

**SUMMARY OF PROPOSAL #9**  
*for consideration by the*  
**ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE**

**TOPIC: To Amend Corporate Income Tax Rates and Brackets**

**Summary of Proposal for Consideration**

To amend the Arkansas corporate income tax rates and brackets under Arkansas Code § 26-51-205 to create a new corporate income tax table, effective for tax years beginning January 1, 2019, as follows:

Corporate Income	Tax Rate
\$0-\$50,000	3.5%
\$50,001+	5.75%

**Fiscal Analysis**

According to the Department of Finance and Administration, based on the 2016 corporate income tax return data, the estimated revenue impact of the revised corporate income tax rates in the proposal would be \$53,406,793.

**Legal Analysis**

***Background***

Arkansas currently has the following tax table for corporate income tax, which was created by ACT 1052 of 1991:

Corporate Income	Tax Rate
\$0 - \$3,000	1.0%
\$3,001 - \$6,000	2.0%
\$6,001 - \$11,000	3.0%
\$11,001 - \$25,000	5.0%
\$25,001 - \$100,000	6.0%
\$100,000+	6.5%

ACT 118 of 1929 created the Income Tax Act of 1929 and established the corporate income tax with a flat rate of two percent (2%) for all corporate income.

ACT 129 of 1941 created the first corporate income tax table as follows:

Corporate Income	Tax Rate
\$0 - \$3,000	1.0%
\$3,001 - \$6,000	2.0%
\$6,001 - \$11,000	3.0%
\$11,001 - \$25,000	4.0%
\$25,000+	5.0%

ACT 392 of 1969 amended the corporate income table as follows:

Corporate Income	Tax Rate
\$0 - \$3,000	1.0%
\$3,001 - \$6,000	2.0%
\$6,001 - \$11,000	3.0%
\$11,001 - \$25,000	5.0%
\$25,000+	6.0%

ACT 1052 of 1991 amended the corporate income table as follows:

Corporate Income	Tax Rate
\$0 - \$3,000	1.0%
\$3,001 - \$6,000	2.0%
\$6,001 - \$11,000	3.0%
\$11,001 - \$25,000	5.0%
\$25,001 - \$100,000	6.0%
\$100,000+	6.5%

The corporate income tax table has not been amended since 1991.

#### Work Force 2000 Development Fund

A portion of funds received through corporate income taxes are placed in the Work Force 2000 Development Fund. Workforce 2000 funding is 6.78% of the previous year's corporate income tax collections. Based on the May 2017 official forecast for the 2018 fiscal year, approximately \$26,300,000 was collected and distributed to institutions of higher education and technical institutes.

#### ***Potential Legal Issues***

Amendment 19 to the Arkansas Constitution (incorporated at Article 5, § 38) requires a three-fourths (3/4) vote of the legislature to increase the rate of certain taxes.<sup>1</sup> Income taxes are generally considered to fall under the Amendment 19 requirements. The proposed corporate

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<sup>1</sup> Amendment 19 also allows for the General Assembly to refer such tax rate increases to the voters for their approval, in which case the bill would require only a majority vote of each house.

income tax changes appear to require a three-fourths (3/4) vote of the General Assembly under Amendment 19 to the Arkansas Constitution because the rate of tax is increased for the first eleven thousand dollars (\$11,000) of corporate income.

***Other States***

- Iowa: Iowa’s Corporate Income Tax Table (IA St. § 422.33)

Corporate Income	Current Tax Rate	Tax Rate Starting in 2021
\$0 – \$25,000	6%	5.5%
\$25,001 – \$100,000	8%	5.5%
\$100,001 – \$250,000	10%	9%
\$250,001+	12%	9.8%

- Louisiana: Louisiana’s Corporate Income Tax Table (LA St. § 47:287.12)

Corporate Income	Tax Rate
\$0 – \$25,000	4%
\$25,001 – \$50,000	5%
\$50,001 – \$100,000	6%
\$100,001 – \$200,000	7%
\$200,001+	8%

- Mississippi: Mississippi’s Corporate Income Tax Table. (MS St. § 27-7-5)

Corporate Income	Tax Rate
\$0 – \$1,000	0%
\$1,001 – \$5,000	3%
\$5,001 – \$10,000	4%
\$10,001+	5%

- Missouri: Has a flat corporate income tax of 6.25% on all corporate income. (MO St. § 143.071)
- Oklahoma: Has a flat corporate income tax of 6% on all corporate income (68 OK St. § 2355)
- Tennessee: A corporation, limited partnership, limited liability company, or business trust chartered/organized in Tennessee or doing business in Tennessee must register for and pay franchise and excise taxes. Tennessee levies a franchise tax of .25% of the net worth of corporation. Tennessee levies a corporate excise

tax using a flat rate of 6.5% of the net earnings or income for the tax year. (TN St. §§ 67-4-2007 and 67-4-2106)

- Texas: Each taxable entity formed in Texas or doing business in Texas must file and pay franchise tax. The first \$1,130,000 of the entity's total revenue is exempt from the franchise tax. For revenues above the threshold amount, the franchise tax is levied at a rate of 0.75% for most entities and 0.375% for entities primarily engaged in retail or wholesale trades. (TX St. § 171.002)