

**Joint Legislative Budget Committee
Staff Memorandum**

1716 West Adams
Phoenix, Arizona 85007

Telephone: (602) 926-5491
azjlb.gov

DATE: September 29, 2022

TO: Richard Stavneak, Director

FROM: Jack Brown, Deputy Director

SUBJECT: FY 2022 General Fund Revenue Notification

Pursuant to A.R.S § 43-243 and A.R.S § 43-244, the Directors of the Joint Legislative Budget Committee (JLBC) Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) are required to report jointly to the Arizona Department of Revenue (ADOR) on the level of Fiscal Year (FY) 2022 state General Fund revenue, excluding the beginning balance. This information is to be used in determining potential changes in individual income tax rates.

Based on recent reporting from the state's General Accounting Office (GAO) and a review of revenue data, JLBC Staff and OSPB agree that the FY 2022 General Fund revenue level was \$16.7 billion, excluding the beginning balance. The two offices jointly notified ADOR of this revenue level on September 29th. (See Attachment A)

Arizona's current individual income tax rates in Tax Year (TY) 2022 are 2.55% or 2.98% depending on household income. Upon receiving a JLBC/OSPB report that General Fund revenue exceeds \$12,782,800,000, statute requires ADOR to reduce the income tax rates to 2.53% and 2.75% in the following Tax Year. After receiving a report that General Fund revenue exceeds \$12,976,300,000, ADOR is to set the income tax rate at a single 2.5% rate in the following Tax Year.

Statute requires these reports on or before September 30, 2022 and by each subsequent September 30th until the 2.5% tax rate is implemented.

Based on our understanding of the statutes, our office has described the statutory language as requiring the phase down of the individual income tax rates in no fewer than 2 years. That 2 year process would occur as follows:

- If the FY 2022 revenue exceeded \$12,782,800,000, then the TY 2023 tax rates would be 2.53%/2.75%.
- If the FY 2023 revenue exceeded \$12,976,300,000, then the single 2.5% tax rate would be implemented in TY 2024.

(Continued)



Based on the enacted budget's revenue forecast, the FY 2023 budget assumed the 2.53%/2.75% tax rates would be implemented in TY 2023 and the single 2.5% tax rate would be implemented in TY 2024.

As part of transmitting the first report under A.R.S § 43-243 and A.R.S § 43-244, a legal question has arisen as to whether the tax rate reduction to the flat 2.5% rate could occur in a single year in TY 2023 (rather than TY 2024) if the FY 2022 revenue level exceeded \$12,976,300,000. As noted above, the FY 2022 revenue level was \$16.7 billion.

The Executive interprets the statutory language as permitting the tax rate reductions to occur in a single year (implementing the flat 2.5% tax rate in TY 2023). As a result, the Governor has directed ADOR to implement the 2.5% single tax rate in TY 2023 starting this January. (*See Attachment B*)

As described above, the enacted budget assumed the TY 2023 tax rates would be 2.53%/2.75%. Implementing the 2.5% single tax rate in TY 2023 is projected to reduce state revenues on a one-time basis by \$(378) million during FY 2024 compared to the enacted budget.

OFFICE OF THE GOVERNOR
OFFICE OF STRATEGIC PLANNING AND BUDGETING
1700 West Washington
Phoenix, Arizona 85007



JOINT LEGISLATIVE BUDGET COMMITTEE
STAFF
1716 W. Adams
Phoenix, Arizona 85007

September 29, 2022

Mr. Rob Woods, Director
Department of Revenue
1600 W. Monroe Street
Phoenix, AZ 85007

Dear Mr. Woods:

Pursuant to A.R.S. § 43-243 and A.R.S. § 43-244, the Directors of the Joint Legislative Budget Committee (JLBC) Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) are required to report jointly to the Arizona Department of Revenue (ADOR) concerning Fiscal Year (FY) 2022 state General Fund revenue, excluding the beginning balance. This information is to be used in determining potential changes in individual income tax rates.

This letter serves to notify you that JLBC Staff and OSPB agree that the FY 2022 General Fund revenue level was \$16.7 billion, excluding the beginning balance.

Sincerely,

Richard Stavneak

Richard Stavneak
Director of the Joint Legislative Budget
Committee Staff

A handwritten signature in black ink, appearing to read "Matthew Gress".

Matthew Gress
Director of the Governor's Office of Strategic
Planning and Budgeting

RS/MG:kp



STATE OF ARIZONA
OFFICE OF THE GOVERNOR

DOUGLAS A. DUCEY
GOVERNOR

EXECUTIVE OFFICE

September 29, 2022

Robert Woods
Arizona Department of Revenue
1600 West Monroe Street
Phoenix, AZ 85007

RE: Accelerated Tax Relief for Arizona Families

Dear Mr. Woods:

It's no secret that Arizona's economy is booming. Over the last eight years, we've made responsible decisions to live within our means, reduce burdensome government regulations, lower taxes every year and ensure our state remains a great place to live.

Every year, as we've delivered on a promise to lower and simplify taxes, we've gained more tax payers. It's working. People and businesses are moving here in droves: we've added 400,000 jobs since 2015, our Rainy Day Fund sits at the highest level in state history at \$1.4 billion, and economists forecast Arizona will have a \$4 billion budget surplus through 2024. It's no surprise Arizona ranks #1 for economic performance, according to the most recent *Rich States, Poor States* report — the ALEC-Laffer State Economic Performance Ranking.

The result is a thriving economy with record revenues.

In July 2021, I signed a historic tax reform package that secures the lowest flat tax in the nation, reduces every Arizonans' tax rate no matter their income, eliminates income taxes on veterans' military pensions, increases the charitable contribution deduction to 100 percent, and protects small businesses from a 77.7 percent tax increase.

It's time to deliver lasting tax relief to Arizona families and small businesses so they can keep more of their hard-earned money.

The 2.5 percent flat tax was scheduled to phase in over three years. Due to Arizona's continued economic growth and record surplus, the flat tax has been unlocked ahead of schedule, indicated by a September 29 joint memo from the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting.

In the memo, JLBC and OSPB determined that General Fund revenues excluding the beginning balance in Fiscal Year 2022 were \$16.7 billion — exceeding the statutory thresholds required to immediately implement the 2.5 percent flat tax, in the coming tax year.

Thanks to unprecedented economic growth, we can deliver additional tax relief to Arizonans one year ahead of schedule.

Today, consistent with the law passed last year, I am directing the Arizona Department of Revenue to enact Arizona's 2.5 percent flat tax for tax year 2023.

In Arizona, we believe you deserve to keep the money you earn. This tax relief keeps Arizona competitive and preserves our reputation as a jobs magnet and generator of opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas A. Ducey". The signature is fluid and cursive, with a long horizontal stroke at the end.

Douglas A. Ducey
Governor
State of Arizona