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The Flat Tax Advantage

By Adam N. Michel

Over the last half century, states have steadily moved toward lower and flatter income taxes. Thirty states have cut their top tax rates, and the number of states with flat income taxes has tripled from 5 to 15. New statistical evidence presented in this brief suggests that they made the right choice.

Using data from states between 1980 and 2025, this brief finds that adopting a flat income tax is associated with roughly 1 percentage point faster growth in per capita income and state GDP four years after the reform, or almost $4,000 more income per resident. A separate event study of Colorado, the first state to replace a graduated income tax with a flat tax, shows per capita income similarly grew by thousands of dollars relative to comparable states in the years after the reform.

In November 2026, Colorado voters will decide whether to maintain their 4.4 percent flat tax or replace it with a six-bracket system, topping out at 8.4 percent for income over $1 million.[1] The empirical flat-tax advantage suggests that by reversing Colorado's 1987 reform, Amendment 87 would undermine the state's strong economic track record.

The evidence also carries a broader lesson. Flat taxes have become mainstream state tax policy and are associated with faster growth, higher incomes, easier tax compliance, better fiscal outcomes, and a political structure that makes future tax increases more difficult.

Because individual income taxes are among the most economically destructive ways to raise revenue, the success of flat taxes has implications for federal tax reform and for the remaining graduated-income-tax states. Experience shows that flat taxes are popular, achievable, and good for growth. State and federal policymakers should take note.

HOW DO STATES RAISE REVENUE?

On average, state and local governments raise the largest share of their revenue from property taxes, followed by sales, individual income, and corporate taxes. The tax mix varies widely. New Hampshire raises more than half of its revenue from property taxes, while Oregon relies heavily on individual and corporate income taxes. States also use a variety of miscellaneous taxes to raise significant revenue.

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In Alaska and North Dakota, the single largest share of state and local tax revenue comes from nonstandard taxes, which include severance taxes on oil and natural resource extraction. Delaware raises significant revenue from corporate franchise and entity fees, which are paid by millions of out-of-state business entities registered there. Table 1 shows sources of state and local revenues.

In the aggregate, the relative shares of state revenue collection mirror the standard ranking of taxes by economic damage; states generally collect the largest share of revenue from the most efficient taxes. Two Organisation for Economic Co-operation and Development (OECD) studies rank revenue sources by their drag on long-run growth. Corporate income taxes do the most harm, followed by personal income taxes. Consumption and property taxes are the most efficient ways to raise revenue, and the largest sources of state and local revenues.[2] The ranking is a to-do list for policymakers. States should prioritize eliminating corporate income taxes first: 6 have no corporate income tax, and 13 have rates below 5 percent.[3] The personal income tax should be next on the list of major taxes to cut or eliminate.

STATES CUT AND FLATTEN INCOME TAXES

States have often led on reforming and testing new tax systems in the United States. Wisconsin adopted the country's first state income tax in 1911, with two rates of 1 percent and 6 percent, and that was before the Sixteenth Amendment to the US Constitution legalized the federal income tax in 1913.[4] Massachusetts adopted the first flat tax in 1916. By 1977, 40 states had income taxes. Only five of those had flat taxes: Illinois, Indiana, Massachusetts, Michigan, and Pennsylvania.

For decades, states have been lowering tax rates and converting multibracket systems into single-rate, flat taxes. Figure 1 shows the distribution of top marginal state income tax rates in 1977 (50 years ago) and at the beginning of each decade, with the median shifting from 7.9 percent in 1977 to 5.2 percent in 2026. In the last decade, a handful of states have moved in the other direction, with Hawaii, Maine, Massachusetts, and New York raising their rates by 2 percentage points or more. Today, top rates range from 2.5 percent in Arizona and North Dakota to 13.3 percent in California.[5]

Colorado was the first state to convert its progressive rate income tax system to a flat 5 percent rate in 1987.[6] This flat-rate requirement was later written into the state constitution in 1992 as part of the Taxpayer's Bill of Rights (TABOR).[7] Twenty years after that, Utah followed suit in 2007, implementing its own 5 percent flat income tax.[8] North Carolina and Kentucky followed with flat taxes in 2014 and 2018, respectively.

Since 2021, seven more states have moved to a single-rate income tax system. Figure 2 shows how state flat taxes have evolved over time, and Figure 3 shows the 2026 map. Twenty-six states and the District of Columbia have graduated tax structures, and 15 states have flat income tax systems. The Montana legislature will reportedly consider becoming the 16th state with a flat tax in the 2027 session.[9] Nine states have no broad-based individual income tax.[10]

In 2025, the Kansas legislature adopted a law to transition from the current two-rate system to a flat 4 percent rate, contingent on future revenue.[11] This trigger-based reform is distinct from the state's 2012 tax cut in which Kansas kept its graduated brackets, cut the top rate, and exempted all pass-through business income. The pass-through exemption allowed higher-income residents to recharacterize wages as business profit to avoid tax. Revenues fell short of projections, and the legislature reversed the cuts in 2017.[12]

In 2023, Massachusetts abandoned its century-old flat income tax by adding a new 4 percent high-income surtax, raising the top marginal rate to 9 percent. Hawaii and Rhode Island are scheduled to raise top rates in 2027, and Washington state will implement a new 9.9 percent flat income tax with a $1 million standard deduction per household beginning in 2028, pending a November ballot initiative to overturn it.[13] Other states, including Kentucky, Mississippi, Oklahoma, South Carolina, and West Virginia, have enacted revenue-based triggers to eliminate their individual income taxes over time.

THE CASE FOR FLAT TAXES

In this brief I use the label "flat tax" in its narrowest sense, a one-rate tax on incomes above an exemption.[14] Because

Table 1 (page 1 of 2)

States rely most on property and sales taxes

Sources of state and local tax collections as percent of total, fiscal year 2023

State	Property	General sales	Individual income	Corporate income	Other taxes
US total	**28.9%**	**25.2%**	**21.9%**	**6.5%**	**17.6%**
Alabama	16	33	24	6	22
Alaska	32	6	0	8	54
Arizona	25	47	13	4	11
Arkansas	17	42	19	5	17
California	26	22	28	9	16
Colorado	33	30	17	6	15
Connecticut	35	16	26	10	12
Delaware	14	0	31	7	48
Florida	35	39	0	5	21
Georgia	30	26	28	6	11
Hawaii	18	38	22	3	20
Idaho	23	32	22	11	13
Illinois	32	18	21	9	20
Indiana	22	27	32	3	16
Iowa	32	25	23	4	16
Kansas	28	29	23	8	12
Kentucky	20	23	32	6	19
Louisiana	19	40	17	5	19
Maine	36	23	25	5	13
Maryland	24	14	40	4	19
Massachusetts	33	15	34	7	11
Michigan	34	24	23	4	16
Minnesota	23	19	31	10	17
Missouri	26	35	17	6	16
Montana	28	28	28	3	13
Montana	34	0	35	5	26
Nebraska	35	25	23	5	12
Nevada	22	45	0	0	33
New Hampshire	60	0	2	16	23

Table 1 (page 2 of 2)

States rely most on property and sales taxes

Sources of state and local tax collections as percent of total, fiscal year 2023

State	Property	General sales	Individual income	Corporate income	Other taxes
US total	**28.9%**	**25.2%**	**21.9%**	**6.5%**	**17.6%**
New Jersey	39	17	22	10	12
New Mexico	14	33	14	2	37
New York	28	17	31	13	12
North Carolina	22	29	29	3	17
North Dakota	16	21	6	4	52
Ohio	28	28	27	1	17
Oklahoma	20	31	20	4	24
Oregon	26	4	42	6	21
Pennsylvania	26	18	26	7	22
Rhode Island	36	21	21	4	18
South Carolina	30	25	22	5	18
South Dakota	33	45	0	1	22
Tennessee	21	47	0	9	24
Texas	41	38	0	0	22
Utah	23	30	31	4	13
Vermont	39	11	22	6	22
Virginia	31	15	27	7	20
Washington	26	38	1	0	35
West Virginia	19	19	27	4	31
Wisconsin	31	23	26	8	14
Wyoming	36	29	0	0	35
District of Columbia	29	19	30	11	11

Sources: Tax Foundation; "Annual Survey of State and Local Government Finances," US Census Bureau.
Note: Other Taxes include excise taxes (such as those on alcohol, tobacco, motor vehicles, utilities, and licenses), severance taxes, stock transfer taxes, estate and gift taxes, and other miscellaneous taxes. Totals may not add to 100% due to rounding.

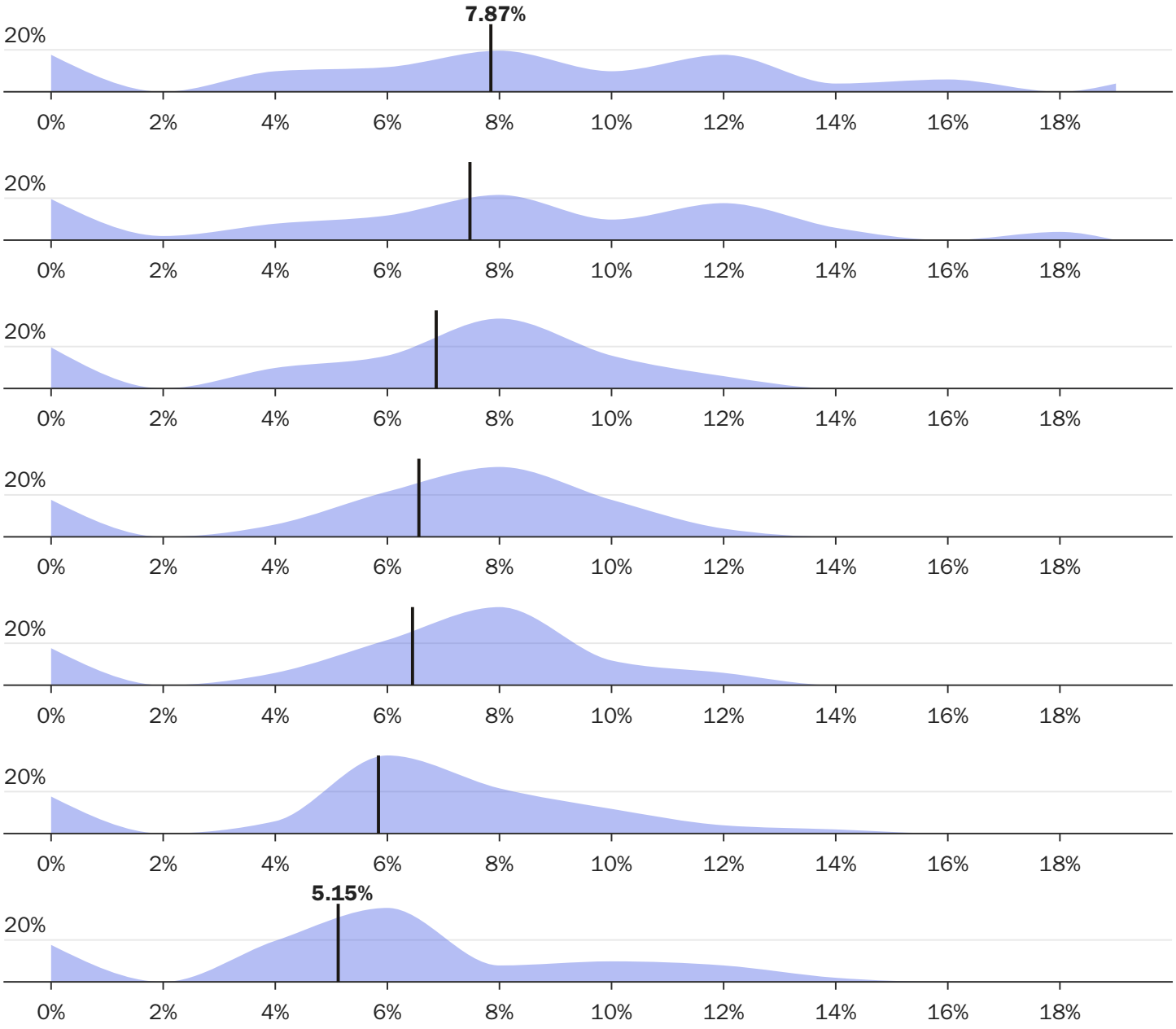
of the exemption, average tax rates still rise with income, resulting in a progressive tax burden.

Optimal-tax theory does not give a definitive answer on the optimal tax structure or degree of progressivity. The optimal tax depends on the weight placed on redistribution, the distribution of earning ability, and how much people respond to taxes, among other things. Some of these are empirical questions, but others are normative. Peter Diamond and Emmanuel Saez's widely cited work shows optimal top marginal rates exceeding 70 percent, but only by assuming almost no social value to the marginal consumption of top earners and minimal

Figure 1

Median top state income tax rate fell from 7.9 percent to 5.2 percent over 50 years

Percentage of states that fall within each top income tax rate range



Source: "Historical State Tax Rate Data," Institute on Taxation and Economic Policy, File Version 2026.2, June 2026.
Notes: Multipanel, single column histogram binned by 2, except for 0. The 0 percent bucket includes states with no income tax. Positive-rate buckets are labeled by their upper bound. For example, the 2 percent bucket includes rates greater than 0 and less than 2 percent, the 4 percent bucket includes rates from 2 to less than 4 percent, etc. Medians exclude states without income tax.

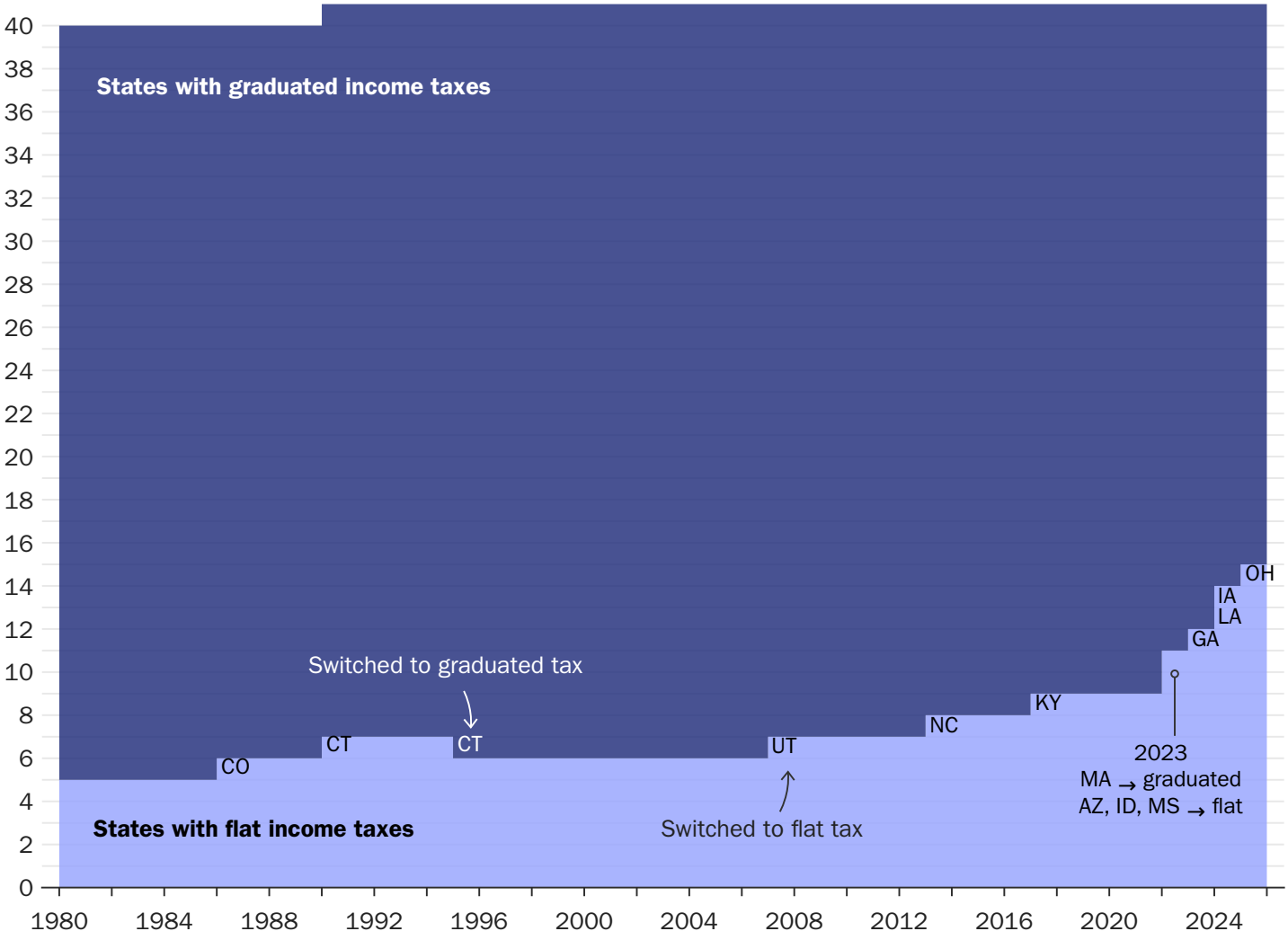
responses to high tax rates.[15] Different assumptions return very different results.[16]

Economic theory does establish that the deadweight loss of a tax (the value of economic surplus that is lost because a tax prevents economically beneficial exchanges from occurring) rises with the square of the rate. This means that doubling a rate roughly quadruples the economic cost of the tax.[17] High marginal rates are therefore disproportionately costly, and a low flat rate minimizes the economic damage for a given amount of revenue. An International Monetary Fund review states that flat taxes can maximize revenue "without inducing

Figure 2

State flat taxes have tripled since 1980

Number of US states with flat or graduated income taxes, 1980–2026



Source: Author.

Note: From 1980 to 1991, 10 states had no income tax; after Connecticut adopted an income tax, the number fell to 9.

either tax evasion or the payment of bribes," and standard public finance models, with the right assumptions, show that flat taxes can approximate optimal outcomes, a case that is strengthened by their simplicity and ease of enforcement.[18]

Four related bodies of evidence show why flat taxes are superior to their graduated counterparts. First, tax rates affect economic growth and incomes. Second, mobile high earners respond strongly to rate differences. Third, flatness itself is associated with positive economic outcomes and better compliance. Finally, the case for flat taxes is strengthened by the political economy of a single rate that cannot be raised on a narrow minority.

Income Tax Rate Cuts Raise Output and Incomes

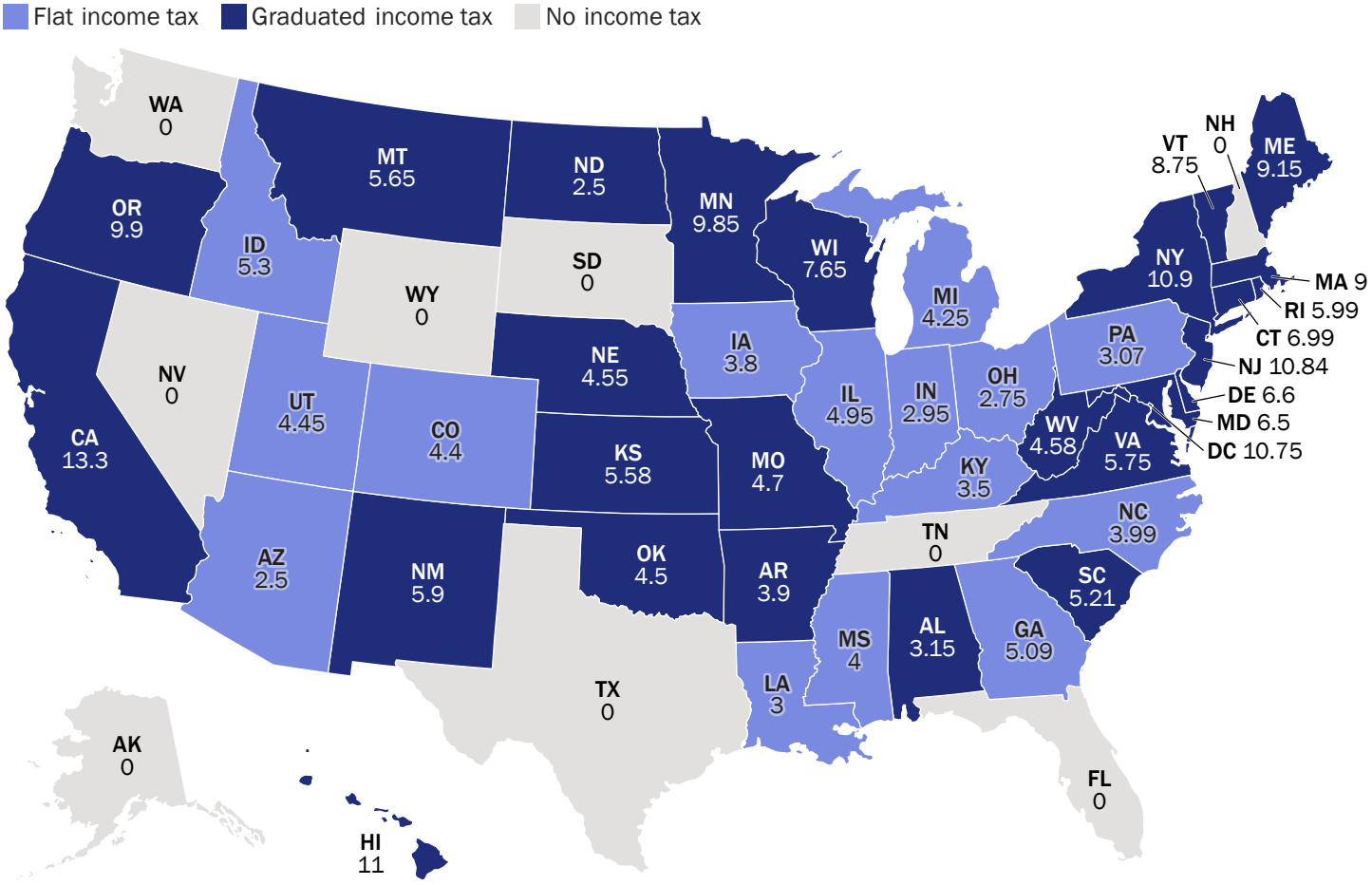
The empirical literature finds that income tax cuts boost economic output, raise incomes, and increase investment.

Cutting marginal tax rates raises the after-tax reward for the next dollar earned, thus encouraging people to work more. This is called the substitution effect. The same logic applies to the next dollar saved or invested, whereby a lower marginal rate on the return to capital raises the payoff to saving and investing. This is relevant because most state income taxes apply to passthrough business income (which accounts for about half of all business income), capital gains, and dividends.[19] The average tax rate measures how much

Figure 3

One-third of states have flat taxes

State top marginal individual income tax rate and structure, July 2026, percent



Source: Author; Tax Foundation.

Note: Does not include federal or local income taxes. Top rates exclude non-unemployment insurance payroll taxes in CA (1.3%); MA (0.46%); and WA (0.58%); MN's 1% investment income surtax; MD's 2% high earners' capital gains surtax; and WA's 9.9% capital gains rate.

income taxpayers keep overall, and it drives an opposing income effect. A tax cut that lets people keep more of their income lets them meet their needs with less effort. Tax reforms almost always move both margins at once; cutting the top marginal tax rate also cuts average rates. In the real world, the substitution effect dominates.[20]

Building on the seminal work of Christina and David Romer, economists Karel Mertens and Morten Ravn use tax changes unrelated to economic conditions to measure the effects of federal income taxes. They find that tax cuts raise employment, the number of hours worked, consumption, and investment. A 1 percentage-point cut in the average personal income tax rate raises real GDP by as much as 1.8 percent within nine months.[21] Using a similar method, Mertens and José Luis Montiel Olea measure the effects of marginal tax rates by income group and find that rate cuts raise reported real incomes, real GDP, and employment. Top earners respond the most, and tax cuts for the top 1 percent also raised incomes for lower-income taxpayers.[22]

The evidence from US states tells a similar story. Using five-year state panel data, W. Robert Reed finds that higher state and local tax burdens used to finance general government expenditures are associated with slower personal income growth.[23] Randall Holcombe and Donald Lacombe compare counties on opposite sides of state borders and find that states that raised their income taxes "had slower income growth and, on average, a 3.4% reduction in per capita income."[24] Even research that finds less robust links between state tax policy and aggregate growth reports that higher top tax rates are associated with

statistically significant reductions in firm formation and time-period-dependent effects on income growth.[25]

International evidence comes to the same conclusions. In the United Kingdom, plausibly exogenous income tax cuts produce large and persistent positive effects on output, consumption, and investment.[26] Cross-country studies using OECD data find that higher top marginal income tax rates are associated with lower long-run GDP growth, and two additional OECD studies show higher top marginal personal rates linked to slower productivity growth.[27]

Mobile Taxpayers Respond to Rates

Taxing income also induces the most mobile taxpayers to leave, especially where exit is easiest. In a recent study of interstate migration, economist Jack Salmon shows that the strongest and most consistent explanation is lower taxes and greater housing supply.[28] The 2017 cap on the federal state and local tax (SALT) deduction, which was expanded in 2025, amplified the tax incentive to move. Limiting the federal SALT deduction increased the effective marginal cost of state income taxes for high earners.

Few workers are more mobile than star scientists, professional athletes, and superstar inventors. Three academic studies examining how they respond to taxes reach the same conclusion: each high-earner group tends to relocate to lower-tax jurisdictions.[29] Similarly, Denmark's special low rate for high-earning foreigners doubled the number of targeted workers in the country.[30] Variation in local Spanish and Swiss top rates also shows high-income taxpayers shifted toward the low-rate jurisdictions.[31] Not everyone packs up and leaves, but people with the fewest local ties and the most to gain move more readily.[32]

Moving is not the only way top earners respond to higher taxes. When California raised its top rate in 2012, some high earners left, but the larger response was less reported taxable income by those who stayed. Departures and reduced reporting eliminated roughly 45 percent of the projected first-year revenue and 61 percent within two years.[33] Evidence from the 2013 federal tax increase similarly shows large short-run income shifting among top earners and modest medium-run effects that, combined, reduced projected revenue by 20 percent.[34] For states, where mobility is a bigger constraint, economists Martin Feldstein and Marian Vaillant Wrobel show that migration, income shifting, and cross-border adjustments in wages and employment limit states' ability to redistribute income even over relatively short periods.[35]

Flatness Predicts Faster Growth

Isolating the effect of flat taxes themselves is harder. Flat tax reforms typically combine lower rates with broader tax bases, simpler tax codes, and other market-oriented reforms, making isolating the independent effect of a flat rate difficult, if not impossible.[36] However, new suggestive empirical evidence and existing research indicate that flat taxes themselves are also associated with positive outcomes.

During its period of liberalization, Russia implemented the first flat-rate personal income tax in a large economy in 2001, which researchers described as "quite revolutionary."[37] The reform converted its three rates (12, 20, 30) to a single 13 percent rate for everyone. In the year of the reform, real tax revenue from the personal income tax grew by 26 percent and continued to grow by 21 percent in 2002 and by 12 percent in 2003. About two-thirds of the higher taxable income reflected reduced evasion (the reform also included additional enforcement), while about one-third reflected higher real earned income.[38]

Broader evidence from Eastern and Central Europe also points in the same direction. Comparing eight countries that adopted flat taxes with similar countries that did not, Bibek Adhikari and James Alm find that every flat-tax country experienced higher GDP per capita after reform, with statistically significant gains in seven of the eight cases. The authors conclude that "results indicate that flat tax reform generally had significant, positive, and meaningful impacts on income."[39] Using US state variation, Tae-hwan Rhee measures how income tax progressivity affects state economic growth from 1979 to 2004. He finds that moving to a flatter income tax is associated with higher annual state GDP growth three years later.[40]

This brief extends Rhee's approach to a simpler question: Does having a flat tax predict faster growth? Instead of a continuous progressivity index, I use a binary indicator of a flat or graduated income tax from 1980 to 2025. The regression includes state and year fixed effects and controls

for the average income tax rate.[41] The average tax rate holds the observed income tax burden constant to better measure the structural effect of the transition to a single rate, not just the effects of the tax cut.

Table 2 reports the coefficients on the flat-tax indicator at each year after implementation, the standard error, pvalue, and 95 percent confidence intervals. The coefficient measures how many percentage points faster flat-tax states grow in the years after adoption, compared to graduated-tax states with similar average tax burdens. Flat-tax states also experience roughly 1 percentage point faster per capita income growth by the fourth year after adoption. Table 3 shows that an effect of similar magnitude appears for GDP growth, with wider confidence intervals reflecting greater year-to-year volatility. Flat-tax states experience roughly 1 percentage point faster state GDP growth by year four.

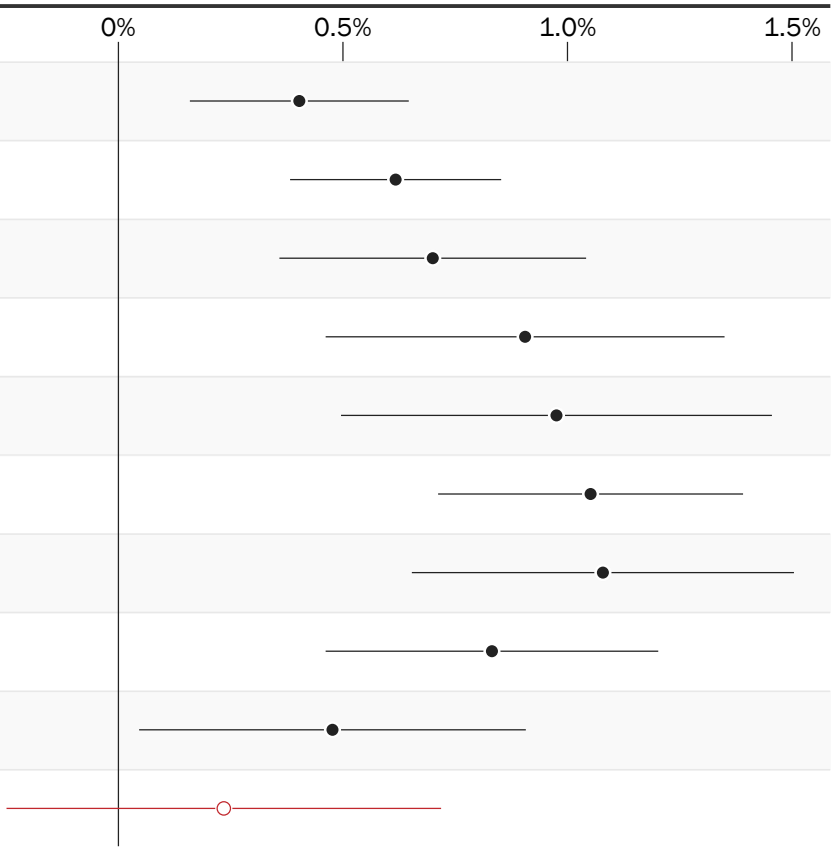
These magnitudes are consistent with Rhee's estimates, and as he notes, the coefficients may partly reflect correlated policy choices. Also consistent with Rhee, the growth effect is temporary, it is largest around year seven and fades to insignificance by year 10. This is what standard growth models predict. Tax reform produces a permanent *level* effect on income and GDP, but not a permanent change in the growth rate. The growth rate rises temporarily as the economy transitions to the new

Table 2

Income growth almost 1 percentage point higher by year four of flat tax adoption

Estimated effect of having a flat income tax on annual per capita income growth, by years after adoption

Year	Annual growth	Standard error	P value	95% confidence interval
1	0.40%	0.124	0.002	
2	0.62%	0.119	<0.001	
3	0.70%	0.174	<0.001	
4	0.91%	0.227	<0.001	
5	0.98%	0.245	<0.001	
6	1.10%	0.173	<0.001	
7	1.10%	0.217	<0.001	
8	0.83%	0.189	<0.001	
9	0.48%	0.220	0.036	
10	0.24%	0.247	0.347	



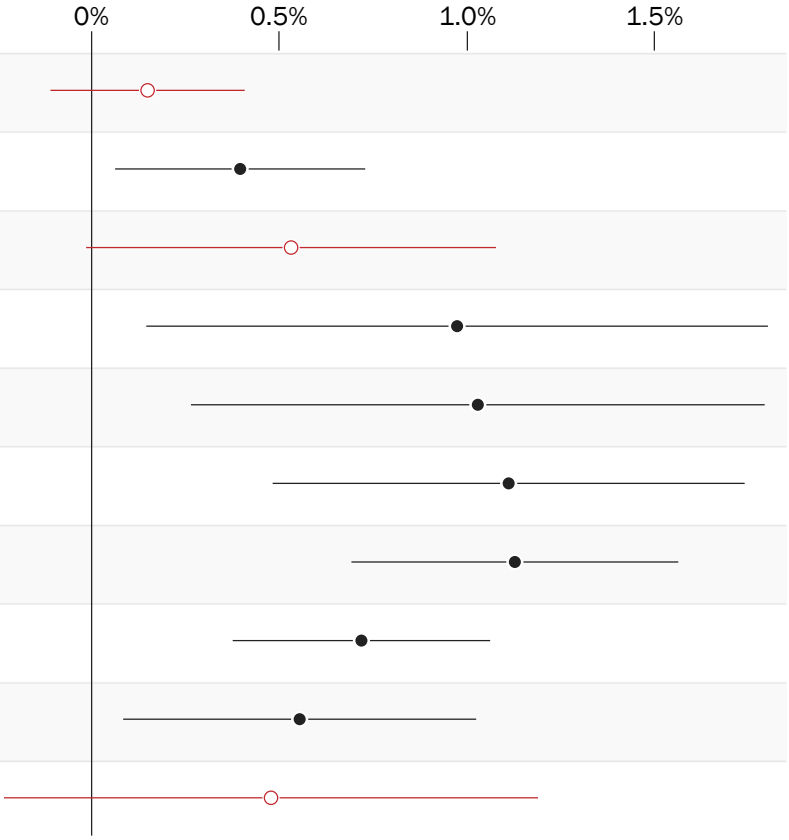
Note: Annual growth is the percentage point increase in growth rate. Year 1 is the first year a flat tax is in effect. Red rows are statistically indistinguishable from zero. The R^2 values vary between [0.62, 0.66]. Each year's coefficient is from a separate regression of per capita income growth on a lagged binary flat-tax indicator, controlling for the average state income tax rate, including state and year fixed effects. Sample restricted to states with income taxes, 1980–2025. Standard errors clustered by state. Observations from 41 states.

Table 3

GDP growth is about 1 percentage point higher by year four of flat tax adoption

Estimated effect of having a flat income tax on annual GDP growth, by years after adoption

Year	Annual growth	Standard error	P value	95% confidence interval
1	0.15%	0.132	0.260	
2	0.40%	0.170	0.025	
3	0.53%	0.279	0.063	
4	0.97%	0.422	0.027	
5	1.00%	0.389	0.012	
6	1.10%	0.321	0.001	
7	1.10%	0.222	<0.001	
8	0.72%	0.175	<0.001	
9	0.56%	0.239	0.025	
10	0.48%	0.363	0.195	



Note: Annual growth is the percentage point increase in growth rate. Year 1 is the first year a flat tax is in effect. Red rows are statistically indistinguishable from zero. The R^2 values vary between [0.40, 0.44]. Each year's coefficient is from a separate regression of per capita income growth on a lagged binary flat-tax indicator, controlling for the average state income tax rate, including state and year fixed effects. Sample restricted to states with income taxes, 1980–2025. Standard errors clustered by state. Observations from 41 states.

path, then returns to its long-run trend. As an illustration of the magnitude, if the 1 percentage point higher growth associated with a flat tax were sustained for five years, current per capita income would end up about $3,900 higher than it would have been otherwise.[42]

Controlling for the income tax rate makes the coefficient slightly larger, consistent with the flat structure itself predicting faster growth independent of the tax level. A Granger-style reverse causality test (regressing future flat-tax status on current income and GDP growth) returns near-zero coefficients, indicating that states do not systematically adopt flat taxes after periods of unusually fast growth.

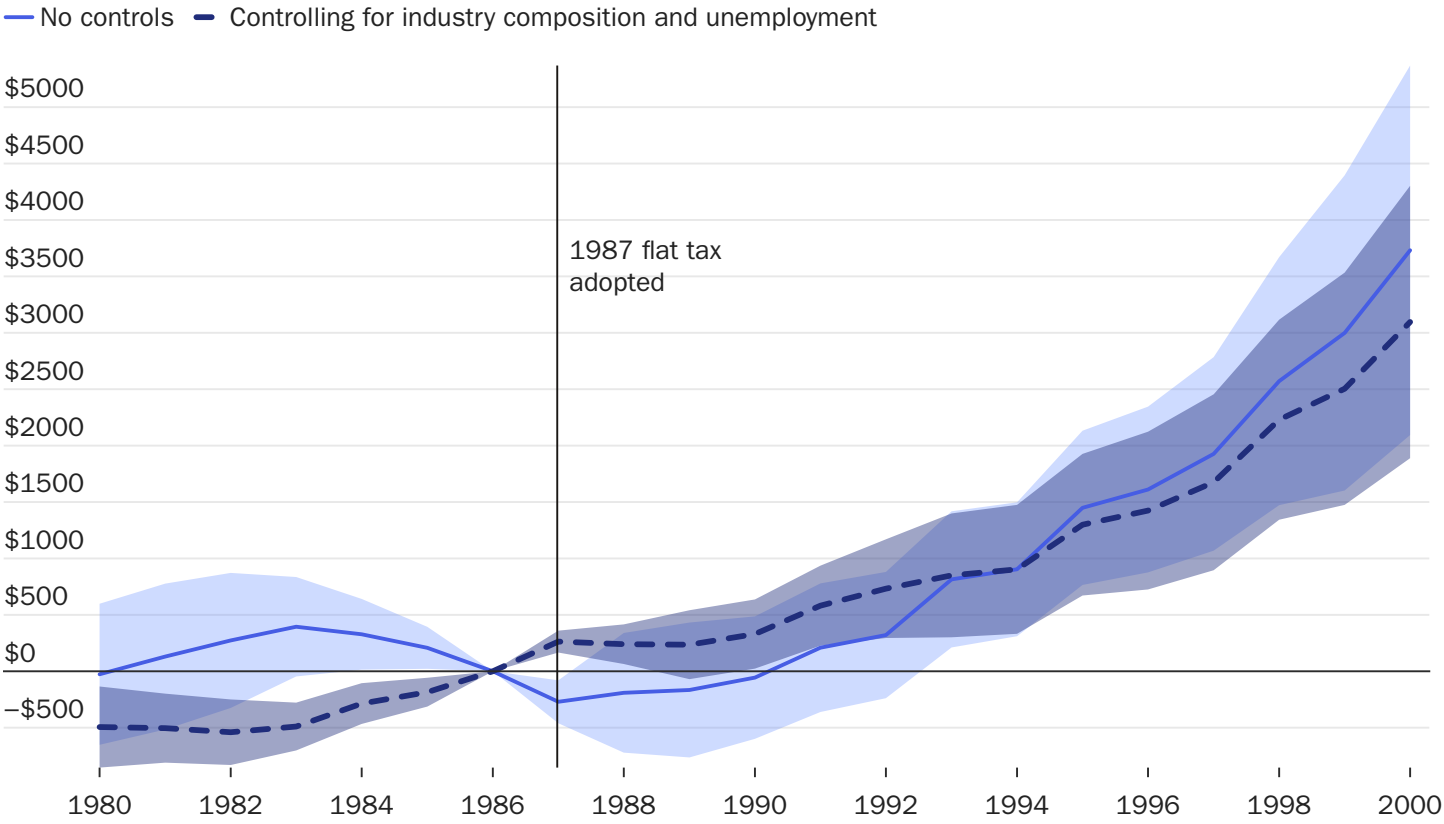
Colorado provides the cleanest single-state test. It adopted the first graduated-to-flat conversion in 1987, well before the recent wave of adoptions that coincide with recessions and the COVID-19 pandemic.[43] Figure 4 shows a difference-in-differences event study comparing Colorado to 13 graduated-tax states that had statistically indistinguishable income trajectories in the seven years preceding the reform.[44]

The solid lighter blue line shows the event study without additional controls.[45] The pretreatment coefficients are near zero, confirming that the 13 selected control states tracked Colorado's income growth before the reform.[46] Post-1987, the effect is initially flat, then diverges from 1993 onward,

Figure 4

Colorado's per capita income is about 5% higher 10 years after flat tax adoption

Colorado's per capita income relative to non-flat-tax control states
Shaded area represents 95% confidence interval



Note: Difference in per capita personal income between Colorado and 13 graduated-tax control states, relative to 1986. Control states selected by a parallel-trends test on pre-1987 income. Specification with controls accounts for industry composition and unemployment rate. State and year fixed effects, standard errors clustered by state.

reaching about $1,996 a decade after the reform and $3,731 above the control group average by 2000.

The darker blue dashed line adds controls for unemployment and industry composition directly to the regression. This specification tells a richer story. The slightly negative pre-1987 coefficients indicate that Colorado was underperforming in the early 1980s, converging toward zero by 1986. The effect of flat tax adoption then appears immediately in 1987, grows to $1,424 ten years later, and by 2000 reaches $3,096 above the control group average. Both specifications tell a similar story: Per capita income rose following the adoption of Colorado's flat tax.

Expressing the nominal Colorado figures in today's dollars results in comparable estimates to the panel regression results. The $1,400 was roughly 5.3 percent of Colorado's 1996 per capita income, and that same percent of Colorado's 2025 income is about $4,600.[47]

Flat Taxes Are Hard to Raise

The case for flat taxes is reinforced by the political economy of a single rate. Because an unconstrained government tends to grow beyond its efficient size, confining it to a single marginal rate improves its efficiency by limiting how much revenue it can extract.[48] A graduated schedule lets policymakers raise revenue more easily, one bracket at a time. A single rate is harder to increase because any change falls on everyone.

The record bears this out. Once adopted, flat taxes tend to stick and are cut more often than raised. All four states that converted a graduated income tax to a single rate before 2023 (Colorado, Kentucky, North Carolina, and Utah) now tax at rates 0.6 to 1.55 percentage points below where they began.[49] Movement the other way is rare. Out of every state that has had a flat tax, only Massachusetts and Connecticut have abandoned it for a multirate system.

The international pattern is similar. Among 54 OECD and former Soviet Bloc countries, fewer than 30 percent of those that adopted a flat tax have since reversed it and graduated-rate countries have been nearly four times as likely as flat-tax countries to raise their rates.[50] Some of this is endogenous; jurisdictions that adopt flat taxes are those with electorates that prefer limits on government. But the single rate can still constrain changing political preferences. In Illinois, 53 percent of voters rejected a 2020 constitutional amendment to replace the state's flat tax with graduated rates, even though 58 percent of the state voted for President Joe Biden that year, who campaigned for more progressive income taxes.[51]

INCOME TAXES DO NOT IMPROVE FISCAL HEALTH

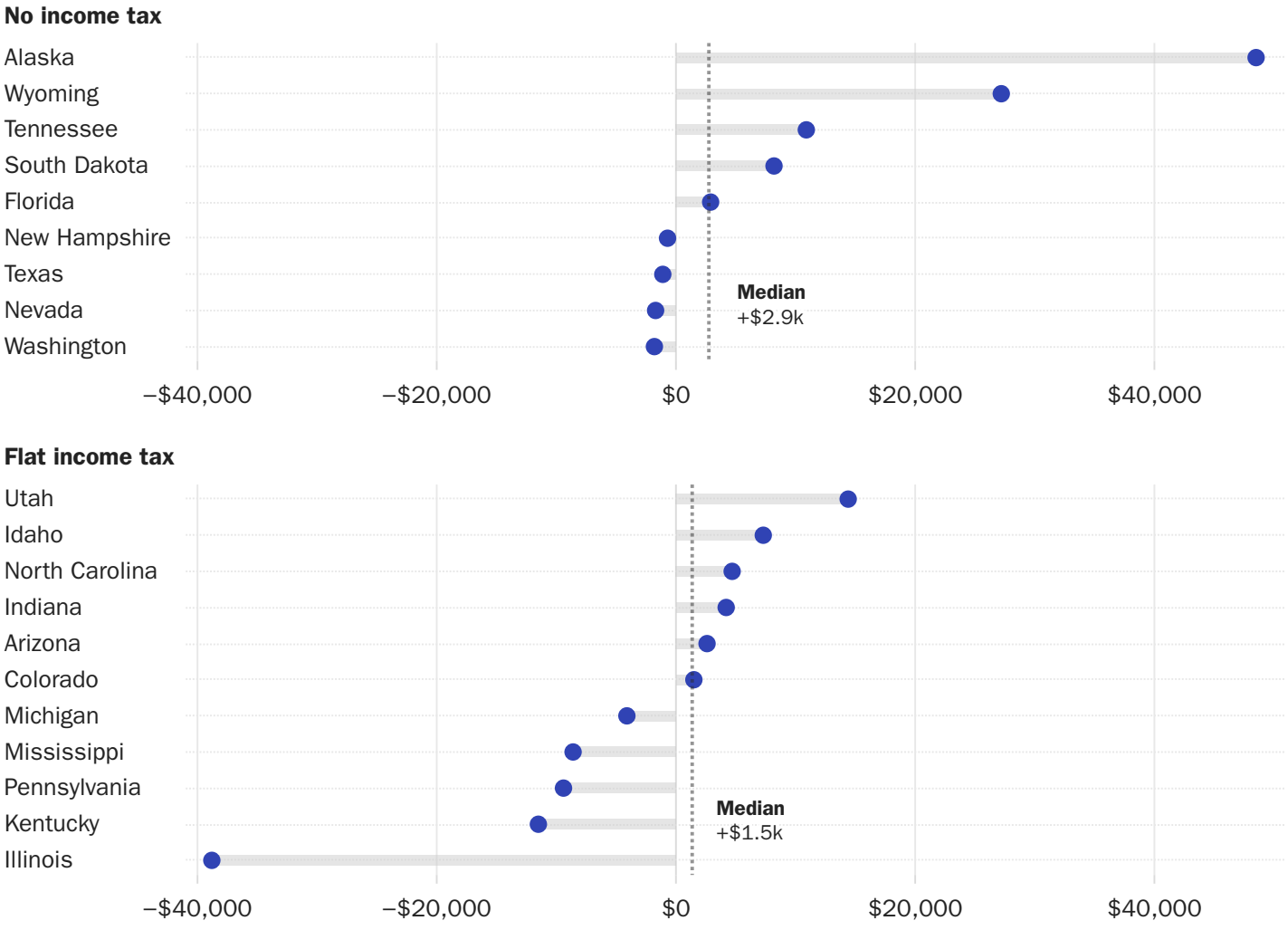
The case for graduated income taxes is also often made on budgetary grounds, that a graduated system gives states more resources to fix fiscal imbalances.[52] The data tell a different story. If anything, states with flat or no income taxes have more sustainable finances.

Figure 5 ranks each state's per taxpayer surplus or liability, sorted by income tax structure in the same year.[53] If tax structure drove fiscal health, the chart should show that graduated income tax states have the healthiest fiscal conditions. It shows the opposite. No-income-tax states had

Figure 5 (page 1 of 2)

Revenue from graduated income taxes doesn't help fiscal health

Per taxpayer surplus (+) or liability (–), by income tax structure in 2023



Sources: Author; Truth in Accounting, 2025.

Note: Truth in Accounting divides the money a state has available to pay its bills, minus what it owes, by the number of taxpayers. A negative figure (taxpayer burden) is each taxpayer's share of the shortfall; a positive one (taxpayer surplus) is the leftover funds. The outliers—Alaska, North Dakota, and Wyoming—rely more heavily on severance taxes than other states.

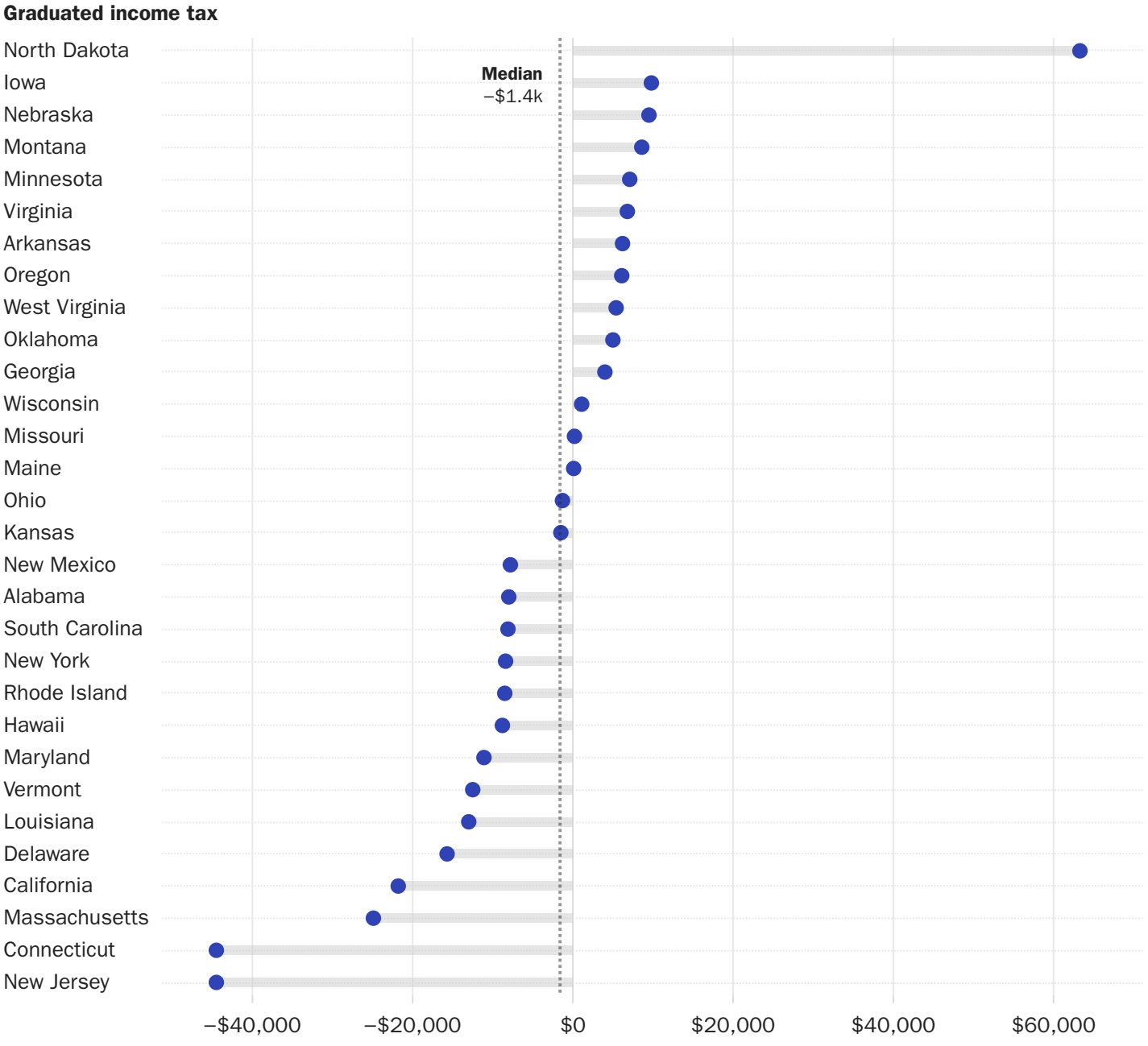
a median surplus of about $2,900 per taxpayer in 2023. Flat-tax states had a median surplus of $1,500. Graduated income tax states had a median liability of –$1,400. The additional revenue that graduated income tax systems can collect does not appear to fix fiscal imbalances; if anything, it makes the problem worse.

The more important story is on the expenditure side. Illinois and Utah both have flat taxes, with a fiscal burden gap of more than $50,000 per taxpayer. Despite Illinois collecting per capita taxes above the national average, this gap is primarily driven by underfunded pension liabilities.[54] Other outliers, such as Alaska, North Dakota, and Wyoming,

Figure 5 (page 2 of 2)

Revenue from graduated income taxes doesn't help fiscal health

Per taxpayer surplus (+) or liability (–), by income tax structure in 2023



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Note: Truth in Accounting divides the money a state has available to pay its bills, minus what it owes, by the number of taxpayers. A negative figure (taxpayer burden) is each taxpayer's share of the shortfall; a positive one (taxpayer surplus) is the leftover funds. The outliers—Alaska, North Dakota, and Wyoming—rely more heavily on severance taxes than other states.

rely on severance taxes on natural resource extraction for a higher share of their revenues.[55]

This pattern may also be driven by the volatility of graduated income taxes and the political economy constraint of fewer revenue sources. Graduated income taxes are more volatile because they rely more on higher-income earners, whose earnings come from more volatile sources, such as capital gains, bonuses, and equity.[56] The volatility means that higher revenues during economic booms fund permanent spending commitments that become structural deficits in downturns. Additionally, for states with balanced budget constraints, fewer and less-flexible revenue sources can discipline a government that is inclined to overspend. Flat and no-income-tax states tend to force clearer fiscal trade-offs instead of relying on higher taxes on more volatile incomes to cover new spending.

CONCLUSION

In the past half century, 30 states cut their top income tax rates, and the number with flat taxes tripled. Over the same time, 8 states raised their rates. States that lowered and flattened their income taxes grew faster and raised incomes. States that raised rates lost top earners and suffered slower growth.

Colorado was the first state to convert its graduated system to a flat tax, and a decade later, its per capita income was about 5 percent higher than comparable states that kept graduated rates. Across all flat-tax-adopting states, incomes grew about 1 percentage point faster over several years, which could translate into incomes about $4,000 higher than they would have been had they maintained a graduated income tax. Amendment 87 would repeal Colorado's flat tax and reverse its flat tax advantage.

The federal lesson is the same, with larger consequences. Pro-growth tax policy once aimed for a flat tax, beginning with the Hall–Rabushka proposal in the 1980s. Democratic presidential candidate Jerry Brown came in second to Bill Clinton in 1992, proposing a 13 percent flat tax.

The standard objection to a federal flat tax is that it would be unpopular, fiscally costly, or not worth the trouble. The evidence from more than a dozen states and twice as many countries that have flat income taxes tells the opposite story. Lower, flatter income taxes are pursued by popular politicians and come with wide-ranging economic benefits. A federal flat tax is achievable and would be good for growth.

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NOTES

1. Amendment 87, formerly known as Initiative 195, would create six brackets, ranging from 3.7 percent to 8.4 percent. "2025–2026 Initiative 195: Final Text," Colorado Secretary of State, received January 9, 2026.

2. Åsa Johansson et al., "Taxation and Economic Growth," OECD Economics Department Working Paper no. 620, July 3, 2008; and Jens Matthias Arnold et al., "Tax Policy for Economic Recovery and Growth," *Economic Journal* 121, no. 550 (2011): F59–F80.

3. Abir Mandal, "State Corporate Income Tax Rates and Brackets, 2026," Tax Foundation, January 5, 2026.

4. Hawaii became a state in 1959 and enacted the first territorial income tax in 1901.

5. California also assesses a 1.3 percent payroll tax that raises the top marginal rate to 14.6 percent. Washington State also assesses an uncapped payroll tax that is excluded from this data.

6. Colorado adopted its income tax in 1937. Legislative Council Staff, "Individual Income Tax," Colorado General Assembly.

7. Colo. Const. art. X, § 20.

8. Utah S.B. 223 (2007 General Session).

9. Micah Drew, "Montana Senate Republicans Back Governor's Flat Income Tax Plan," *Daily Montanan*, July 13, 2026.

10. Tennessee imposed a tax on interest and dividends through 2020, and New Hampshire imposed a similar tax

through 2024. Washington State's new capital gains tax took effect in 2022.

11. Kansas S.B. 269 (2025); and Katherine Loughead, "Kansans May Finally Get a Low, Flat Income Tax," Tax Foundation, April 9, 2025.

12. Michael Lucci et al., "Kansas Tax Modernization: A Framework for Stable, Fair, Pro-Growth Reform," Tax Foundation, December 10, 2019.

13. Initiative 645 would repeal the 9.9 percent income tax enacted by Senate Bill 6346 and prohibit future taxes on individual income. Initiative Measure No. IP26-645, Washington State, filed April 21, 2026.

14. In the United States, "flat tax" often also refers to broader tax reforms such as the Hall–Rabushka Flat Tax, which does use a single rate but also includes an integrated business-level tax and a consumption base. That is a broader structural reform than the single-rate income tax analyzed here.

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18. Michael Keen et al., "The 'Flat Tax(es)': Principles and Evidence," International Monetary Fund Working Paper no. 06/218, September 2006, p. 15; N. Gregory Mankiw et al., "Optimal Taxation in Theory and Practice," *Journal of Economic Perspectives* 23, no. 4 (Fall 2009): 147–74; and Juan Carlos Conesa and Dirk Krueger, "On the Optimal Progressivity of the Income Tax Code," *Journal of Monetary Economics* 53, no. 7 (2006): 1425–50.

19. William McBride et al., "Tax Treatment of the Pass-Through Business Sector: A Primer," Tax Foundation, February 24, 2026.

20. The Congressional Budget Office "concludes, as do most analysts, that the former effect [substitution effect] outweighs the latter [income effect] and that an increase in the marginal tax rate on labor income decreases the labor supply." "How CBO Analyzes the Effects of Changes in Federal Fiscal Policies on the Economy," Congressional Budget Office, November 2014, p. 9.

21. Karel Mertens and Morten O. Ravn, "The Dynamic Effects of Personal and Corporate Income Tax Changes in the United States," *American Economic Review* 103, no. 4 (June 2013): 1212–47; and Karel Mertens and Morten O. Ravn, "The Dynamic Effects of Personal and Corporate Income Tax Changes in the United States: Reply," *American Economic Review* 109, no. 7 (July 2019): 2679–91.

22. Karel Mertens and José Luis Montiel Olea, "Marginal Tax Rates and Income: New Time Series Evidence," *Quarterly Journal of Economics* 133, no. 4 (November 2018): 1803–84.

23. W. Robert Reed, "The Robust Relationship Between Taxes and US State Income Growth," *National Tax Journal* 61, no. 1 (March 2008): 57–80.

24. Randall G. Holcombe and Donald J. Lacombe, "The Effect of State Income Taxation on Per Capita Income Growth," *Public Finance Review* 32, no. 3 (May 2004): 292–312.

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26. Anh D. M. Nguyen et al., "The Macroeconomic Effects of Income and Consumption Tax Changes," *American Economic Journal: Economic Policy* 13, no. 2 (May 2021): 439–66.

27. Norman Gemmell et al., "The Growth Effects of Tax Rates in the OECD," *Canadian Journal of Economics* 47, no. 4 (November 2014): 1217–55; Åsa Johansson et al., "Taxation and Economic Growth," OECD Economics Department Working Paper no. 620, July 3, 2008; and Jens Matthias Arnold et al., "Tax Policy for Economic Recovery and Growth," *Economic Journal* 121, no. 550 (February 2011): F59–F80.

28. Jack Salmon, "Interstate Migration Trends in the United States, 2018–2023: Where Are Americans Moving, and Why?," Mercatus Center policy brief, July 1, 2026.

29. Enrico Moretti and Daniel J. Wilson, "The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists," *American Economic Review* 107, no. 7 (July 2017): 1858–1903; Henrik Jacobsen Kleven et al., "Taxation and International Migration of Superstars: Evidence from the European Football Market," *American Economic Review* 103, no. 5 (August 2013): 1892–1924; and Ufuk Akcigit et al., "Taxation and the International Mobility of Inventors," *American Economic Review* 106, no. 10 (October 2016): 2930–81.

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36. Michael Keen et al., "The 'Flat Tax(es)': Principles and Evidence," International Monetary Fund Working Paper no. 06/218, September 2006.

37. Yuriy Gorodnichenko et al., "Myth and Reality of Flat Tax Reform: Micro Estimates of Tax Evasion Response and Welfare Effects in Russia," *Journal of Political Economy* 117, no. 3 (June 2009): 504–54.

38. Yuriy Gorodnichenko et al., "Myth and Reality of Flat Tax Reform: Micro Estimates of Tax Evasion Response and Welfare Effects in Russia," *Journal of Political Economy* 117, no. 3 (June 2009): 504–54. Earlier research found no evidence of a strong supply-side effect. Anna Ivanova et al., "The Russian Flat Tax Reform," International Monetary Fund Working Paper no. 05/16, January 2005.

39. Bibek Adhikari and James Alm, "Evaluating the Economic Effects of Flat Tax Reforms Using Synthetic Control Methods," *Southern Economic Journal* 83, no. 2 (August 2016): 437–63.

40. Tae-hwan Rhee, "Macroeconomic Effects of Progressive Taxation" (paper presented at the annual meeting of the American Economic Association, San Diego, January 2013).

41. Each horizon ℓ is estimated as a separate two-way fixed-effects regression, $g_{(i,t)} = \beta\_\ell * Flat_{(i,t-\ell)} + \gamma\_\ell * \tau_{(i,t-\ell)} + \mu_i + \lambda_t + \varepsilon_{(i,t)}$, where g is annual per capita income (or GDP) growth, τ the average income tax rate, μ_i and λ_t state and year fixed effects, and standard errors are clustered by state. I use a simpler average income tax rate calculation than Rhee by dividing state individual income tax collections from the Census Bureau's Annual Survey of State Government Tax Collections by total personal income from the Bureau of Economic Analysis. This average effective rate reflects both the tax code and the state's income distribution. The state and year fixed effects absorb persistent differences in income composition across states. Personal income appears in both the tax rate and in one outcome variable, which could cause division bias. However, in this specification, the bias runs against the result. A year of unexpectedly high income mechanically lowers the measured tax rate, so the rate control absorbs income variation that would otherwise inflate the flat-tax coefficient, making the estimate, if anything, conservative. The flat-tax coefficient changes little when the rate control is dropped, indicating that the control is not driving the result. Replication code and data are available at Adam N. Michel, "Flat Tax Replication," GitHub.

42. The 2025 national per capita personal income was $76,300.

43. Colorado is highlighted as the cleanest case, not as a representative one. Colorado has the strongest pre-trends. The other switchers are noisier, reflecting greater economic volatility. Other event studies are correspondingly more ambiguous, so I present Colorado as an illustration of the panel result under favorable conditions, not as independent confirmation.

44. Control states are selected by regressing per capita income on a state-specific time trend for each graduated income tax state paired with Colorado, controlling for industry composition and unemployment over the pre-1987 period. States where Colorado's trend is statistically indistinguishable ($p > 0.10$ on the interaction term) are retained. These states enter a standard two-way fixed effects panel regression with state and year fixed effects. Each retained state contributes equally through the panel structure, rather than being combined into a single weighted counterfactual as in a synthetic control design. The controls are manufacturing, mining, and government earnings shares (Bureau of Economic Analysis) and the state unemployment rate (Bureau of Labor Statistics). The regression is $y_{(i,t)} = \Sigma\_\{k \neq 1986\} \beta\_k(CO_i * 1[t = k]) + X'_{(i,t)}\gamma + \mu_i + \lambda_t + \varepsilon_{(i,t)}$, where y is per capita income; CO marks Colorado; the event-time dummies span 1980–2000 with 1986 (the year before the reform) omitted as the base; X is the control vector, entering

only the darker-blue-dashed-line specification; and errors are clustered by state. Each β_k is the plotted gap from the 1986 baseline.

45. The solid light blue line only uses unemployment and industry controls for parallel trends selection. The darker blue, dashed line also includes the controls in the two-way fixed effects panel regression.

46. The 13 control states with similar pre-reform trends are Arizona, California, Delaware, Iowa, Maryland, Minnesota, New Mexico, North Dakota, Oklahoma, Rhode Island, Vermont, Virginia, and West Virginia.

47. In 1996, the Colorado per capita personal income was $26,269, and in 2025 it was $86,181.

48. Geoffrey Brennan and James Buchanan, "Normative Tax Theory for a Federal Polity: Some Public Choice Preliminaries," in *Tax Assignment in Federal Countries*, ed. Charles E. McLure, Jr. (Center for Research on Federal Financial Relations, Australian National University, 1983), pp. 52–69; and Geoffrey Brennan and James M. Buchanan, "Towards a Tax Constitution for Leviathan," *Journal of Public Economics* 8, no. 3 (December 1977): 255–73.

49. Jared Walczak and Katherine Loughead, "The State Flat Tax Revolution: Where Things Stand Today," Tax Foundation, October 8, 2025.

50. Author's calculations include 38 OECD members plus 16 former Soviet states in Eastern Europe. Rates are central government top statutory marginal rates. Data from: "World Tax Indicators," Andrew Young School of Policy Studies, Georgia State University, 2010; Organisation for Economic Co-operation and Development, "Personal Income Tax (PIT): Central Government Rates and Thresholds," OECD Data Explorer and PwC, "Taxes on Personal Income," Worldwide Tax Summaries.

51. "Illinois Allow for Graduated Income Tax Amendment (2020)," Ballotpedia; and "Presidential Election in Illinois, 2020," Ballotpedia.

52. Carl Davis and Eli Byerly-Duke, "The Pitfalls of Flat Income Taxes," Institute on Taxation and Economic Policy, January 6, 2025; and Wesley Tharpe, "Plan to Ditch Flat Tax Is Right for Illinois," Center on Budget and Policy Priorities, March 11, 2019.

53. In 2023, 11 states had flat taxes. Fiscal data spans 2023 and 2024. Surplus and liability figures from Truth in Accounting, *Financial State of the States 2025* (Truth in Accounting, 2025).

54. Nicole Fox, "State and Local Tax Collections Per Capita by State, 2026," Tax Foundation, May 11, 2026.

55. Tax Policy Center, "How Do State and Local Severance Taxes Work?," chap. 4 in *The Tax Policy Briefing Book* (Tax Policy Center, Urban Institute and Brookings Institution, 2026).

56. Don Boyd, "State Tax Revenue Volatility and Its Impact on State Governments," Pew Charitable Trusts, June 30, 2022.