



The flat tax falls flat for most Arizonans

The Arizona legislature is poised to permanently cut over a billion dollars in state revenues, the largest tax cut in the last three decades. This cut will make Arizona's tax system more regressive than it is today with 91 percent of the tax cuts going to people in the top 20 percent of incomes.

“For every \$1 in new [fiscal year] '22 ongoing initiatives, the [fiscal year] '24 cash balance declines by \$3”- JLBC staff, April 15th, 2021
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Through decades of laws and policy decisions, Arizona's elected leaders have created a tax code that is unfair and regressive. Those with low incomes pay a much higher share of their income in taxes compared to the wealthiest. In

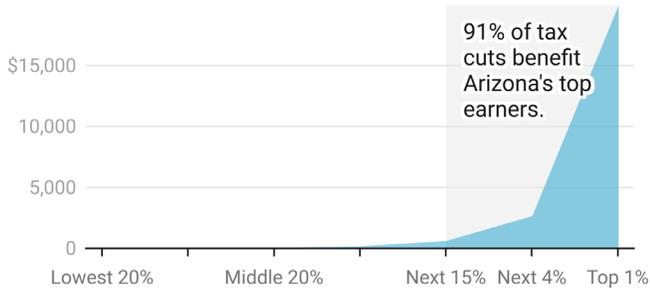
other words, Arizona's tax policies favor certain people based on their income and wealth, while shifting the responsibility to fund our schools, roads, and public safety to low- and middle-income Arizonans.

A year ago, Arizona budget experts were predicting a \$1.1 billion deficit and possible cuts to key services due to the COVID pandemic. Fortunately, billions of federal relief dollars have worked to stimulate the state's economy, backfill state agency budgets, and double unemployment wages for hundreds of thousands of Arizonans. Today Arizona has over a \$1 billion ongoing surplus and has temporarily cut \$625 million dollars in income tax through federal conformity. Now the state legislature is considering a permanent \$1.4 billion tax cut a year, a 12 percent reduction in revenues.

The proposed tax cut is based on a 2.5 percent flat tax, with 91 percent of tax cuts benefiting the top 20 percent of income earners— residents earning \$108,000 or more in taxable income. A flat tax will continue Arizona’s increasing dependency on regressive sales taxes to fund state needs. Reducing revenues by \$1.4 billion a year will make it virtually impossible to adequately fund public schools, universities, infrastructure and other important needs in the future. While it only takes a simple majority of legislators to pass a tax cut, it takes a supermajority to reverse tax cuts or raise revenue.

Flat Tax is Skewed to Arizona's Wealthiest Taxpayers

Average tax cut for those who receive a tax cut



Lowest 20% (<\$21,000), Second 20% (\$21,000-\$44,000), Middle 20% (\$40,000-\$64,000), Fourth 20% (\$64,000-\$108,000), Next 15% (\$108,000-\$224,000), Next 4% (\$224,000-\$512,000), Top 1% (>\$512,000)

Chart: The Arizona Center for Economic Progress • Source: Analysis by Institute on Taxation & Economic Policy, ITEP Microsimulation Tax Model, April 2021 • Created with Datawrapper

The state of Arizona relies on two broad types of taxes: personal income and sales and excise. These two types of taxes make up 87 percent of the total general fund revenues. To fill in the gap, Arizona uses a range of other tax and non-tax revenue sources such as corporate income taxes, insurance premium taxes, license fees and permits, lottery and tribal gambling revenue.

45% of Arizona's Revenues Depend on a Regressive Sales and Excise Tax

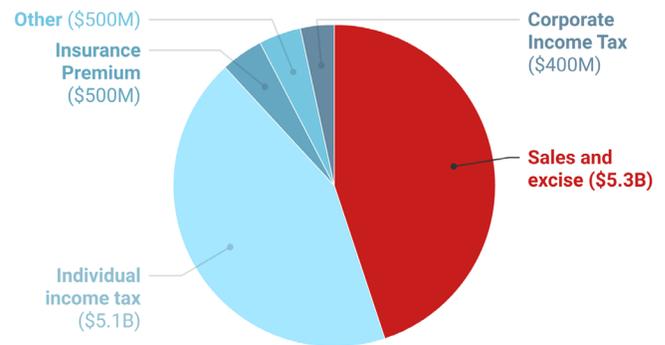


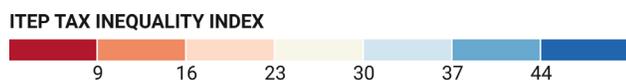
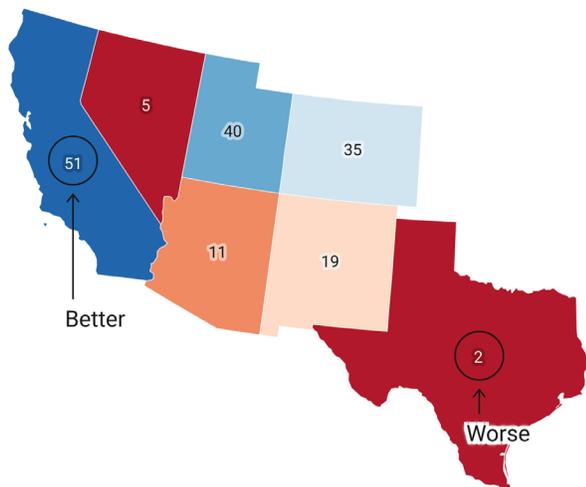
Chart: The Arizona Center for Economic Progress • Source: Joint Legislative Budget Committee staff, Appropriations Report 2021, FY 2021 estimate • Created with Datawrapper

Today, Arizona's only progressive tax is its tiered income tax structure. The income tax structure balances the other major forms of state taxation which tend to fall hardest on those with the least income in the state. The implementation of a flat tax would move Arizona's tax system to rely more on sales and excise taxes. Proponents of flat tax claim that the tax is meant to create equality between marginal tax rates, yet when accounting for both local and state taxes, a flat tax perpetuates a regressive tax structure. The absence of a graduated individual income tax in other states like Texas and Nevada reveals an overreliance on sales and excise taxes, exacerbating the longstanding problem of an upside-down tax code.

While Arizona's tax structure didn't independently create income and wealth gaps, it has perpetuated inequities year after year. Instead of increasing tax cuts for the wealthy, Arizona's Governor and legislature can create a state budget and tax systems that work for families and Arizona's lowest-income earners.

A Flat Tax Would Worsen Arizona Tax Inequality

States in order of rank from least equitable to more equitable



Rankings are based on the Institute on Taxation & Economic Policy's Tax Inequality Index. The ITEP Tax Inequality Index measures the effects of each state's tax system on income inequality by assessing the comparative impact a state's tax system has on the post-tax incomes of taxpayers at different income levels.

Map: The Arizona Center for Economic Progress •
 Source: ITEP Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 6th Edition
 • Created with Datawrapper

The ITEP microsimulation tax model is a tool for calculating tax revenue yield and incidence, by income group, of federal, state and local taxes. The ITEP model is frequently used to analyze federal and state tax proposals and to look at the impact of current tax policies on issues of public concern.