

SUMMARY OF PROPOSAL #10
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: To Amend Corporate Income Tax Rates

Summary of Proposal for Consideration

To amend the corporate income tax rates under Arkansas Code § 26-51-205 to reduce the top corporate income tax rate to 5.9%, effective for tax years beginning January 1, 2019, 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+	5.9%

Fiscal Analysis

According to the Department of Finance and Administration, based on the average return information from the past six (6) fiscal years, the estimated cost of reducing the top corporate marginal rate of tax from 6.5% to 5.9% would be:

- \$39,621,283 if the rate included the Workforce 2000 allotment; or
- \$36,859,375 if the rate did not include the Workforce 2000 allotment.

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 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

None.

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)