

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB8**

**Bill Subtitle: TO AMEND THE STATE INCOME TAX; TO CHANGE THE NAME AND FUNDING OF THE LONG TERM RESERVE FUND; TO CREATE AN INCOME TAX CREDIT FOR CERTAIN FULL-TIME LAW ENFORCEMENT OFFICERS; AND TO DECLARE AN EMERGENCY.**

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### Basic Change :

**Sponsor: Sen. Rapert**

**Individual Income Tax --- Top Rate Reduction ---** SB8 amends the income tax tables contained in § 26-51-201 for individuals, trusts, and estates. The bill amends the income tax tables over four years so that the top income tax rate in Arkansas would be reduced to 4.9% by tax years beginning on or after January 1, 2025.

The bill restructures and consolidates the lower and middle income tax tables into one standard income tax table so that there are only two income tax tables for tax years beginning on or after January 1, 2022. For tax years beginning on or after January 1, 2022, the top income tax rate in both tables would be reduced to 5.5%. The top income tax rate would then be reduced to 5.3% for tax years beginning on or after January 1, 2023. If certain conditions do not occur, the top income tax rate would be further reduced to 5.1% for tax years beginning on or after January 1, 2024, and 4.9% for tax years beginning on or after January 1, 2025. The bill requires that the Department of Finance and Administration (DFA) notify the public and the Bureau of Legislative Research (BLR) if the 2024 and 2025 tax rate reductions take effect.

The bill retains the bracket adjustments currently codified at § 26-51-201(10), however, the brackets are divided into smaller income ranges to smooth the transition between the standard income table and the upper income table. The applicable income brackets are adjusted annually to reflect changes to the consumer price index. For tax year 2022, individuals with net taxable income of more than \$84,501 but less than \$90,601 will reduce their income tax due by the appropriate bracket adjustment amount. The bracket adjustments for tax years 2023, 2024, and 2025 and following are adjusted annually to reflect changes to the consumer price index and the reduced income tax rates.

The income tax tables for the 2022 and 2023 tax years would be as follows:

### Tax Year 2022

Standard Income Table		Upper Income Table	
\$0 to \$4,999	0%	\$0 to \$4,300	2%
\$5,000 to \$9,999	2%	\$4,301 to \$8,500	4%
\$10,000 to \$14,299	3%	\$8,501 +	5.5%
\$14,300 to \$23,599	3.4%		
\$23,600 to \$39,699	5%		
\$39,700 to \$84,500	5.5%		

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### Tax Year 2023

Standard Income Table		Upper Income Table	
\$0 to \$4,999	0%	\$0 to \$4,300	2%
\$5,000 to \$9,999	2%	\$4,301 to \$8,500	4%
\$10,000 to \$14,299	3%	\$8,501 +	5.3%
\$14,300 to \$23,599	3.4%		
\$23,600 to \$39,699	5%		
\$39,700 to \$84,500	5.3%		

The bill provides that the planned income tax reductions for tax years 2024 and 2025 shall not take effect if a transfer from the Catastrophic Reserve Fund (formerly the Long Term Reserve Fund) occurs for any reason between July 1, 2022 and January 1, 2024. If funds are transferred from the Catastrophic Reserve Fund during that period, the income tax tables for tax year 2023 would continue to apply. If a transfer does not occur and the income tax rate reduction is implemented, the income tax table for the 2024 tax year would be as follows:

### Tax Year 2024

Standard Income Table		Upper Income Table	
\$0 to \$4,999	0%	\$0 to \$4,300	2%
\$5,000 to \$9,999	2%	\$4,301 to \$8,500	4%
\$10,000 to \$14,299	3%	\$8,501 +	5.1%
\$14,300 to \$23,599	3.4%		
\$23,600 to \$39,699	5%		
\$39,700 to \$84,500	5.1%		

The bill provides that the planned income tax reductions for tax year 2025 shall not take effect if a transfer from the Catastrophic Reserve Fund occurs for any reason between January 1, 2024 and December 31, 2024. If a transfer does occur, the income tax tables for tax year 2024 would continue to apply. If a transfer does not occur and the income tax rate reduction is implemented, the income tax table for the 2025 and following tax years would be as follows:

### 2025 and Following Tax Years

Standard Income Table		Upper Income Table	
\$0 to \$4,999	0%	\$0 to \$4,300	2%
\$5,000 to \$9,999	2%	\$4,301 to \$8,500	4%
\$10,000 to \$14,299	3%	\$8,501 +	4.9%
\$14,300 to \$23,599	3.4%		
\$23,600 to \$84,500	4.9%		

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**Corporation Income Tax --- Top Rate Reduction** --- The bill reduces the top corporation income tax rate for tax years beginning on or after January 1, 2023 to 5.7%. If certain conditions do not occur, the top corporation income tax rate would be further reduced to 5.5% for tax years beginning on or after January 1, 2024, and 5.3% for tax years beginning on or after January 1, 2025. The bill provides that the planned corporation income tax reductions for tax year 2024 and following shall not take effect if a transfer from the Catastrophic Reserve Fund occurs for any reason between July 1, 2022 and January 1, 2024. The bill provides that the planned corporation income tax reductions for tax year 2025 shall not take effect if a transfer occurs between January 1, 2024 and December 31, 2024. The bill requires that DFA notify the public and BLR if the 2024 and 2025 tax rate reductions take effect.

### Tax Year 2023

#### Corporation Income Tax Table

\$0 to \$3,000	1%
\$3,001 to \$6,000	2%
\$6,001 to \$11,000	3%
\$11,001 to \$25,000	5%
\$25,001 +	5.7%

### Tax Year 2024

#### Corporation Income Tax Table

\$0 to \$3,000	1%
\$3,001 to \$6,000	2%
\$6,001 to \$11,000	3%
\$11,001 to \$25,000	5%
\$25,001 +	5.5%

### 2025 and Following Tax Years

#### Corporation Income Tax Table

\$0 to \$3,000	1%
\$3,001 to \$6,000	2%
\$6,001 to \$11,000	3%
\$11,001 to \$25,000	5%
\$25,001 +	5.3%

**Foreign Corporation Income Tax --- Top Rate Reduction** --- The bill similarly reduces the top foreign corporation income tax rate for tax years beginning on or after January 1, 2023 to 5.7%. The top foreign corporation income tax rate would be reduced to 5.5% for tax years beginning on or after January 1, 2024 unless a transfer from the Catastrophic Reserve Fund occurs between July 1, 2022 and January 1, 2024. The top foreign corporation income tax rate would be further reduced to 5.3% for

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tax years beginning on or after January 1, 2025 unless a transfer from the Catastrophic Reserve Fund occurs between January 1, 2024 and December 31, 2024. The bill requires that DFA notify the public and BLR if the 2024 and 2025 tax rate reductions take effect.

**Standard Deduction** --- The bill amends the standard income tax deduction to require DFA to annually increase the standard deduction by the cost-of-living adjustment for the current calendar year, rounded to the nearest ten dollars. The requirement is effective for tax years beginning on or after January 1, 2022.

**Income Tax Credit** --- The bill provides a nonrefundable income tax credit for individual taxpayers with net income up to twenty-four thousand seven hundred dollars (\$24,700) who timely file their income tax return. Taxpayers with net income up to twenty-three thousand six hundred dollars (\$23,600) will receive a \$60 credit against their income tax due, with the credit reduced for every \$100 of additional net income. Taxpayers will be required to timely file their income tax return in order to claim the credit. The table providing the applicable credit amount will be adjusted annually to reflect changes to the consumer price index. The credit will be effective for tax years beginning on or after January 1, 2022.

**Coronavirus Food Assistance Program** --- Act 248 of 2021 adopted certain provisions of federal COVID-19 relief legislation. Under Act 248, income that a taxpayer receives through certain federal COVID-19 relief programs, including payments received under the Coronavirus Food Assistance Program (CFAP) are excluded from the definition of gross income. The bill adds the Coronavirus Food Assistance Program 2, and any successor programs, to the list of COVID-19 relief programs that are excluded from gross income.

**Elective Pass-Through Entity Tax** --- Act 362 of 2021 created a voluntary tax for pass-through entities. The tax is a flat rate of 5.9% for tax years beginning on or after January 1, 2022. The bill amends the tax so that the pass-through entity tax rate reflects the reductions in the income tax rate. The tax will be equal to the top marginal income-tax rate.

**Long Term Reserve Fund** --- The bill renames the Long Term Reserve Fund to the Catastrophic Reserve Fund (the "Fund") and updates references to the Fund throughout the Arkansas Code. The bill also alters the mechanism for the replenishment of the Fund. After making the required distributions under § 19-5-406, the Chief Fiscal Officer of the State shall determine if the balance of the Fund is at least twenty percent (20%) of the total amount of general revenue funds allocated in the last fiscal year. If the balance is less than twenty percent, additional revenues are to be transferred to the Fund to ensure that it equals but does not exceed twenty percent of the total amount of general revenue funds allocated in the last fiscal year. If the balance exceeds twenty percent, the excess shall remain in the Fund unless the General Assembly directs otherwise.

**Income Tax Credit for Law Enforcement Officers** --- The bill provides a \$3,000 refundable income tax credit for a "full-time law enforcement officer." The bill defines a "full-time law enforcement officer" as a law enforcement officer who:

- Is employed by and receives a salary authorized by a law enforcement agency;
- Has the statutory authority to enforce the criminal, traffic, or highway laws of the state or of the

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federal government; and

- Has worked for a law enforcement agency for at least 25 hours per week for at least eleven months of the calendar year for which the tax credit is being claimed.

The bill defines a "law enforcement agency" as:

- A municipal police department;
- A county sheriff's office;
- A law enforcement entity of the State of Arkansas, including without limitation: the Division of Arkansas State Police, the Arkansas Highway Police Division of the Arkansas Department of Transportation, the State Capitol Police, and a police department that is part of a public college or university;
- An airport authority; or
- A federal law enforcement entity.

A full-time law enforcement officer must verify their eligibility for the credit by obtaining written verification of their employment status from the law enforcement agency wherein the officer is employed. The bill requires the Department of Finance and Administration (DFA) to approve the form to be used to verify eligibility for the credit.

**Emergency Clause** --- The bill contains an emergency clause providing that bill would become effective immediately.

### Revenue Impact :

**FY2022** - \$135,250,000 General Revenue Reduction

**FY2023** - \$332,600,000 General Revenue Reduction

**FY2024** - \$408,400,000 General Revenue Reduction

**FY2025** - \$484,200,000 General Revenue Reduction

**FY2026** - \$523,100,000 General Revenue Reduction

### Taxpayer Impact :

Individual and Corporation Income Taxpayers will receive a reduction in their tax liability. An eligible full-time law enforcement officer would be allowed an income tax credit to reduce state income tax liability.

### Resources Required :

Computer programs, tax forms, and instructions will need to be updated.

### Time Required :

Adequate time is provided for implementation.

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**Procedural Changes :**

Department employees will need to be educated as well as the tax community.

**Other Comments :**

None.

**Legal Analysis :**

None.