

EXHIBIT E-2

Arkansas CIT Bracket History

1929

All income 2%

1941

First \$3,000 1%

Next \$3,000 2%

Next \$5,000 3%

Next \$14,000 4%

\$25,000+ 5%

1969

First \$3,000 1%

Next \$3,000 2%

Next \$5,000 3%

Next \$14,000 5%

\$25,000+ 6%

1991

First \$3,000 1%

Next \$3,000 2%

Next \$5,000 3%

Next \$14,000 5%

Next \$75,000 6%

\$100,000+ 6.5%

Requires that proceeds attributed to the additional tax are deposited in the Work Force 2000 Fund (\$30.52 million in FY17)

<u>CIT Revenues (millions GR)</u>	<u>% NGR</u>	
1970	\$26.963	11.25
1980	\$83.720	8.71
1990	\$144.687	7.21
2000	\$253.173	6.57
2002	\$218.479	5.53
2005	\$298.810	6.32
2010	\$423.641	7.80
2015	\$493.113	7.62
2017	\$433.849	6.62

25-year average (1994-2017) = 7.07%

Apportionment

For corporations that operate in two or more states, income is apportioned for tax purposes among those states. Historically, many states used a traditional three-factor formula based on the operation's state share of sales, property, and payroll (weighted equally). PFM informed us that eight states still use this formula.

Arkansas uses a four-factor formula that includes a sales component at double-weight (so sales is weighted at 50%, property at 25% and payroll at 25%).

The effect of a heavier weighting on sales will reduce the tax on exporting firms where a majority of sales are destined for customers outside the state. Conversely, it will increase the tax on firms with facilities in several states but sales are mostly to customers in-state.

Other states use a simple formula that recognizes only the sales component (weighted 100%). More states have shifted to this weighting scheme in recent years (currently 20 states).

The fact that states weight these components differently may provide a firm the ability to realize "nowhere income" -- which is untaxed anywhere. Thus, some states have the "throwback" provision which would require the firm to treat nowhere income as state income from sales.

Illustration as provided by PFM:

Corporation X has sales of \$100 million, payroll of \$15 million, and property in a number of states which total \$40 million.

In Arkansas, the numbers from Corporation X reflect sales of \$5 million, payroll of \$1 million and property of \$4 million.

Sales factor = \$5 million / \$100 million = .050

Payroll factor = \$1 million / \$15 million = .067

Property factor = \$4 million / \$40 million = .100

Due to the double-weighting applied to the sales factor, the apportionment percentage is

$(.050 + .050 + .067 + .100) / 4 = 6.675\%$

Under the traditional 3-factor weighting scheme, the result would have been 7.23% and under the single sales factor formula, the result would have been 5%. Under a different mix of the components, the results may be different for all three methods and therefore winners and losers exist under all of these options.