

SUMMARY OF PROPOSAL #16
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: To Adopt the Federal Standard Deduction as Amended by The Tax Cuts and Jobs Act

Summary of Proposal for Consideration

To repeal the standard deduction under Arkansas Code § 26-51-430 and adopt the federal standard deduction of twelve thousand dollars (\$12,000) for an individual filer, eighteen thousand dollars (\$18,000) for a head of household, and twenty-four thousand dollars (\$24,000) for a married couple filing jointly under the Tax Cuts and Jobs Act, P.L. 115-97, effective for tax years beginning January 1, 2019.

Fiscal Analysis

According to the Department of Finance and Administration, if Arkansas adopted the federal deduction standards under the Tax Cuts and Jobs Act (TCJA), the revenue impact would be a decrease of general revenue by \$333,700,000. If the personal tax credits that account for \$76,000,000 were also eliminated, similar to the personal exemptions that the TCJA eliminated, the decrease in general revenue would be \$257,700,000.

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ACT 124 of 1951 repealed the tax exemptions and created tax deductions for personal income as follows: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