

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB1**

**Bill Subtitle: TO REDUCE ARKANSAS INCOME TAXES; TO ADOPT FEDERAL LAW ON DEPRECIATION AND EXPENSING OF PROPERTY; TO CREATE AN INCOME-TAX CREDIT FOR CERTAIN TAXPAYERS; AND TO DECLARE AN EMERGENCY.**

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### Sponsors:

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### Basic Change :

**Individual Income Tax --- Top Rate Reduction to 4.9% in 2022 ---** Act 2 of 2021, Second Extraordinary Session, amended the income tax tables contained in § 26-51-201 for individuals, trusts, and estates over a four-year period so that the top income tax rate in Arkansas would be reduced to 4.9% in the 2025 tax year. SB1 amends the income tax tables contained in § 26-51-201 to reduce the top individual income tax rate in Arkansas to 4.9% effective for the 2022 and following tax years.

SB1 also recalculates the bracket adjustments based on the reduced tax rates to maintain a smooth transition between the standard income table and the upper income table. For tax year 2022, individuals with net taxable income of more than \$84,500 but less than \$89,101 will reduce their income tax due by the appropriate bracket adjustment amount.

The individual income tax tables will be as follows effective for the 2022 and following tax years:

### **2022 and Following Tax Years**

<b>Standard Income Table</b>		<b>Upper Income Table</b>	
\$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%		

**Corporation Income Tax --- Top Rate Reduction to 5.3% in 2023 ---** Act 2 of 2021, Second Extraordinary Session, amended the corporation income tax tables contained in § 26-51-205 over a three-year period so that the top corporation income tax rate in Arkansas would be reduced to 5.3% in the 2025 tax year. SB1 reduces the top corporation income tax rate imposed on both domestic and foreign corporations to 5.3% for the 2023 and following tax years. The top corporation income tax rate for the 2022 tax year would remain unchanged at 5.9%. The corporation income tax table will be as follows effective for the 2023 and following tax years:

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### 2023 and Following Tax Years

\$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%

**Deduction for Depreciation and Expensing of Property** --- SB1 adopts 26 U.S.C. § 179 as it existed on January 1, 2022, which provides an income tax deduction for the expensing of certain property. Arkansas currently limits that deduction for expensing of property to \$25,000 in any tax year. As currently codified in federal law, 26 U.S.C. § 179 provides that the deduction limitation for expensing of property is \$1,000,000, which has been subject to subsequent inflation adjustments. Arkansas currently reduces the deduction available in any year based on the amount by which the cost of property placed into service by the business during that year exceeds \$200,000. As currently codified in federal law, under 26 U.S.C. § 179, this threshold is \$2,500,000, which has also been subject to subsequent inflation adjustments.

**Inflationary Relief \$150 Income Tax Credit for Full-Year Arkansas Residents** --- SB1 provides a \$150 nonrefundable income tax credit for individual taxpayers with net income up to \$87,000 that file a full-year Arkansas resident return. The credit phases out for individual taxpayers with net income up to \$101,000. Married taxpayers that meet the income thresholds for the credit that file separately may each claim a \$150 credit against the tax due on the return of each spouse. Married taxpayers filing jointly with net income up to \$174,000 will receive a \$300 nonrefundable income tax credit against their income tax due provided that a full-year Arkansas resident return is filed. The credit for married taxpayers filing jointly phases out for filers having income up to \$202,000. Part-year resident and nonresident filers are not eligible for the credit. The credit is created through temporary language and will be effective only for tax year 2022.

### Revenue Impact :

**FY2023** - \$500,150,000 General Revenue Reduction

**FY2024** - \$166,620,000 General Revenue Reduction

**FY2025** - \$69,520,000 General Revenue Reduction

**FY2026** - \$18,400,000 General Revenue Reduction

**FY2027** - \$8,400,000 General Revenue Reduction

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### Revenue Impact of Each Tax Change

	FY2023	FY2024	FY2025	FY2026	FY2027
Accelerating Individual Income Tax Reduction to 4.9% (2022)	\$295,900,000	\$114,000,000	\$39,150,000	\$0	\$0
Adopting IRC § 179 (2022)	\$29,400,000	\$24,800,000	\$21,100,000	\$18,400,000	\$8,400,000
Accelerating Corporation Income Tax Reduction to 5.3% (2023)	\$18,550,000	\$27,820,000	\$9,270,000	\$0	\$0
Inflationary Relief \$150 Income Tax Credit*	\$156,300,000	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$500,150,000</b>	<b>\$166,620,000</b>	<b>\$69,520,000</b>	<b>\$18,400,000</b>	<b>\$8,400,000</b>

### Taxpayer Impact :

Individual and Corporation Income Taxpayers will receive a reduction in their tax liability. Over 1.6 million taxpayers that pay individual income tax will receive a tax reduction under SB1.

### Resources Required :

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

### Time Required :

Adequate time is provided for implementation.

### Procedural Changes :

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

### Other Comments :

None.

### Legal Analysis :

None.