

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

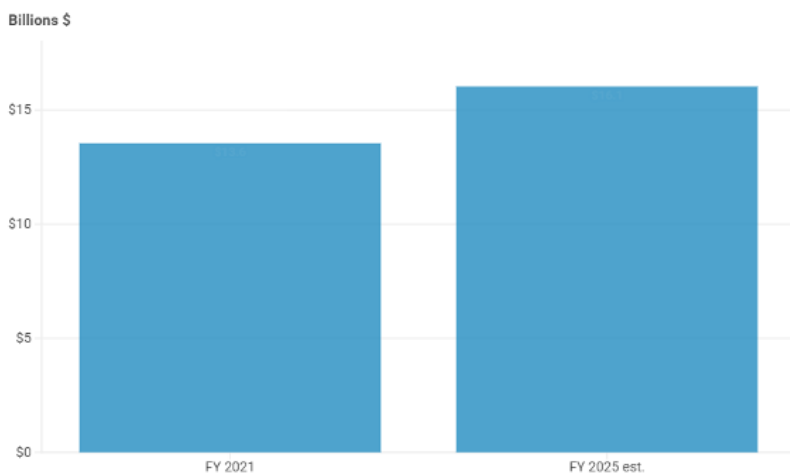
“Arizona is facing sweeping budget cuts thanks to the exorbitant costs of implementing a flat personal income tax and universal private school vouchers. Enacted one after the other, these policies have led to a nearly \$1.6 billion deficit through fiscal year 2025, an eye-popping figure and warning signal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

## 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.

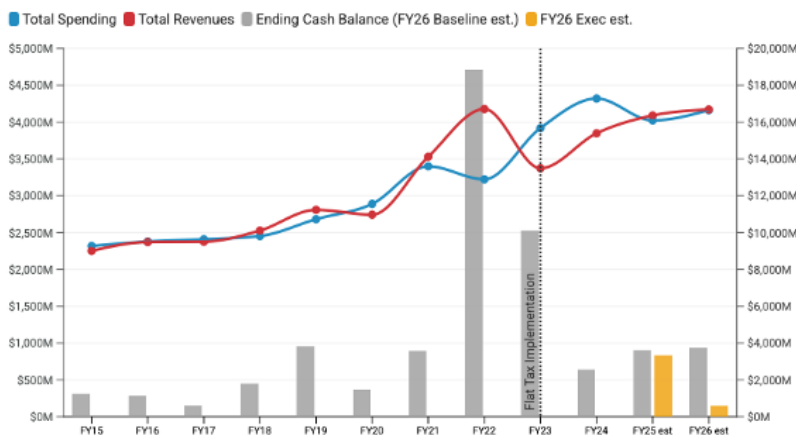


Source: CSI Research and Analysis



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

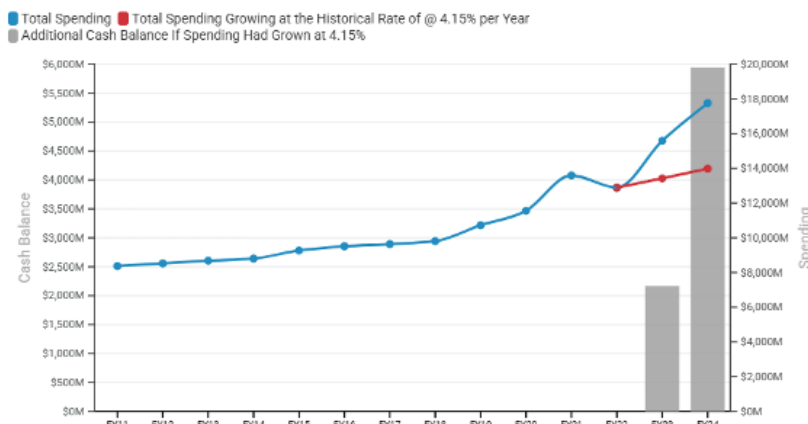
Following implementation of the 2.50% Flat Tax, revenue's experienced a reversion to more historical levels, but spending growth continued accelerating - exhausting the states cash resources.



- 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

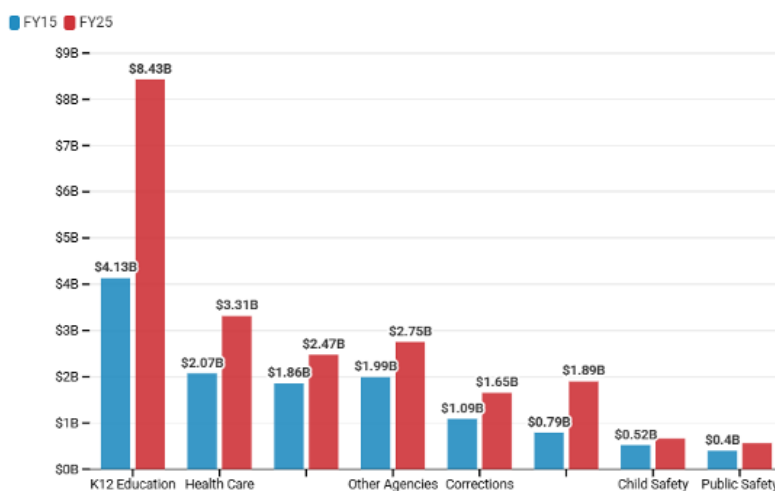
Had the state limited spending growth over FY 2023/2024 budgets to the long-run trend, it would have spent \$5.9 billion less – turning a \$1.6 billion cash shortfall into a \$4.3 billion surplus



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.