

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

TOPIC: Corporate Income Tax Rates

Summary of Proposal for Consideration

This proposal would reduce corporate income tax rates and create a tax trigger for further reductions to the top marginal corporate income tax rate under Arkansas Code § 26-51-205, effective for tax years beginning January 1, 2019.

First, this proposal would reduce the rate of corporate income tax on corporate income between twenty-five thousand one dollars (\$25,001) and one hundred thousand dollars (\$100,000), inclusive, from six percent (6%) to five and nine-tenths percent (5.9%), effective tax years beginning January 1, 2019.

Second, this proposal would create a tax trigger for reducing the top marginal rate of corporate income tax on corporate income in excess of one hundred thousand dollars (\$100,000) over a five-year period or until the rate is reduced to five and nine-tenths percent (5.9%), whichever occurs first, effective for tax years beginning January 1, 2019.

The tax trigger would be structured to reduce the top marginal rate of corporate income tax by one-tenth percent (0.1%) for each twenty-six million dollars (\$26,000,000) in surplus general revenues over a predetermined base amount of revenues needed for essential governmental services. Multiple rate reductions of the top marginal rate of corporate income tax may occur in one (1) year; however, the top marginal rate of corporate income tax will not be reduced if there is not at least twenty-six million dollars (\$26,000,000) in surplus general revenues over the base amount for the year. The tax trigger would terminate when either the top marginal rate of corporate income tax is reduced to a rate of five and nine-tenths percent (5.9%) or on January 1, 2025, whichever occurs first.

Fiscal Analysis

Based on the most recent corporate income tax returns, the Department of Finance and Administration estimates that the fiscal impact of the proposal would be an initial loss of six million five hundred thousand dollars (\$6,500,000) and a total phased-in fiscal impact to be a loss of thirty-eight million seven hundred thousand dollars (\$38,700,000), if the top marginal rate for corporate income is reduced to five and nine-tenths percent (5.9%).