SUMMARY OF PROPOSAL #17
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: To Implement a Tax Reduction Tax Trigger

<u>Summary of Proposal for Consideration</u>

To implement an income tax reduction trigger that would reduce income taxes based on a formula using revenue growth adjusted for inflation and a corresponding reduction of government spending by a specific amount. The formula as proposed does not currently involve any specific numbers for the tax reduction trigger.

<u>Fiscal Analysis</u>

According to the Department of Finance and Administration, fiscal analysis will depend on the specifics of the proposal and cannot be generalized at this time.

<u>Legal Analysis</u>

Background

Arkansas currently does not use income tax triggers.

Potential Legal Issues

None.

Other States

- Iowa: The tax bill that Iowa passed earlier this month includes a trigger for additional tax reductions and changes beginning January 1, 2023, if the following conditions are met: The net general fund revenues for the fiscal year ending June 30, 2022, is equal to or exceeds both $8,314,600,000 and 104% of the net general fund revenues for the fiscal year ending June 30, 2021. If the conditions are not met for the 2023 tax year, then the changes will take effect January 1 following the first fiscal year for which both of the conditions are met (changing the relevant dates to apply to the relevant years).

- Louisiana: No tax trigger.

- Mississippi: No tax trigger.

- Missouri: Personal Income Tax Reduction (MO St. § 143.011)

    - Benchmark: Net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of past three (3) fiscal years by at least $150 million.
    - Detail: Missouri enacted a schedule of incremental individual income tax reductions designed to reduce the top marginal rate from 6% to 5.5% over five (5) or more years. If the revenue trigger is met, the top rate will be reduced by 0.1% per year, beginning on or after 2017. The first reduction will be delayed at least one (1) year because the state's budget director has certified that revenue targets were not met.

- Oklahoma: Personal Income Tax Reduction (68 OK St. § 2355.1)
    - Benchmark: Projections adequate to reduce rates on revenue-neutral basis based on at least 4% general revenue growth
    - Detail: Oklahoma passed a two-step tax cut that scheduled a reduction in the state's top income tax rate from 5.25% to 5% and then again from 5% to 4.85% if the revenue projection requirements were satisfied. Oklahoma's top marginal rate was decreased to 5% based upon the tax trigger. However, Oklahoma repealed the tax triggers in 2017 to end the two-step tax cut.

- Tennessee: No tax trigger.

- Texas: No tax trigger.