



State Budget: The Flat Tax Failure

Arizona's Flat Tax was passed in the 2021 legislative session and went into full effect for the 2023 tax year, fully impacting the FY2023-2024 and subsequent budgets. The Flat Tax replaced Arizona's progressive income tax that ranged from 2.59% to 4.5% with a single rate of 2.5% on all taxable income. Because of the consequent reduction in revenue, the Flat Tax was a key driving force behind the need for more than \$1 billion in spending reductions and fund sweeps that were used to balance the last two years' state budgets.

Former Gov. Ducey claimed the average family would save \$350 per year. Now the Common Sense Institute claims "the average Arizonan saved \$400 per year from the flat tax."

The Common Sense Institute asserts— without citing sources— "The flat tax was forecasted to cost \$4 billion over 10 years, but after accounting for dynamic effects and rapid growth in other tax types, estimates suggest a more modest \$1.4 billion impact. Meanwhile, revenue growth from a strong economy has more than offset the difference, meaning the state still collects more each year than before the tax cut."¹

So, in nominal terms, a tax cut that the Joint Legislative Budget Committee estimated as costing \$2 billion per year—or a static cost \$26.6 billion² over 10 years is really only \$4 billion—but now actually \$1.4 billion. So where did the missing \$25.2 billion go? Is the revenue impact trivial as the Common Sense Institute asserts? No credible economist has found evidence to back the claims of the Common Sense Institute.³

¹ Farley, Glenn and Thomas Young (2025), "Flat Tax & State Budget Facts & Fictions: What's Really Going on with Arizona's Fiscal House?" Common Sense Institute, June 12, [CSI Report - AZ Tax Budget Facts FINAL2.pdf](#).

² In nominal terms the cost of the Flat Tax grows each year. Arizona's nominal GDP grew by 4.5% annually from 2010 to 2020, which implies the Flat Tax would cost about \$3.2 billion in FY2033 up from GCI's estimated \$2.15 billion in FY2024. The estimated cost of the Flat Tax is found in the FY2024 JLBC Appropriations Report: [FY 2024 Appropriations Report - FY 2023 - FY 2026 Statement of General Fund Revenues and Expenditures](#). The JLBC estimated the FY2024 cost slightly more at \$2.26 billion.

³ "Tax Cuts Don't Pay for Themselves" (2017), Committee for a Responsible Federal Budget, October 4, [Tax Cuts Don't Pay For Themselves-Wed, 10/04/2017 - 12:00 | Committee for a Responsible Federal Budget](#) and "New Estimates Confirm Economic Growth Won't Pay for Tax Cuts" (2025), Committee for a Responsible Federal Budget, March 6, [New Estimates Confirm Economic Growth Won't Pay for Tax Cuts-2025-03-06](#).

Key Findings:

1. The Flat Tax really does cost in excess of \$2 billion PER YEAR and that 80% of the proceeds go to those with incomes above \$200,000. For example, a married couple with \$500,000 in income saved \$6,500, reducing what they owed the state by more than one-third.
2. The “Average Arizonan” married couple or head of household needs to have an income of about \$130,000 to have seen a reduction in income taxes of \$400. The typical single, head of household or married couple saw a reduction of \$130 or about 7% less than they were previously paying, a sliver of the largess the couple with half a million dollars received.
3. Arizona’s labor productivity growth has not been strong since 2015 and there is no evidence that the Flat Tax has changed that. But other states, including those with progressive income taxes like Oregon, show much stronger labor productivity growth.
4. Arizona’s job creation—influenced by population inflows—has remained strong, but is possibly weaker since the Flat Tax went into effect. The lack of productivity growth means they are not proportionately higher-paying jobs.
5. Investments in at-risk children would be a far better place to prioritize state investments as these investments, unlike the Flat Tax, actually pay for themselves and improve the state overall.
6. State revenue did experience a surge in revenues in FY2022 and FY2023—but that was due to the \$78 billion in federal COVID dollars.⁴ It was temporary, not permanent.
7. Consequently, as a result of the Flat Tax, Arizona now has flat-line budgeting that limits the state’s ability to make significant investments that better people’s lives.

In Search of the Average Arizonan

While former Gov. Doug Ducey used to tout the average taxpayer would save \$350 and now the Common Sense Institute claims it’s \$400,⁵ most Arizonans would be forgiven if they did not notice such a large change in their taxes. The Grand Canyon Institute (GCI) has long touted the Flat Tax as Pizzas v. Porsches—with the vast majority of taxpayers being able to either buy a pizza or take the household out for pizza, while a select handful of the wealthy got enough money to buy a new Porsche every year.⁶

⁴ Arizona Auditor General (2022) “Special COVID-19 Funding Report, November, [Special COVID-19 Report](#).

⁵Report on Gov. Ducey’s claim of \$350: <https://www.youtube.com/watch?v=rWBOuQ7fpzs>. Common Sense Institute: [CSI Report - AZ Tax Budget Facts FINAL2.pdf](#). Note the Common Sense Institute is founded by former Ducey staffers.

⁶ Wells, Dave (2022), “Supreme Court Rewards Rich with Porsches: Everyone else gets Pizza,” April 22, [Supreme Court Rewards Rich with Porsches Everyone else gets Pizza - Grand Canyon Institute](#).

Using IRS 2022 Arizona tax data, GCI estimated the median single filer (with income above \$10,000), median married filing jointly and median head of household to determine how much their savings from the Flat Tax noted below.

	Median AGI (est. 2022)	Median AGI (est. 2024)	Standard Deduction	Taxable Income	Flat Tax (2024)	Former Progressive Tax (2024)	Difference
Single (\$10K+)	\$45,000	\$48,000	\$14,600	\$33,400	\$835	\$872	-\$37
Married	\$100,000	\$108,000	\$29,200	\$78,800	\$1,970	\$2,146	-\$176
Head of Household	\$40,000	\$43,000	\$21,900	\$21,100	\$528	\$546	-\$19

Because some single filers are not separate households, single filers with less than \$10,000 in income were omitted.⁷ Married couples tend to have higher incomes and the median filer saved the most here, \$176, but still far less than \$400 claimed by the Common Sense Institute. Head of Households, the most vulnerable filers, since they have dependent children, save the least, only \$19.

In order to find whom in which category actually saved at least \$400, GCI explored higher income levels.

	AGI 2024	Standard Deduction	Taxable Income	Flat Tax (2024)	Former Progressive Tax (2024)	Difference	Percent of Tax Filers at income level or higher
Single (\$10K+)	\$85,000	\$14,600	\$70,400	\$1,760	\$2,154	-\$394	14%
Married	\$135,000	\$29,200	\$105,800	\$2,645	\$3,047	-\$402	33%
Head of Household	\$128,000	\$21,900	\$106,100	\$2,653	\$3,057	-\$405	4%
Estimated portion of Arizona households with at least \$400 difference							19%

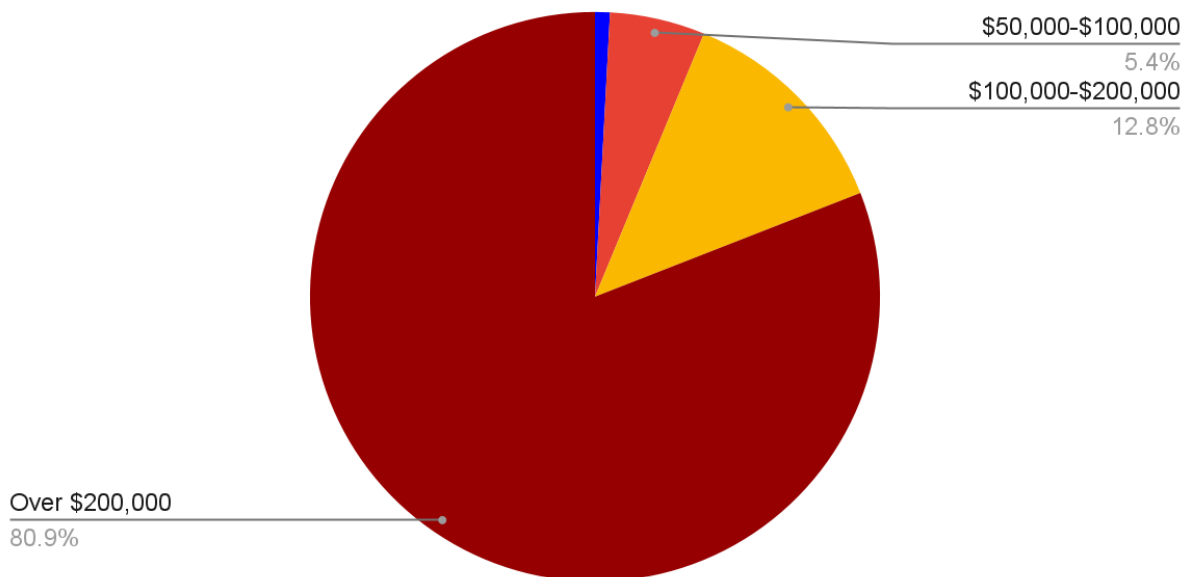
In reality only about one in five Arizona households are “average,” receiving at least a \$400 tax difference enough to buy one month’s worth of groceries noted by the Common Sense Institute. With the highest portion being one-third of married couples filing jointly but only one in 25 head of households. So, in other words, the households most able to afford a month of groceries benefit, while those least able to afford food gain little.

⁷ This adjustment enables the total number of filers to better match the American Community Survey’s estimate for the total number of households in Arizona.

Overall 80% of the income benefit of the Flat Tax accrues to filers with adjusted gross income in excess of \$200,000. The unlabeled blue sliver represents those with incomes less than \$50,000.⁸

Distribution of Flat Tax Revenue Decreases

by Adjusted Gross Income



Lack of Economic Payback through Dynamic Effects

Arizona's Flat Tax is a failure. The Flat Tax is not free—the impact is that the state has severely reduced resources to invest in areas like support for low-income vulnerable families, at-risk school children, funding more children in pre-school, and supporting infrastructure. Certainly marginal tax changes can impact behavior, such as a wealthy person deciding to retire to Arizona as a consequence of the lower tax rate—at the same time more families are getting evicted, more children struggle in school, and more time is consumed in gnarled traffic or vehicles damaged by poorly maintained roads as a consequence of reduced state revenue from the tax change. State gross domestic product (GDP) does not do a good job of delineating these effects (fixing a pot hole and needing to fix your car because of a pot hole both raise GDP). Effectively, tax changes shift the distribution of benefits. The Flat Tax robs middle and lower income Arizonans of publicly-funded services by moving resources to wealthier households.

⁸ Estimation used IRS tax data from 2022 and what Arizona's brackets would have been in 2022. Averages by income level were compared and adjusted if needed to be consistent with the JLBC/ADOR estimates from 2021 for consistency. With the 2022 tax data the cost of the flat tax is \$2 billion. The 2021 JLBC/ADOR analysis can be found here: [Flat Tax Distributional Impact of 2.5% Tax - final | DocumentCloud](#). The IRS income data for Arizona can be found here: [22in03az.xlsx](#).

Arizona has a GDP of about \$560 billion that leads to a General Fund of about \$16 billion in ongoing revenue. So it takes about \$35 billion in economic activity to generate \$1 billion in ongoing revenue. Just doing basic math, a \$2 billion reduction in taxes would need to generate \$70 billion in new economic activity to pay for itself. That's preposterous—an optimistic expectation might be that it generates \$2 billion in new economic activity—which should show up in heightened jobs created beyond Arizona's trend but more importantly heightened labor productivity—the key to higher paying jobs. There's little evidence to support this—and significant evidence to question it. For instance, the Penn Wharton Model has estimated the impact of permanently extending the expiring tax cuts of the 2017 Tax Cuts and Jobs Act (excluding program cuts). They find it only increases GDP above baseline by 0.3%.⁹ Similar to the proposed federal tax reduction extensions, Arizona's Flat Tax primarily benefits wealthier taxpayers. Using the same impact, 0.3% of \$560 billion is \$1.68 billion which would only increase general fund revenues by about \$50 million. Over 10 years that creates a dynamic revenue adjustment estimate of \$600 million, hardly compensating for the estimated \$26.6 billion in net income losses. So the primary effect of the Flat Tax is a reduction in state revenues and a redistribution of income to the wealthiest Arizonans.¹⁰

Arizona: Not Fabulous on Jobs, Mediocre on Productivity Gains

While Arizona has frequently been a national leader in job growth, that reflects a combination of a growing economy and an inflow of population. There's no evidence to suggest the Flat Tax created a break in that pattern. In fact, if anything, Arizona's economy has performed worse since the Flat Tax was implemented compared to its performance from 2015-2019. GCI skips the COVID influenced years of 2020-2022, though the 2023 job gain measures December 2022 to December 2023.

	Arizona	
	Job Growth %	Rank
2015	2.58%	13
2016	2.37%	7
2017	2.68%	4
2018	3.03%	3
2019	3.08%	1

⁹ [The Budgetary and Economic Effects of permanently extending the 2017 Tax Cuts and Jobs Acts' expiring provisions — Penn Wharton Budget Model](#)

¹⁰ GCI looked at the average growth in Arizona's nominal GDP from 2011 through 2020 and found it to be 4.51% which includes impacts of productivity growth, labor growth and inflation. 4.51% was applied to the annual cost of the Flat Tax and also to the annual increase in the dynamic revenue.

	Arizona	
	Job Growth %	Rank
2023	2.23%	10
2024	0.76%	31
2025 (year to date)	-0.22%	48

Source: Bureau of Labor Statistics via ASU Seidman Institute Job Growth by State

Labor productivity estimates gains in the value of output per hour worked.

	Labor Productivity Gain Annual Average	
	2015-2019	2023 & 2024
Arizona	0.96%	0.33%
California	2.99%	3.29%
Colorado	2.64%	2.78%
Oregon	1.94%	1.35%
Texas	1.61%	3.86%
Utah	2.66%	2.71%
Washington	2.92%	5.08%

Source: Bureau of Labor Statistics

Arizona has consistently lagged behind other states in labor productive gains as noted above. Arizona ranked last from 2015-2019 in annual labor productivity growth among comparison states and continued to rank last with even more mediocre performance in 2023 and 2024. This generally means that while Arizona creates jobs, compared to other states, the jobs are lower productivity/lower paying positions.

Consequently, there's no compelling economic evidence that the Flat Tax has succeeded, but definitely evidence that it has failed.

Investing in Children Pays Off

In contrast to redistributing income to the wealthy, returns on investments in children have been shown to actually pay for themselves or come close to doing so—meaning they actually do eventually generate the tax resources to compensate for the expenditure. This includes many studies of pre-school for at-risk children, including Headstart. Headstart, for instance, is estimated to return about \$1.11 in taxes for every dollar of expenditure, far better than the Flat Tax. Medicaid for children provides a return of about \$1.78 in taxes for every dollar spent. Likewise, the Movement to Opportunity randomized housing mobility assistance program

returned \$3.44 in tax dollars for every dollar spent.¹¹ Consequently, there's strong evidence to suggest the Flat Tax actually depresses rather than enhances outcomes in Arizona.

The payoffs for these investments are not shown immediately—but through more children graduating and succeeding in school and improved lifetime career results. These analyses often omit other gains which can include less criminal justice involvement and less need for public assistance.

Where did the largess to pay for the Flat Tax come from?

Calendar Year	GDP (nominal) (in millions)	Change
2024	\$552,167.0	5.62%
2023	\$522,767.2	8.00%
2022	\$484,052.2	10.82%
2021	\$436,778.6	12.29%
2020	\$388,956.7	3.62%
2019	\$375,376.7	6.14%
2018	\$353,671.0	6.18%
2017	\$333,099.0	6.15%
2016	\$313,787.1	4.97%
2015	\$298,942.2	4.28%
2014	\$286,676.0	2.87%
2013	\$278,679.5	2.19%
2012	\$272,703.3	4.21%
2011	\$261,691.4	4.46%
2010	\$250,527.0	

Source: U.S. Bureau of Economic Analysis via Federal Reserve Bank of St. Louis

¹¹ Estimates taken from Hendren, Nathaniel and Ben Sprung-Keyser (2020), "A Unified Welfare Analysis of Government Policies," Quarterly Journal of Economics, Vol 135, Issue 3. The data was based on a review of studies and whether the program paid for itself in tax dollars is found by hitting the "cost" button and looking for policies that are negative. Use of confidence intervals is recommended to obtain a better sense of the potential uncertainty with the estimates. Found here: [A Unified Welfare Analysis of Government Policies](#). More discussions on the returns to investing in children can be found at Maag, Elaine, Cary Lou, Michelle Casas, Hannah Daly, Gabriella Garriga and Lillian Hunter (2023), "The Return on Investing in Children," The Urban Institute, [The Return on Investing in Children.pdf](#).

Arizona’s nominal GDP surged in 2021 and 2022 and into 2023 before returning to a more historically consistent growth rate. The growth includes inflationary effects—which was particularly prominent in 2023. However, the main contributor was likely the influx of \$78 billion in federal COVID-related assistance—that partially went directly to state and local governments but also directly to businesses through the Paycheck Protection Program and to people who were unemployed to help maintain folks during COVID.¹² This represented an unprecedented surge of federal investment that had the impact of both boosting GDP as well as boosting state General Fund revenue, especially with the income tax

Individual income taxes surged as noted in the JLBC table below. The Flat Tax went into partial effect in Tax Year 2022 impacting FY2022, full effect in Tax Year 2023 leading to a greater impact in FY2023, and was fully in place in FY2024.

Fiscal Year	General Fund Income Tax Collections	Income Tax Rates
2024	\$4,845,766,544	2.5%
2023	\$5,239,565,232	2.55% to 2.98%: July to Dec. 2022 2.5%: Jan. to June 2023
2022	\$7,530,010,735	2.59% to 4.5%: July to Dec 2021 2.55% to 2.98%: Jan to June 2022
2021	\$6,532,753,230	2.59% to 4.5%
2020	\$4,529,858,984	2.59% to 4.5% Filing date moved to July 15, 2020 which moved some revenues to the 2021 fiscal year
2019	\$5,009,021,634	2.59% to 4.5%
2018	\$4,543,998,164	2.59% to 4.5%
2017	\$4,130,898,724	2.59% to 4.5%
2016	\$3,967,919,501	2.59% to 4.5%
2015	\$3,761,343,995	2.59% to 4.5%

Source: JLBC Taxbook

¹² Arizona Auditor General (2022) “Special COVID-19 Funding Report, November, [Special COVID-19 Report](#).”

In addition to COVID-related federal investments, capital gains increased significantly due to growth in assets from stocks to real estate that also contributed to the increased revenue (more recent data not yet available). Tax year 2021 saw capital gains nearly double, impacting FY2021 and FY2022. While it lessened in tax year 2022, the surge still persisted impacting primarily FY2023.

Year	IRS Capital Gains Reported
2022	\$24.1 billion
2021	\$36.3 billion
2020	\$20.3 billion
2019	\$15.6 billion
2018	\$15.5 billion
2017	\$13.8 billion
2016	\$8.7 billion

Source: JLBC Taxbook 2016-2021, 2022 IRS State Returns Data

Unfortunate Reality

As Republican State Senator John Kavanagh noted, “Almost the entire budget is the baseline, which is the continuing ongoing programs that we always do. You know, we’re only really adding about a half-billion dollars, so it’s, it’s not that much more.”¹³ Arizona’s FY2026 budget will largely flatline or omit the key investments that will make a difference in the lives of at-risk children and other vulnerable communities, so potential economic investments will again be wasted. Meanwhile, the Flat Tax continues to funnel dollars to households who least need financial assistance.

About

Dave Wells holds a Ph.D. in Political Economy and Public Policy and is the Research Director of the Grand Canyon Institute. He can be reached at dwells@azgci.org or (602) 595-1025 ext. 2.

¹³ Broide, Mark with State Senator John Kavanagh (2025), “Arizona budget: Republican negotiator, House minority leader both hopeful on passage,” KJZZ The Show, June 17, [Arizona budget: Top Republican negotiator, House minority leader both hopeful on passage.](#)

The Grand Canyon Institute (GCI) is a nonpartisan, nonprofit organization dedicated to informing and improving public policy in Arizona through evidence-based, independent, objective, nonpartisan research. GCI makes a good faith effort to ensure that findings are reliable, accurate, and based on reputable sources. While publications reflect the view of the Institute, they may not reflect the view of individual members of the Board.

Grand Canyon Institute
P.O. Box 1008
Phoenix, Arizona 85001-1008
GrandCanyonInstitute.org