

**Arkansas Tax Reform and Relief Legislative Task Force
Summary of Proposed Legislative Package**

JLL031: Capital Gains

- Repeals the income tax exemption for capital gains over ten million dollars (\$10,000,000)

JLL032: Political Contributions

- Repeals the income tax credit for political contributions
- Requires two-thirds vote

JLL051: Pass-Through Entity Tax

- Creates a pass-through entity tax with a corresponding income tax credit
- Requires payment of the pass-through entity tax in installments based on the estimated annual tax

JLL055: Road User Fee

- Creates a road user fee of one hundred dollars (\$100) for electric cars, one hundred dollars (\$100) for alternative fuel vehicles, and fifty dollars (\$50) for hybrid cars
- Dedicates the revenues from the fees to be used for maintaining, improving, and constructing roadways

JLL070: Indexing Fuel Taxes

- Requires annual indexing of the motor fuel tax and the distillate special fuel tax based on the increase in the Consumer Price Index
- Sets a cap on the increase at four percent (4%) per year

JLL069: Comprehensive reform bill

- Requires biennial review of income tax and sales tax incentives, § 15
- Requires the Assessment Coordination Department to create mandatory guidelines for county assessors to follow in assessing exempt property and business inventory, § 14
- Provides for penalties for counties that do not comply with ACD's assessment guidelines, § 14
- Transfers the administration of the franchise tax from the Secretary of State to the Department of Finance and Administration, §§ 4-13, 26-30
- Eliminates the franchise tax penalty on closed businesses, § 27
- Creates a cap on local sales and use taxes (3% for counties and 4% for municipalities), § 32
- Eliminates the sales tax exemptions for named entities, §§ 17-21, 23-24
- Provides for a rebate of sales tax paid by certain nonprofit organizations, with a cap on each category of nonprofit, § 25
- Converts the sales tax exemption for ATVs used exclusively for farming to a rebate, § 22
- Exempts all car washes from sales tax, § 16
- Creates a monthly or annual fee for car washes based on their water usage and the types of car washes employed, § 31

JLL071: Phase 1 of Income Tax Reform and Relief (Option A1)

- Reduces income tax tables to one (1) table with a top rate of six and five-tenths percent (6.5%) in two steps, § 3
 - ◆ Step 1: Reduce all rates except the top rate to Option A levels beginning January 1, 2020
 - ◆ Step 2: Reduce the top rate to six and five-tenths percent (6.5%) based on triggers and collapse to one (1) table
- Eliminates the reduction of the four and five-tenths percent (4.5%) rate that was contingent on federal law allowing states to require remote sellers to collect sales and use taxes, § 4
- Requires remote sellers with at least one hundred thousand dollars (\$100,000) in sales or two hundred (200) sales transactions in Arkansas to collect and remit Arkansas sales and use taxes, §§ 5 and 6
- Repeals the sales tax exemption for magazine subscriptions, § 7

JLL076: Phase 1 of Income Tax Reform and Relief (Option A2)

- Reduces income tax tables to 1 table with a top rate of six and five-tenths percent (6.5%) in two steps, § 3
 - ◆ Step 1: Reduce the top rate to six and five-tenths percent (6.5%)
 - ◆ Step 2: Reduce all other rates to Option A levels based on triggers and collapse to one (1) table
- Eliminates the reduction of the four and five-tenths percent (4.5%) rate that was contingent on federal law allowing states to require remote sellers to collect sales and use taxes, § 4
- Requires remote sellers with at least one hundred thousand dollars (\$100,000) in sales or two hundred (200) sales transactions in Arkansas to collect and remit Arkansas sales and use taxes, §§ 5 and 6
- Repeals the sales tax exemption for magazine subscriptions, § 7

JLL072: Phase 1 of Income Tax Reform and Relief (2/4/5.9 Plan)

- Reduces income tax tables to one (1) table with a top rate of five and nine-tenths percent (5.9%) in two steps, § 4
 - ◆ Step 1: Create one table with rates at two percent (2%), four percent (4%), and six and five-tenths percent (6.5%) and increase the standard deduction beginning January 1, 2020
 - ◆ Step 2: Reduce the top rate to five and nine-tenths percent (5.9%) based on triggers
- Eliminates the reduction of the four and five-tenths percent (4.5%) rate that was contingent on federal law allowing states to require remote sellers to collect sales and use taxes, § 5
- Requires remote sellers with at least one hundred thousand dollars (\$100,000) in sales or two hundred (200) sales transactions in Arkansas to collect and remit Arkansas sales and use taxes, §§ 6 and 7
- Repeals the sales tax exemption for magazine subscriptions, § 9
- Repeals the income tax credit for political contributions, § 3

- Contains an emergency clause with an effective date of July 1, 2019, for the sales tax provisions
- Requires a three-fourths vote

JLL073: Phase 2 of Income Tax Reform and Relief (Option A1 and 2/4/5.9 Plan)

- Repeals the throwback rule and adopts single sales factor apportionment, §§ 7-12
- Reduces the top two rates for corporate income tax to five and nine-tenths percent (5.9%), § 4
- Extends the net operating loss carry-forward period to twenty (20) years, §§ 2 and 5
- Creates an income tax credit for property tax paid on business inventory, §§ 3 and 6
- Effective only after Phase 1 is complete and triggers are met for each step
 - ◆ Step 1: Throwback rule and single sales factor apportionment
 - ◆ Step 2: Corporate income tax rates and net operating loss carry forward
 - ◆ Step 3: Business inventory income tax credit

JLL077: Phase 2 of Income Tax Reform and Relief (Option A2)

- Repeals the throwback rule and adopts single sales factor apportionment, §§ 7-12
- Reduces the top two rates for corporate income tax to five and nine-tenths percent (5.9%), § 4
- Extends the net operating loss carry-forward period to twenty (20) years, §§ 2 and 5
- Creates an income tax credit for property tax paid on business inventory, §§ 3 and 6
- Effective only after Phase 1 is complete and triggers are met for each step beginning the second year after Phase 1 is complete
 - ◆ Step 1: Throwback rule and single sales factor apportionment
 - ◆ Step 2: Corporate income tax rates and net operating loss carry forward
 - ◆ Step 3: Business inventory income tax credit

Income Tax Reform and Relief Sample Schedules

Phase 1, Option A1

Example 1

January 1, 2020	October 1, 2021	January 1, 2022
Rates reduce to Option A levels (except top rate)	Triggers satisfied (4% over FY19)	Top rate reduces to 6.5% and collapse to single table

Example 2

January 1, 2020	October 1, 2021	October 1, 2022	October 1, 2023	January 1, 2024
Rates reduce to Option A levels (except top rate)	Triggers not satisfied (4% over FY19)	Triggers not satisfied (6% over FY19)	Triggers satisfied (8% over FY19)	Top rate reduces to 6.5% and collapse to single table

Phase 1, Option A2

Example 1

January 1, 2020	October 1, 2020	January 1, 2021
Top rate reduces to 6.5%	Triggers satisfied (2% over FY19)	Rates reduce to Option A levels and collapse to single table

Example 2

January 1, 2020	October 1, 2020	October 1, 2021	October 1, 2022	January 1, 2023
Top rate reduces to 6.5%	Triggers not satisfied (2% over FY19)	Triggers not satisfied (4% over FY19)	Triggers satisfied (6% over FY19)	Rates reduce to Option A levels and collapse to single table

Phase 1, 2/4/5.9 Plan

Example 1

January 1, 2020	October 1, 2020	January 1, 2021
Collapse to one table with rates at 2%, 4%, and 6.5%	Triggers satisfied (2% over FY19)	Top rate reduces to 5.9%
Increase standard deduction		

Example 2

January 1, 2020	October 1, 2020	October 1, 2021	October 1, 2022	January 1, 2023
Collapse to one table with rates at 2%, 4%, and 6.5%	Triggers not satisfied (2% over FY19)	Triggers not satisfied (4% over FY19)	Triggers satisfied (6% over FY19)	Top rate reduces to 5.9%
Increase standard deduction				

Phase 2, Option A1 and 2/4/5.9 Plan

Example 1

January 1, 2022	October 1, 2022	January 1, 2023	October 1, 2023	January 1, 2024	October 1, 2024	January 1, 2025
Phase 1 complete	Triggers satisfied (6% over FY19)	Throwback repealed Single sales factor apportionment implemented	Triggers satisfied (8% over FY19)	Top corporate income tax rates reduced to 5.9% Net operating loss carry forward extended to 20 years	Triggers satisfied (10% over FY19)	Business inventory tax credit in effect

Example 2

January 1, 2024	October 1, 2024	January 1, 2025	October 1, 2026	January 1, 2027	October 1, 2027	October 1, 2028
Phase 1 complete	Triggers not satisfied (10% over FY19)	Triggers not satisfied (12% over FY19)	Triggers satisfied (14% over FY19)	Throwback repealed Single sales factor apportionment implemented	Triggers not satisfied (16% over FY19)	Triggers satisfied (18% over FY19)

January 1, 2029	October 1, 2029	January 1, 2030
Top corporate income tax rates reduced to 5.9% Net operating loss carry forward extended to 20 years	Triggers satisfied (20% over FY19)	Business inventory tax credit in effect

Phase 2, Option A2

Example 1

January 1, 2021	October 1, 2021	January 1, 2022	October 1, 2022	January 1, 2023	October 1, 2023	January 1, 2024
Phase 1 complete	Triggers satisfied (4% over FY19)	Throwback repealed Single sales factor apportionment implemented	Triggers satisfied (6% over FY19)	Top corporate income tax rates reduced to 5.9% Net operating loss carry forward extended to 20 years	Triggers satisfied (8% over FY19)	Business inventory tax credit in effect

Example 2

January 1, 2023	October 1, 2023	January 1, 2024	October 1, 2025	January 1, 2026	October 1, 2026	October 1, 2027
Phase 1 complete	Triggers not satisfied (8% over FY19)	Triggers not satisfied (10% over FY19)	Triggers satisfied (12% over FY19)	Throwback repealed Single sales factor apportionment implemented	Triggers not satisfied (14% over FY19)	Triggers satisfied (16% over FY19)

January 1, 2028	October 1, 2028	January 1, 2029
Top corporate income tax rates reduced to 5.9% Net operating loss carry forward extended to 20 years	Triggers satisfied (18% over FY19)	Business inventory tax credit in effect