

Arkansas Individual Income Tax Liability									
Examples of Tax Due at Selected Income Levels									
As of June 22, 2018									
*The Following scenarios are based on a one wage earner married couple with no dependents and claiming the standard deduction.									
	Tax Year 2017	Option A	Net Tax Savings	Tax Year 2017	Option B	Net Tax Savings	Tax Year 2017	6% Plan	Net Tax Savings
<u>\$7,500 Net Taxable Income</u>									
Adjusted Gross Income	11,900	11,900		11,900	11,900		11,900	11,900	
Standard Deduction	(4,400)	(4,400)		(4,400)	(4,400)		(4,400)	(4,400)	
Net Taxable Income	7,500	7,500		7,500	7,500		7,500	7,500	
Total Tax Before Credits	115	64	\$51	115	116	(\$1)	115	115	\$0
Effective Tax Rate	0.97%	0.54%		0.97%	0.97%		0.97%	0.97%	
<u>\$10,000 Net Taxable Income</u>									
Adjusted Gross Income	14,400	14,400		14,400	14,400		14,400	14,400	
Standard Deduction	(4,400)	(4,400)		(4,400)	(4,400)		(4,400)	(4,400)	
Net Taxable Income	10,000	10,000		10,000	10,000		10,000	10,000	
Total Tax Before Credits	189	130	\$59	189	192	(\$3)	189	189	\$0
Effective Tax Rate	1.31%	0.90%		1.31%	1.33%		1.31%	1.31%	
<u>\$18,000 Net Taxable Income</u>									
Adjusted Gross Income	22,400	22,400		22,400	22,400		22,400	22,400	
Standard Deduction	(4,400)	(4,400)		(4,400)	(4,400)		(4,400)	(4,400)	
Net Taxable Income	18,000	18,000		18,000	18,000		18,000	18,000	
Total Tax Before Credits	510	392	\$118	510	518	(\$8)	510	510	\$0
Effective Tax Rate	2.28%	1.75%		2.28%	2.31%		2.28%	2.28%	
<u>\$30,000 Net Taxable Income</u>									
Adjusted Gross Income	34,400	34,400		34,400	34,400		34,400	34,400	
Standard Deduction	(4,400)	(4,400)		(4,400)	(4,400)		(4,400)	(4,400)	
Net Taxable Income	30,000	30,000		30,000	30,000		30,000	30,000	
Total Tax Before Credits	1,106	944	\$162	1,106	1,100	\$6	1,106	1,106	\$0
Effective Tax Rate	3.22%	2.74%		3.22%	3.20%		3.22%	3.22%	
<u>\$50,000 Net Taxable Income</u>									
Adjusted Gross Income	54,400	54,400		54,400	54,400		54,400	54,400	
Standard Deduction	(4,400)	(4,400)		(4,400)	(4,400)		(4,400)	(4,400)	
Net Taxable Income	50,000	50,000		50,000	50,000		50,000	50,000	
Total Tax Before Credits	2,243	2,093	\$150	2,243	2,249	(\$6)	2,243	2,243	\$0
Effective Tax Rate	4.12%	3.85%		4.12%	4.13%		4.12%	4.12%	
<u>\$90,000 Net Taxable Income</u>									
Adjusted Gross Income	94,400	94,400		94,400	94,400		94,400	94,400	
Standard Deduction	(4,400)	(4,400)		(4,400)	(4,400)		(4,400)	(4,400)	
Net Taxable Income	90,000	90,000		90,000	90,000		90,000	90,000	
Total Tax Before Credits	5,266	4,543	\$723	5,266	4,699	\$567	5,266	4,786	\$480
Effective Tax Rate	5.58%	4.81%		5.58%	4.98%		5.58%	5.07%	
<u>\$150,000 Net Taxable Income</u>									
Adjusted Gross Income	154,400	154,000		154,400	154,000		154,400	154,400	
Standard Deduction	(4,400)	(4,400)		(4,400)	(4,400)		(4,400)	(4,400)	
Net Taxable Income	150,000	150,000		150,000	150,000		150,000	150,000	
Total Tax Before Credits	9,406	8,443	\$963	9,406	8,599	\$807	9,406	8,386	\$1,020
Effective Tax Rate	6.09%	5.48%		6.09%	5.58%		6.09%	5.43%	

Option A Brackets		2017 Brackets		Option A Rates			
		# of Taxpayers	Revenue	# of Taxpayers	Revenue	Decrease in Revenue	
\$0	\$4,299	0.0%	139,298	\$529,657	139,298	\$24,086	-\$505,571
\$4,300	\$8,399	2.0%	88,007	\$1,973,205	88,007	\$998,694	-\$974,511
\$8,400	\$12,599	3.0%	97,904	\$5,406,099	97,904	\$3,899,035	-\$1,507,064
\$12,600	\$20,999	3.4%	206,267	\$57,758,456	206,267	\$45,060,925	-\$12,697,531
\$21,000	\$35,099	5.0%	249,458	\$217,818,344	249,458	\$185,030,490	-\$32,787,854
\$35,100	\$80,000	6.0%	315,511	\$699,231,328	315,511	\$645,096,527	-\$54,134,801
\$80,000 and up		6.5%	170,365	\$1,552,571,976	170,365	\$1,460,366,876	-\$92,205,100
			1,266,810	\$2,535,289,065	1,266,810	\$2,340,476,633	-\$194,812,432
				\$2,616,913,970		\$2,340,476,633	-\$276,437,337

Option B Brackets		2017 Brackets		Option B Rates			
		# of Taxpayers	Revenue	# of Taxpayers	Revenue	Decrease in Revenue	
\$0	\$4,299	0.9%	139,298	\$529,657	139,298	\$534,277	\$4,620
\$4,300	\$8,399	2.4%	88,007	\$1,973,205	88,007	\$2,009,264	\$36,059
\$8,400	\$12,599	3.4%	97,904	\$5,406,099	97,904	\$5,515,837	\$109,738
\$12,600	\$20,999	4.4%	206,267	\$57,758,456	206,267	\$58,835,961	\$1,077,505
\$21,000	\$35,099	5.0%	249,458	\$217,818,344	249,458	\$220,975,417	\$3,157,073
\$35,100	\$80,000	6.0%	315,511	\$699,231,328	315,511	\$705,958,242	\$6,726,914
\$80,000 and up		6.5%	170,365	\$1,552,571,976	170,365	\$1,497,318,294	-\$55,253,682
			1,266,810	\$2,535,289,065	1,266,810	\$2,491,147,292	-\$44,141,773
				\$2,616,913,970		\$2,491,147,292	-\$125,766,678

First, I think it makes a great deal of sense to combine all of the rate schedules into one, which both A and B do well. I've made that point multiple times before the task force, and I'm glad to see it getting some serious consideration.

We ran both sets of brackets through our *State Business Tax Climate Index*.

Plan A: Moves AR from 39th to 37th, with individual income going from 30th to 28th. (Additional reforms would also increase the ranking.)

Plan B: Moves AR from 39th to 37th, with individual income going from 30th to 29th.

This type of rate schedule, in particular, helps moves AR's ranking quickly, because you've eliminated the inherent benefit recapture to the tax code. Only a few other states have a benefit recapture provision, so you're penalized a great deal for it. (My modeling last week did not include removing the benefit recapture, since it wasn't clear if the task force would move to eliminate the multiple rate schedules. Adopting either of those would result in large gains than the final results I gave last week.)

Obviously, the big tradeoff between the two is the revenue associated, particularly due to the 2017 changes (effective 2019). If the task force decided to go with Plan B, due to revenue concerns, there are a few ways to hold individuals harmless. Adding an EITC would help here. (Expanding the standard deduction is another option, but it'd be much more expensive.) You could also use another phase in or tax trigger here too. Could make sense to use the trigger to first lower the bottom brackets back to the 2017/2019 changes, and then lower the top rate from 6.5 to 6.0 percent.

But the other option is to actually perhaps to use Plan A, but decrease that top bracket from \$80,000 to something a bit lower, like \$65,000 or \$75,000. Because of the lower rates all the way down the spectrum, including a 6.5 percent rate at the top, high income folks are still getting a net tax cut. Generally, I want to minimize brackets, but I think it's also important that the task force not spend \$195 million of its \$200 million just on individual income tax cuts.

I did a couple quick calculations using Plan A with a \$65,000 tax bracket, instead of an \$80,000 tax bracket.

\$100,000 in taxable income

Current Law			Modified Plan A			Savings per Bracket
Income Bracket	Rate	Tax	Income Bracket	Rate	Tax	
0-4299	0.90%	\$38.69	0-4299	0.0%	\$0.00	\$38.69
4300-8399	2.50%	\$102.48	4300-8399	2.0%	\$81.98	\$20.50
8400-12599	3.00%	\$125.97	8400-12599	3.0%	\$125.97	\$-00
12600-20999	4.50%	\$377.96	12600-20999	3.4%	\$285.57	\$92.39
21000-35099	6.00%	\$845.94	21000-35099	5.0%	\$704.95	\$140.99
35100+	6.90%	\$4,478.10	35100-65000	6.0%	\$1,800.00	\$2,678.10
			65000+	6.5%	\$2,275.00	\$(2,275.00)
		\$5,969.13			\$5,273.47	\$695.67

\$200,000 in taxable income

Current Law			Modified Plan A			Savings per Bracket
0-4299	0.90%	\$38.69	0-4299	0.0%	\$0.00	\$38.69
4300-8399	2.50%	\$102.48	4300-8399	2.0%	\$81.98	\$20.50
8400-12599	3.00%	\$125.97	8400-12599	3.0%	\$125.97	\$-00
12600-20999	4.50%	\$377.96	12600-20999	3.4%	\$285.57	\$92.39
21000-35099	6.00%	\$845.94	21000-35099	5.0%	\$704.95	\$140.99
35100+	6.90%	\$11,378.10	35100-65000	6.0%	\$1,800.00	\$9,578.10
			65000+	6.5%	\$8,775.00	\$(8,775.00)
		\$12,869.13			\$11,773.47	\$1,095.67

\$75,001 in taxable income

Current Law			Modified Plan A			Savings per Bracket
0-4299	0.90%	\$38.69	0-4299	0.0%	\$0.00	\$38.69
4300-8399	2.50%	\$102.48	4300-8399	2.0%	\$81.98	\$20.50
8400-12599	3.00%	\$125.97	8400-12599	3.0%	\$125.97	\$-00
12600-20999	4.50%	\$377.96	12600-20999	3.4%	\$285.57	\$92.39
21000-35099	6.00%	\$845.94	21000-35099	5.0%	\$704.95	\$140.99
35100+	6.90%	\$2,753.17	35100-65000	6.0%	\$1,800.00	\$953.17
			65000+	6.5%	\$650.07	\$(650.07)
		\$4,244.20			\$3,648.53	\$595.67

Arkansas Task Reform & Relief Task Force, Option A & B Brackets

All Arkansas Residents, 2018 Incomes

Recent Tax Policy Changes

2018 Income	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income	Less than \$21,000 – \$21,000	\$21,000 – \$35,000	\$35,000 – \$44,000	\$55,000 – \$91,000	\$91,000 – \$190,000	\$190,000 – \$416,000	\$416,000 – Or More
Average Income in Group	\$12,000	\$29,000	\$44,000	\$69,000	\$121,000	\$259,000	\$1,204,000
Middle Class Tax Cut (Effective 2016)							
Tax Change as % of Income	–	–0.04%	–0.1%	–0.2%	–0.2%	–0.05%	+0.00%
Average Tax Change	–	–10	–50	–129	–234	–123	+49
% with Income Tax Cut	–	27%	58%	66%	73%	44%	1%
Avg. Tax Cut for Those w/Cut	–	–40	–85	–197	–325	–334	–345
Share of Tax Cut	–	3%	13%	33%	45%	8%	0.1%
Low Income Tax Cut (Effective 2019)							
Tax Change as % of Income	–0.1%	–0.1%	–0.1%	–0.1%	–0.04%	–0.02%	–0.001%
Average Tax Change	–12	–24	–29	–47	–43	–46	–8
% with Income Tax Cut	23%	52%	74%	82%	84%	56%	9%
Avg. Tax Cut for Those w/Cut	–52	–46	–40	–57	–51	–63	–66
Share of Tax Cut	8%	15%	19%	30%	21%	6%	0.2%

State Tax Change (\$1000)
–107,000

% Taxpayers w/Cut
41%

State Tax Change (\$1000)
–42,000

% Taxpayers w/Cut
59%

Proposed Tax Table Consolidation Options

2018 Income	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income	Less than \$21,000 – \$21,000	\$21,000 – \$35,000	\$35,000 – \$44,000	\$55,000 – \$91,000	\$91,000 – \$190,000	\$190,000 – \$416,000	\$416,000 – Or More
Average Income in Group	\$12,000	\$29,000	\$44,000	\$69,000	\$121,000	\$259,000	\$1,204,000
Option A Brackets (0 / 2 / 3 / 3.4 / 5 / 6 / 6.5%)							
Tax Change as % of Income	–	–0.2%	–0.2%	–0.2%	–0.3%	–0.4%	–0.3%
Average Tax Change	–	–55	–97	–141	–356	–1,009	–4,163
% with Income Tax Cut	–	34%	60%	69%	87%	92%	97%
Avg. Tax Cut for Those w/Cut	–	–159	–161	–203	–407	–1,100	–4,284
Share of Tax Cut	–	6%	10%	15%	27%	21%	21%
Option B (0.9 / 2.4 / 3.4 / 4.4 / 5 / 6 / 6.5%)							
Tax Change as % of Income	+0.1%	+0.1%	+0.0%	+0.0%	–0.1%	–0.3%	–0.3%
Average Tax Change	+12	+18	+19	+29	–105	–738	–3,881
% with Income Tax Cut	–	33%	44%	50%	74%	92%	97%
Avg. Tax Cut for Those w/Cut	–	–10	–10	–20	–171	–811	–4,000
Share of Tax Cut	–	1%	1%	2%	21%	33%	42%
% with Income Tax Increase	23%	20%	29%	32%	18%	5%	3%
Avg. Tax Increase for Those w/Increase	+52	+112	+82	+120	+117	+119	+195
Share of Tax Increase	10%	19%	21%	34%	14%	1%	0%

State Tax Change (\$1000)
–267,000

% Taxpayers w/Cut
48%

State Tax Change (\$1000)
–94,000

% Taxpayers w/Cut
40%

% Taxpayers w/Increase
23%

Source: Institute on Taxation and Economic Policy, 6.25.2018

