

SUMMARY OF PROPOSAL #15
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: To Replace the Standard Deduction with an Individual Tax Exemption

Summary of Proposal for Consideration

To repeal the standard deduction under Arkansas Code § 26-51-430 and implement an individual tax exemption of one thousand dollars (\$1,000) per taxpayer and an individual tax exemption of one thousand five hundred dollars (\$1,500) for each dependent claimed by the taxpayer, effective for tax years beginning January 1, 2019.

Fiscal Analysis

According to the Department of Finance and Administration, if the standard deduction were replaced as described in the proposal, but itemized deductions were still allowed, the proposal would result in a fiscal impact of \$4,600,000. If itemized deductions were disallowed, and the individual exemption were allowed at the \$2,500 level, the fiscal impact would be an increase of \$185,600,000.

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ACT 124 of 1951 repealed the tax exemptions and created tax deductions for personal income as follows: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 for a personal tax exemption of forty dollars (\$40) for individual filers, dependents, and married taxpayers filing separately and a personal tax exemption of eighty dollars (\$80) for heads of household or married taxpayers filing jointly. There is an additional personal tax exemption of twenty dollars (\$20) available for each taxpayer who is blind or 65 years of age or older. (IA St. § 422.12) Iowa also 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)

Mississippi allows certain personal exemption amounts depending on the taxpayer's filing status and other criteria. Below is listed a chart of all the exemptions allowed for Mississippi income tax:

- Married Filing Joint or Combined: \$12,000
- Married Spouse Deceased: \$12,000
- Married Filing Separate: \$6,000
- Head of Family: \$9,500 (includes the required 1 dependent)
- Single: \$6,000
- Dependent, other than self, spouse, or initial dependent for head of household: \$1,500

There is also an additional personal exemption of \$1,500 allowed for each taxpayer/spouse who is blind or 65 years of age or older. (MS St. § 27-7-21)

- 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) Missouri allows a personal exemption of \$2,100 for each taxpayer who is entitled to a personal exemption under federal law. A resident with a Missouri adjusted gross income of less than \$20,000 is allowed an additional personal exemption of \$500 if he or she is entitled to a personal exemption under federal law. (MO St. § 143.151) The Missouri Department of Revenue has stated that the changes to federal tax law effectively eliminated the Missouri personal exemption, but some experts disagree.
- 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) Oklahoma provides a personal exemption of \$1,000 per exemption. An additional exemption of \$1,000 is allowed for each taxpayer/spouse who is 65 years of age or older (subject to some income limitations) or blind. (68 OK St. § 2358)
- Tennessee: Tennessee does not have a standard deduction. Tennessee has a personal exemption of \$1,250 for each individual return and \$2,500 for each joint return. Additionally, Tennessee exempts the entire income for taxpayers who are 65 years of age or older if their income does not exceed \$37,000 for individual filers or \$68,000 for joint filers, and the state exempts the entire income of any person who is at least 100 years old. (TN St. § 67-2-104)
- Texas: Does not have personal income tax.