$235 million) and a \$1,000 minimum corporate income tax even if the business is failing to make any money (\$38 million). Policymakers must continue to resist the allure of “easy money” through growth-limiting tax and regulatory policy. For example:

- A repeal of Right-to-Work (**an \$18.6 billion cost increase on businesses** with the consequences felt by job seekers).
- A tightening of schedule, breaks, and overtime standards that would have limited employees' and businesses' flexibility in accomplishing work (**a \$3.8 billion cost increase** for businesses).
- Up to \$2.7 billion in new fees** for agricultural use of groundwater.
- A cap on rental increases to 70% over the prior year, **resulting in a \$2.1 billion economic cost**. Harvard economist Greg Mankiw called rent control “the best way to destroy a city, other than bombing.”

BOTTOM LINE

The flat tax and other economic development strategies to create jobs for future Arizonans also create tax revenue in the coming years. The flat tax not only saves household money today to help alleviate the rising cost of living, but also leave more money in the hands of business owners who invest that money in workers and equipment—further improving the lives of everyday Arizonans.