

Arkansas: A Road Map for Tax Reform

Presentation to the Arkansas
Legislature
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OPTIONS FOR REFORM

- Our new reform book, *Arkansas: The Road Map to Tax Reform*, details a number of reforms for Arkansas to make.
- We've put together three comprehensive options for reforming Arkansas's tax code.

ITEMS INCLUDED IN ALL OPTIONS

- Tax Credits: Elimination of all major tax credits, such as InvestArk, the Create Rebate, and Waste and Recycling Credit.
- Franchise Tax: Elimination of this tax.
- Corporate Income Tax: Structural reforms to include elimination of the throwback rule and extended net operating loss carryforwards.
- Texarkana Exemption: Elimination of the income tax exemption and the higher sales tax rate.

OPTION A

- Individual Income Tax: Flat tax of 4.95 percent
- Corporate Income Tax: Flat tax of 4.95 percent
- Sales Tax: Expanded Base

OPTION B

- Individual Income Tax: Consolidate the three rate schedules into one and lower rates. All Arkansans get a tax cut.

Taxable Income	Tax Rate
\$0-4,299	0%
\$4,300-12,599	2%
\$12,600-\$35,099	4%
\$35,100+	5%

- Corporate Income Tax: Consolidate into two rates.

Taxable Income	Tax Rate
\$0-11,000	0%
\$11,001 +	5%

- Sales Tax: Expanded Base

OPTION B

- The individual income tax changes would dramatically lower the income tax burdens for many Arkansas families.

Tax Liability

Taxable Income	Before	After	Percent Change
\$20,000	\$605.44	\$461.96	-23.70%
\$30,000	\$1,116.1	\$947.98	-15.06%
\$40,000	\$1,665.05	\$1,396.94	-16.10%
\$50,000	\$2,265.05	\$1,896.94	-16.25%

OPTION C

- Individual Income Tax: Consolidate the three rate schedules into one and lower rates. All Arkansans get a tax cut.

Taxable Income	Tax Rate
\$0-4,299	0%
\$4,300-8399	2%
\$8,400-12,599	3%
\$12,600-\$21,099	4%
\$21,000-\$35,000	5%
\$35,100+	6%

- Corporate Income Tax: Consolidate into three rates.

Taxable Income	Tax Rate
\$0-11,000	0%
\$11,001-25,000	5%
\$25,001 +	6%

- Sales Tax: Expanded Base

TAX TRIGGERS

- Tax triggers and phase-ins are a key component of many state's tax reform efforts in recent years.
- Eleven states and DC have used tax triggers in recent years.
- Setting appropriate benchmarks, baselines, and implementation mechanisms is important.

OTHER ITEMS TO CONSIDER

- Expanding the sales tax base will increase revenue to localities. Any reform should consider that impact.
- Several other taxes should be considered for reform or elimination in future packages, such as the soft drink tax and inventory tax.
- Changes to the state's transportation funding structure should be reviewed in future packages as well.

CONCLUDING THOUGHTS

- A package of reforms can tremendously help Arkansas's competitiveness.
- Cutting revenue does not have to be the only criterion. Many of these reforms can combined to offset revenue losses.
- Tax triggers can mitigate concerns about revenue availability.

QUESTIONS AND FEEDBACK

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