



# The Center Square

## Arizona flat tax boosters point to migration increases of low-tax states

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As Arizona lawmakers negotiate a budget that could flatten the state's income tax rates, supporters say doing so could lead to an increase in new residents.

According to the [Bureau of Labor's 2019 Statistics on Consumer Expenditures](#), Americans pay an average of 34.3% of their earnings in income taxes throughout their lives and Arizonans are no exception.

**Prop. 208**, approved in the 2020 General Election, added a 3.5% income tax surcharge on those in the top-earning bracket in Arizona who were previously paying a 4.5% rate. The surcharge nearly doubled their income taxes, requiring those with incomes exceeding \$250,000 to pay 8% of their total income. The change made Arizona rank ninth for the highest top marginal income tax rate in the nation.

Stephen Shadegg, state director of Americans for Prosperity-Arizona, said that Prop. 208 will prove harmful for Arizona's small business community.

"A large majority of small business owners file their income taxes as personal income so they end up getting charged on their business as their total income," he told The Center Square. "That affects small business owners being able to employ more people to work for them, put money back into the economy, and grow their business which resultantly strengthens the economy."

**House Bill 2900** would reduce individual income tax rates for all taxpayers by gradually reducing the state's four income tax rates to one 2.5% rate from 2022-2023. Though the 3.5% surcharge for top-earning single filers enacted by Prop. 208 would remain, the total tax rate for those in the highest income bracket would be capped at 4.5%.

The bill, part of Gov. Doug Ducey's proposed budget for the coming fiscal year, was unanimously opposed by Democrats. In counter-proposals, the minority party would maintain the state's current income tax levels and use the estimated \$4 billion budget surplus and expected

revenue boost from Prop. 208 to increase K-12 school funding and expand social services. Republicans, holding only one seat majorities in each legislative chamber, are working to solidify their caucus under Ducey's proposed \$1.5 billion tax cut.

A 2020 **Cato Institute study** used IRS data to show Americans are moving from high-income tax states to states with lower, or no, income taxes. Arizona has seen an increase in migration from states like California as residents seek more affordable living.

“We've got to get small businesses back to a point where they're able to bring in more employees, keep their business above water, and really drive the economy and economic growth,” Shadegg said.