

SUMMARY OF PROPOSAL #14
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: To Increase the Standard Deduction to Two Thousand Five Hundred Dollars (\$2,500)

Summary of Proposal for Consideration

To increase the standard deduction under Arkansas Code § 26-51-430 from two thousand two hundred dollars (\$2,200) to two thousand five hundred dollars (\$2,500), effective for tax years beginning January 1, 2019.

Fiscal Analysis

According to the Department of Finance and Administration, the current standard deduction of two thousand two hundred dollars (\$2,200) per taxpayer results in a fiscal impact of \$56,700,000. Increasing the standard deduction to two thousand five hundred dollars (\$2,500) per taxpayer would result in an estimated fiscal impact of \$64,400,000, or a net difference of \$7,700,000.

Legal Analysis

Background

Arkansas currently allows each taxpayer a standard deduction of two thousand two hundred dollars (\$2,200).

ACT 118 of 1929 created a tax exemption of one thousand five hundred dollars (\$1,500) for a single individual and two thousand five hundred dollars (\$2,500) for a married couple.

ACT 135 of 1947 increased the tax exemption to two thousand five hundred dollars (\$2,500) for a single individual and three thousand five hundred dollars (\$3,500) for a married couple.

ACT 124 of 1951 repealed the tax exemptions and created tax deductions for personal income as follows:

- If gross income was five thousand dollars (\$5,000) or more, then the taxpayer was entitled to a standard deduction of one thousand (\$1,000) or an amount equal to ten percent (10%) of the gross income, whichever is less; or
- If gross income was less than five thousand dollars (\$5,000), then the standard deduction for each taxpayer was an amount equal to ten percent (10%) of gross income.

ACT 328 of 1997 increased the standard tax deduction to two thousand dollars (\$2,000) per taxpayer, and in the case of a married couple, each spouse was entitled to claim a standard deduction of two thousand dollars (\$2,000).

ACT 1488 of 2013 increased the standard deduction to two thousand two hundred dollars (\$2,200) per taxpayer, and in the case of a married couple, each spouse was entitled to claim a standard deduction of two thousand two hundred dollars (\$2,200). The standard deduction under this act was effective January 1, 2015. The standard deduction has not been amended since.

Potential Legal Issues

None.

Other States

- Iowa: Iowa provides a standard deduction for single taxpayers or married taxpayers filing separately of \$2,030 and a standard deduction of \$5,000 for married taxpayers filing jointly. (IA St. § 422.9)
- Louisiana: Louisiana has a combined personal exemption and standard deduction of \$4,500 for single filers and married taxpayers filing separately and \$9,000 for married taxpayers filing jointly, heads of household, and qualifying widowers. Louisiana allows for an additional \$1,000 deduction for each dependent and each taxpayer who is blind or 65 years of age or older. (LA St. § 47:294)
- Mississippi: Mississippi provides a standard deduction as follows:
 - \$4,600 Married individuals - joint return
 - \$4,600 Married - spouse died in tax year
 - \$2,300 Married individuals - separate returns
 - \$3,400 Head of household
 - \$2,300 Single individuals(MS St. § 27-7-17)
- Missouri: Missouri's standard deduction is tied directly to the allowable federal standard deduction, which after the passage of the Tax Cuts and Jobs Act is \$12,000 for single filers and married taxpayers filing separately, \$18,000 for heads of households, and \$24,000 for married taxpayers filing jointly. (MO St. § 143.131)
- Oklahoma: Oklahoma's standard deduction is \$6,350 for single filers and for married taxpayers filing separately; \$9,350 for heads of household; and \$12,700 for married taxpayers filing jointly. (68 OK St. § 2358)
- Tennessee: Tennessee does not have a standard deduction.
- Texas: Does not have personal income tax.