Department of Finance and Administration

Legislative Impact Statement

Bill: HB1585
Bill Subtitle: TO PHASE IN CHANGES TO THE INCOME TAX LEVIED ON INDIVIDUALS, TRUSTS, AND ESTATES; TO AMEND THE INCOME TAX RATES AND BRACKETS OVER THREE YEARS; AND TO ADJUST THE MINIMUM AND MAXIMUM DOLLAR AMOUNTS IN CERTAIN INCOME TAX BRACKETS.

Basic Change :

Rep Collins

The bill phases in changes to the income tax brackets and tax rates over a three year period for individuals, trusts and estates. In years four and thereafter, the bill provides for adjustments to the top two brackets if the current year's net general revenues exceed the previous year's net general revenues.

The current 2012 brackets are as follows:

2012	Brackets	
From	To	Tax
0	$4,099	1.0%
$4,100	$8,199	2.5%
$8,200	$12,199	3 5%
$12,200	$20,399	4.5%
$20,400	$33,999	6.0%
$34,000	and over	7.0%

The bill reduces the 2.5% bracket to 1% and the 7% bracket to 6% over 3 years. For tax years beginning on and after January 1, 2017, the net income subject to the rate of 4 1/2% will be increased each year by the greater of the following: $10,000 or the cost-of-living adjustment and the net income subject to the 6% rate will be all net income that exceeds the maximum amount subject to the 4 1/2% rate. If the net general revenues for the fiscal year are equal to or less than the net general revenues for the prior fiscal year, then the $10,000 adjustment shall be suspended and the cost-of-living adjustment shall be in effect for each rate bracket. The $10,000 bracket adjustment will resume once the net general revenues for the fiscal year exceed the net general revenues received for the preceding fiscal year in which the adjustment was suspended.

Effective for tax years beginning on or after January 1, 2014.

Revenue Impact :

FY 2014 - $52.25 M loss

FY 2015 - $149.45 M loss

FY 2016 - $238.95 M loss

FY 2017 - $328.2 M loss

Taxpayer Impact :

Taxpayers will have less state income tax deducted from their wages. Non wage income earners will be required to pay less estimated taxes.

Resources Required :

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Tax tables and computer systems must be updated.

Time Required :

Adequate time is provided.

Procedural Changes :

Individual Income Tax brackets and tables will need to be updated. Withholding tables will need to be updated. Tax community will need to be informed.

Other Comments :

1. Bill becomes effective with Tax Year 2014 and provides brackets that may have income thresholds that are less than the 2013 indexed brackets.

2. The bill is unclear whether regular indexation of the brackets occurs during Tax Years 2014, 2015, 2016, and following. The revenue impact does not have the cost of indexing the brackets for 2014 through 2017.

3. The bill needs specific language addressing whether it intends to compare net general revenue available for distribution from one year to the next for purposes of the annual adjustment for tax year 2017 and following.

Legal Analysis :

The bill reduces income tax rates for individuals, trusts and estates. The bill expands the individual income tax bracket ranges and lowers the tax rates applicable to a certain level of income. By year 2017 and after, the maximum tax rate for those reporting net income of $34,000 and over is 6.0%.

The bill also provides net income adjustments for tax years beginning on and after January 1, 2017. After that date, for certain tax rate ranges, the cost-of-living adjustments that are currently in place would change. The net income then subject to the 4 1/2% rate would increase by the cost-of-living adjustment or $10,000, whichever is greater. All net income that exceeds the maximum amount subject to the 4 ½% rate would then be subject to the rate of 6%. However, if the net general revenues for the fiscal year are equal to or less than the net general revenues for the prior fiscal year, then these new adjustments would be suspended until the net general revenues for the fiscal year exceed the net general revenues received for the base fiscal year.

The post January 1, 2017 provisions are potentially in conflict with current law which provides that the director shall prescribe a table each calendar year and increase the minimum and maximum dollar amounts for each rate bracket by the cost-of-living adjustment. These adjusted tables are to apply for tax returns filed for taxable year 1999 and thereafter. See Ark. Code Ann. § 26-51-201(3). In order to reflect the bill's changes in the upper brackets, that provision may need to be amended.