

SUMMARY OF PROPOSAL #7-A
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: To Amend the Individual Income Tax Rates and Brackets

Summary of Proposal for Consideration

To amend the individual income tax rates and brackets under Arkansas Code § 26-51-201 to reduce the top marginal rate to 5.9%, effective for tax years beginning January 1, 2019, as follows:

Total Income Under \$21,000		Total Income Between \$21,000 and \$75,000		Total Income Above \$75,000	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
\$0-\$4,299	0.0%	\$0-\$4,299	0.75%	\$0-\$4,299	0.9%
\$4,300 - \$8,399	2.0%	\$4,300 - \$8,399	2.5%	\$4,300 - \$8,399	2.5%
\$8,400 - \$12,599	3.0%	\$8,400 - \$12,599	3.5%	\$8,400 - \$12,599	3.5%
\$12,600 - \$20,999	3.4%	\$12,600 - \$20,999	4.5%	\$12,600 - \$20,999	4.5%
XXXXXXXXXXXX	XX	\$21,000 - \$35,099	5.0%	\$21,000+	5.9%
XXXXXXXXXXXX	XX	\$35,100 - \$75,000	5.9%	XXXXXXXXXXXX	XX

Fiscal Analysis

According to the Department of Finance and Administration, based on the return information that was in the presentation to the Arkansas Tax Reform and Relief Legislative Task Force from the 2016 tax year, the estimated cost of reducing the top marginal rate of individual income tax to five and nine-tenths percent (5.9%) would be \$224,755,000.

Legal Analysis

Background

ACT 118 of 1929 created the Income Tax Act of 1929 and established the first individual income tax table for Arkansas as follows:

Income	Tax Rate
\$0 - \$3,000	1%
\$3,001 - \$6,000	2%
\$6,001 - \$11,000	3%
\$11,001 - \$25,000	4%
\$25,001+	5%

ACT 221 of 1971 amended the individual income tax table as follows:

Income	Tax Rate
\$0 - \$2,999	1%
\$3,000 - \$5,999	2.5%
\$6,000 - \$8,999	3.5%
\$9,000 - \$14,999	4.5%
\$15,000 - \$24,999	6%
\$25,000+	7%

ACT 1459 of 2013 phased in tax rate changes over a period of three (3) years. Additionally, the law provides that the dollar amounts of each bracket are adjusted for inflation, and this act also codified the inflation adjustments in the individual income tax table.

Income	Tax Rate 2012	Tax Rate 2014	Tax Rate 2015
\$0 - \$4,099	1%	0.9%	0.9%
\$4,100 - \$8,199	2.5%	2.5%	2.5%
\$8,200 - \$12,199	3.5%	3.5%	3.5%
\$12,200 - \$20,399	4.5%	4.5%	4.5%
\$20,400 - \$33,999	6%	6%	5.9%
\$34,000+	7%	7%	6.9%

ACT 22 of 2015 created three tax tables based on an individual's income using the tax brackets from the tax table created in 2013, adjusted for inflation. Arkansas currently has the following individual income tax tables for the 2018 tax year:

Total Income Under \$21,000		Total Income Between \$21,000 and \$75,000		Total Income Above \$75,000	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
\$0-\$4,299	0.9%	\$0-\$4,299	0.9%	\$0-\$4,299	0.9%
\$4,300 - \$8,399	2.4%	\$4,300 -\$8,399	2.5%	\$4,300 -\$8,399	2.5%
\$8,400 - \$12,599	3.4%	\$8,400 - \$12,599	3.5%	\$8,400 - \$12,599	3.5%
\$12,600 - \$20,999	4.4%	\$12,600 - \$20,999	4.5%	\$12,600 - \$20,999	4.5%
XXXXXXXXXXXX	XX	\$21,000 - \$35,099	5.0%	\$21,000 - \$35,099	6.0%
XXXXXXXXXXXX	XX	\$35,100 - \$75,000	6.0%	\$35,100+	6.9%

Additionally, taxpayers with income between \$75,001 and \$80,000 are allowed reductions to their individual income according to the following table:

Income	Reduction
\$75,001 - \$76,000	\$440
\$76,001 - \$77,000	\$340
\$77,001 - \$78,000	\$240
\$78,001 - \$79,000	\$140
\$79,001 - \$80,000	\$40
\$81,000+	\$0

With enactment of ACT 78 and ACT 79 of 2017, Arkansas will have the following individual income tax tables effective for tax years beginning on or after January 1, 2019, with adjustments for inflation:

Total Income Under \$21,000		Total Income Between \$21,000 and \$75,000		Total Income Above \$75,000	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
\$0-\$4,299	0.0%	\$0-\$4,299	0.75%	\$0-\$4,299	0.9%
\$4,300 - \$8,399	2.0%	\$4,300 - \$8,399	2.5%	\$4,300 - \$8,399	2.5%
\$8,400 - \$12,599	3.0%	\$8,400 - \$12,599	3.5%	\$8,400 - \$12,599	3.5%
\$12,600 - \$20,999	3.4%	\$12,600 - \$20,999	4.5%	\$12,600 - \$20,999	4.5%
XXXXXXXXXXXX	XX	\$21,000 - \$35,099	5.0%	\$21,000 - \$35,099	6.0%
XXXXXXXXXXXX	XX	\$35,100 - \$75,000	6.0%	\$35,100+	6.9%

Potential Legal Issues

None.

Other States

- Iowa: The following table is based on Iowa’s 2018 individual income tax table, which includes increases based on inflation. (IA St. § 422.5)

Individual Income	Current Tax Rate
\$0 - \$1,598	0.36%
\$1,599 - \$3,196	0.72%
\$3,197 - \$6,392	2.43%
\$6,393 - \$14,382	4.5%
\$14,383 - \$23,970	6.12%
\$23,971 - \$31,960	6.48%
\$31,961 - \$47,940	6.80%
\$47,941 - \$71,910	7.92%
\$71,911+	8.98%

This month, Iowa passed new legislation to reduce its individual income tax rates in 2019 so that the rates will range from 0.33% to 8.53%, and the new law will also collapse Iowa’s individual income tax table to four brackets with rates ranging from 4.4% to 6.5%. (SF2417 of 2018)

- Louisiana: The following is the individual income tax table provided by the Louisiana Department of Revenue. (LA St. §47:32)

Individual Income	Tax Rate
\$0 - \$12,500	2%
\$12,501 - \$50,000	4%
\$50,000+	6%

- Mississippi: The following is the individual income tax table provided by the Mississippi Department of Revenue that is currently effective for 2018. Mississippi is phasing in an elimination of the tax on the first \$5,000 such that the first \$5,000 will be exempt from tax by 2022. (MS St. §27-7-5)

Individual Income	Tax Rate
\$0 - \$2,000	0%
\$2,001 - \$5,000	3%
\$5,001 - \$10,000	4%
\$10,001+	5%

- Missouri: The following is the individual income tax table provided by the Missouri Department of Revenue that was effective in 2017 with increases due to inflation. (MO St. § 143.011)

Individual Income	Tax Rate
\$0 - \$100	0%
\$101 - \$1,008	1.5%
\$1,009 - \$2,016	\$15 + 2.0%
\$2,017 - \$3,024	\$35 + 2.5%
\$3,025 - \$4,032	\$60 + 3.0%
\$4,033 - \$5,040	\$90 + 3.5%
\$5,041 - \$6,048	\$125 + 4.0%
\$6,049 - \$7,056	\$165 + 4.5%
\$7,057 - \$8,064	\$210 + 5.0%
\$8,065 - \$9,072	\$260 + 5.5%
\$9,073+	\$315 + 6.0%

- Oklahoma: The following is the individual income tax table effective for 2018 as provided by the Oklahoma Tax Commission. (OK St. 68 § 2355)

Individual Income	Tax Rate
\$0 - \$1,000	0.5%
\$1,001 - \$2,500	\$5 + 1.0%
\$2,501 - \$3,750	\$20 + 2.0%
\$3,751 - \$4,900	\$45 + 3.0%
\$4,901 - \$7,200	\$79.50 + 4.0%
\$7,201+	\$171.50 + 5.0%

- Tennessee: Tennessee has a flat income tax rate of 3% on taxable income for 2018, which includes only interest and dividend income. Tennessee is phasing in an elimination of the tax on individual interest and dividend income such that the tax will be fully eliminated by 2021. (TN St. § 67-2-102)
- Texas: No personal income tax.