



State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement

Bill: HB1065

Bill Subtitle: TO CREATE THE INFLATION REDUCTION ACT OF 2025.

Sponsors:

Rep. Ray and Sen. Dismang

Basic Change:

HB1065 creates the Inflation Reduction Act of 2025 to repeal the cap on annual inflation adjustments to the individual income tax tables and standard deduction. Under §§ 26-51-201 and -430, the Department of Finance and Administration (DFA) annually adjusts both the individual income tax tables and the standard deduction based on increases in the Consumer Price Index (CPI) for All Urban Consumers. However, the inflation adjustment in any single year cannot exceed 3%.

Under HB1065, the 3% cap is repealed, and the annual inflation adjustment would be based on the CPI for the West South Central Division of the South Region instead of the CPI for All Urban Consumers.

HB1065 is effective for tax years beginning on or after January 1, 2025.

Fiscal Impact:

FY2026 – \$3M General Revenue Reduction

[The fiscal impact is based on the historical CPI used to adjust the brackets over the past 10 years if no cap would have applied. While some years will see no impact if the increase in the CPI over the prior year is below 3%, other years will see a greater impact and the average net impact to general revenue over time will be more useful in determining potential future impacts to general revenue.

Many volatile economic factors could affect the CPI in any given year. The estimate above looks at a historical perspective over the prior ten years to see what the tax brackets and standard deduction would look like today "capped" vs. "uncapped." The overall impact is \$30M, or a \$3M average annual impact. There could be a compounding effect over longer periods that cannot be accurately determined with short-term inflation estimates. If an uncapped CPI in a historical context was applied for the prior 10 year period instead of being capped at 3%, the income tax brackets and standard deduction would look considerably different than the current amounts.]

In the event inflation were to increase above the current 3% cap provided under §§ 26-51-201 and -430, the fiscal impact of inflation rates of 4%, 5%, and 6% are provided in the chart below.

Inflation Rate	Income Tax Tables	Standard Deduction Additional Increase	Total Fiscal Impact
3% or less	\$0	\$0	\$0
4%	\$4.2M	\$400,000	\$4.6M
5%	\$9.5M	\$1M	\$10.5M
6%	\$13.4M	\$1.4M	\$14.8M



State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement

Bill: HB1065

Bill Subtitle: TO CREATE THE INFLATION REDUCTION ACT OF 2025.

The table below provides the CPI of the West South Central Division of the South Region compared to the CPI Index for All Urban Consumers.

Tax Year	Reference Period	CPI Index Regionally	% Increase over prior period	CPI - Urban Consumers	% Increase over prior period
2021	Sep/20-Aug/21	105.714		265.4466	
2022	Sep/21-Aug/22	114.708	8.51%	285.8483	7.69%
2023	Sep/22-Aug/23	120.907	5.40%	301.3742	5.43%
2024	Sep/23-Aug/24	124.572	3.03%	310.955	3.18%

Taxpayer Impact:

A taxpayer will benefit from the reduced tax liability because of the additional potential increase in the standard deduction and adjustments to the individual income tax tables during periods of inflation that exceed the current 3% cap under Arkansas law.

Resources Required:

Computer programs, tax forms, and instructions will need to be updated. The programming cost estimate of the Arkansas Integrated Revenue System (AIRS) is \$4,000 with no annual maintenance.

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.