EXHIBIT C

Summary Statements: Proposals sent for Dynamic Scoring

Arkansas Tax Reform and Relief Legislative Task Force

The Task Force voted to send the following proposals to Regional Economic Models, Inc. (REMI) for dynamic fiscal scoring at its June 26 meeting. REMI will provide its dynamic fiscal notes on these four proposals at the August 6, 2018 meeting of the Task Force.

1. ***Reduction of the Top Individual Income Tax Rate.*** This proposal would reduce the top personal income tax rate from 6.9% to 6.0% but would not affect the rate in any of the other brackets.

2. ***Individual Income Tax Brackets – "Option A".*** This proposal recommends amending and simplifying the Arkansas individual income tax rates and brackets under Arkansas Code § 26-51-201, effective for tax years beginning January 1, 2019. This would be accomplished by reducing the number of individual income tax tables from three (3) to one (1) and reducing the top marginal rate for individuals from six and nine-tenths percent (6.9%) to six and five-tenths percent (6.5%). The individual income tax table under this recommendation would be as follows:

Individual Income Tax Bracket	Tax Rate
$0-$4,299	0.0%
$4,300 - $8,399	2.0%
$8,400 - $12,599	3.0%
$12,600 - $20,999	3.4%
$21,000 - $35,099	5.0%
$35,100 - $80,000	6.0%
$80,000+	6.5%

3. ***Individual Income Tax Brackets – "Option B" combined with an EITC.*** This proposal would reduce the number of individual income tax tables from three (3) to one (1) and reduce the top marginal rate for individuals from six and nine-tenths percent (6.9%) to six and five-tenths percent (6.5%). The individual income tax table under Option B would be as follows:

Option B	
Individual Income Tax Bracket	Tax Rate
$0-$4,299	0.9%
$4,300 - $8,399	2.4%
$8,400 - $12,599	3.4%
$12,600 - $20,999	4.4%
$21,000 - $35,099	5.0%
$35,100 - $80,000	6.0%
$80,000+	6.5%

The fiscal impact of the simplification of the individual income tax brackets and tables under this proposal will be analyzed by REMI as combined with a Refundable Earned Income Tax Credit (EITC) of ten percent (10%) of the Federal EITC.

4. ***Tax Foundation Suggested Tax Reform Package.*** At the meeting of the Task Force on June 21, 2018, Ms. Nicole Kaeding with the Tax Foundation presented her suggested reforms for the Arkansas tax code.[1] From those recommendations, the Task Force sent the following to REMI for dynamic scoring:

    - Lowering the top individual income tax rate to 6.0%;
    - Lowering the top corporate income tax rate to 6.0%;
    - Single Sales Factor Apportionment;
    - Repeal of the Throwback rule;
    - Repeal of the Franchise Tax; and
    - Repeal of the Inventory Tax.

[1] *Arkansas Options for Tax Reform,* Nicole Kaeding, Tax Foundation, June 21, 2018, p. 15.

Arkansas Tax Reform and Relief Legislative Task Force

Legislative Impact Statement

Proposals Under Consideration: Income Tax Proposal – Option A

Executive Summary:

Three proposals under consideration amend and simplify the Arkansas individual income tax rates and brackets under Arkansas Code § 26-51-201, effective for tax years beginning January 1, 2019. This impact statement focuses on the proposal titled "Option A".

Option A reduces the number of individual income tax tables from three (3) to one (1) and reduces the top marginal rate for individuals from six and nine-tenths percent (6.9%) to six and five-tenths percent (6.5%). The individual income tax table under Option A is as follows:

Option A	
Individual Income Tax Bracket	Tax Rate
$0-$4,299	0.0%
$4,300-$8,399	2.0%
$8,400-$12,599	3.0%
$12,600-$20,999	3.4%
$21,000-$35,099	5.0%
$35,100-$80,000	6.0%
$80,000+	6.5%

Option A reduces Arkansas' state income tax revenue by $276,437,336, based on a static impact analysis. The static estimate does not include the total macroeconomic effects of how consumers and business respond to the policy change.

This impact statement includes fiscal, economic, and demographic estimates based on three different analytical approaches to evaluating Option A: (1) assessing changes in business production costs; (2) assessing changes to disposable personal income; and (3) a blended approach taking both production costs and disposable personal income into consideration.

For each approach, two scenarios are simulated using a dynamic economic model – one based on tax cuts alone, and the other factoring in corresponding cuts to government spending given the sizable static decrease in revenue. A dynamic model captures the macroeconomic feedback from behavioral changes among consumers and businesses and allows this to have feedback effects on state revenues and expenditures.

The production-based approach accounts for the connection between tax cuts and the lower cost of doing business in the state. Specifically, reduced taxes translate into higher after-tax salaries, which allows employers to compete for workers without having to pay more in salaries.

Major Arkansas-based companies must now compete for workers with companies in states with lower or no income taxes. To compensate for higher taxes, employers have to offer higher salaries, which increases production costs. A tax cut, on the other hand, could attract in-migration due to the higher after-tax compensation while lowering costs for employers.

Not all employers can choose to locate in a state based on taxation. While some major employers sell their goods and services across the country and internationally, other businesses (auto mechanics, restaurants, etc.) locate based on proximity to customers. The macroeconomic analysis within this dynamic fiscal note accounts for economic migration due to changes in business conditions and anticipated after-tax disposable personal income.

The blended approach shows annual economic output growing on average over 5 years by $321.9 million and

an average annual increase of 2,528 jobs, with more than 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $268.6 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

The production-cost approach shows annual economic output growing on average over 5 years by $421.4 million and an average annual increase of 3,267 jobs, with more than 92 percent of the growth occurring in private non-farm employment. It also shows a net loss of $271.5 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be concentrated in the public sector while the private sector would gain jobs.

The income-focused approach shows annual economic output growing on average over 5 years by $310.7 million and an average annual increase of 2,446 jobs, with 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $268.3 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

Methodology:

The economic and fiscal analysis of the proposals is conducted by Regional Economic Models, Inc. (REMI) using their Tax-PI v2.1 software, which is a dynamic regional macroeconomic, demographic, and fiscal model. Specifically, they use a 1-region custom model of Arkansas that is calibrated to revenues and expenditures from the FY 2017 Arkansas state budget.

Each budget category was assigned both an "economic driver" that allows it to respond to changes in a specific economic variable (e.g., Personal Income for Personal Income Tax Revenue) and a "policy variable" that allows it to directly impact a specific economic variable (e.g., Production Cost for Personal Income Tax Revenue).

The relatively large decrease in personal income taxes and recent changes in federal income tax law merit a sensitivity analysis consisting of six scenarios.

Scenarios Reflecting Range of Outcomes from REMI Tax-PI Dynamic Fiscal Analysis

1) Both direct personal income tax and business cost decreases with no reduction in general state government expenditures
2) Both direct personal income tax and business cost decreases with equal reduction in general state government expenditures
3) Business cost decrease with no direct reduction in general state government expenditures
4) Business cost decrease with equal direct reduction in general state government expenditures
5) Direct personal income tax decrease with no direct reduction in general state government expenditures
6) Direct personal income tax decrease with equal direct reduction in general state government expenditures

Scenarios 1 and 2 reflect the impacts of reductions in personal income taxes on both employees and business owners across the state of Arkansas, a blended approach based on publicly available data. Specifically, Scenarios 1 and 2 assume that approximately 90% of the personal income tax reductions directly benefit

employees or non-business owners and approximately 10% reduces costs of doing business.[1] Scenarios 3 and 4 reflect 100% of the personal income taxes being passed on to business owners through lower costs of doing business. Scenarios 5 and 6 reflect 100% of the personal income tax reductions being enjoyed by employees and non-business owners. The even numbered scenarios (2, 4, and 6) include an equal reduction in direct government expenditures.

For each proposal, the static income tax revenue impact and the resulting direct economic shock are input into the model for each year during the 5-year period 2019-2023. Then, the model produces estimates for each proposal of economic impacts on the state of Arkansas such as employment, GDP, output, and disposable personal income, demographic impacts on the state such as changes in population, and fiscal impacts on the state budget including both revenues and expenditures.

The results for Option A are reported in the next section with accompanying discussion.

Economic & Fiscal Impacts:

The economic and fiscal impacts of Option A are evaluated using six different scenarios.

Scenario 1

The first scenario follows the blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source.

The annual **increase** in Arkansas' population rises from **1,642** in 2019 to **5,223** in 2023, with a 5-year average annual **increase** of **3,700.** This is largely driven by higher after-tax compensation rates and employment opportunities, both of which raise the level of economic in-migration.

Total employment **rises** by an average of **2,528**, of which **90.3%** comes from private non-farm sectors and **9.7%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **increase** by an average of **$194.4 million** and **$321.9 million**, respectively. This increase in economic activity is driven mainly by three key factors: (1) the influx of new population; (2) the increase in disposable personal income generated by lower personal income taxes; and (3) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **$405.4 million**.

The static impact of the tax cut is a **$276.4 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$261.1 million**. This means that **5.5%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

[1] Personal income tax filings data are confidential and the responses within the Arkansas economy may not directly represent historic filing income distribution weights by personal income category or business ownership type.

Arkansas Tax Reform and Relief Legislative Task Force

Legislative Impact Statement

Proposals Under Consideration: Income Tax Proposal – Option A

S1 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
$12,600 - $20,999	Nominal Millions	$0.06	$0.08	$0.09	$0.10	$0.10	$0.08
$21,000 - $35,099	Nominal Millions	$0.22	$0.29	$0.34	$0.37	$0.38	$0.32
$35,100 - $80,000	Nominal Millions	$0.70	$0.95	$1.10	$1.18	$1.21	$1.03
$80,000+	Nominal Millions	$1.60	$2.15	$2.50	$2.68	$2.74	$2.33

Largely as a result of the increase in population and GDP, state government expenditures **rise** by an average of **$7.5 million**.

The results shown below are differences from the baseline REMI forecast.

S1 - Direct Personal Income Tax Decrease & Private Non-Farm Production Cost Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,642	2,948	3,973	4,717	5,223	3,700
Total Employment	Individuals	2,200	2,604	2,719	2,637	2,480	2,528
Government Employment	Individuals	134	218	269	294	304	244
Private Non-Farm Employment	Individuals	2,066	2,386	2,449	2,342	2,177	2,284
Gross State Product (Value-Added)	Nominal Millions	$157.5	$192.6	$207.9	$209.6	$204.4	$194.4
Output (Industry Sales)	Nominal Millions	$262.1	$320.2	$344.6	$346.1	$336.3	$321.9
Disposable Personal Income	Nominal Millions	$354.7	$392.5	$416.4	$429.3	$434.0	$405.4
Government Revenue	Nominal Millions	-$264.2	-$262.0	-$260.5	-$259.7	-$259.3	-$261.1
Government Expenditure	Nominal Millions	$3.1	$5.8	$8.0	$9.6	$10.8	$7.5
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$267.3	-$267.8	-$268.5	-$269.3	-$270.1	-$268.6

Scenario 2

The second scenario also follows the blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.

The annual **decrease** in Arkansas' population rises from **89** in 2019 to **281** in 2023, with a 5-year average annual **decrease** of **182**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.

Total employment **falls** by an average of **2,228**, of which **10.9%** comes from private non-farm sectors and **89.1%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **decrease** by an average of **$150.9 million** and **$252.8 million**, respectively. This decrease in economic activity is driven mainly by two key factors: (1) the decrease in population; and (2) the decrease in government expenditures. Disposable personal income **increases** by an average of **$137.1 million**.

The static impact of the tax cut is a **$276.4 loss** in state revenue per year, and the change in economic activity does not materially affect the size of this loss. Thus, the total revenue **loss** averages **$276.4 million**. This means that **0.0%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket

Proposals Under Consideration: Income Tax Proposal – Option A

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is:

S2 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01
$12,600 - $20,999	Nominal Millions	-$0.06	-$0.06	-$0.06	-$0.06	-$0.07	-$0.06
$21,000 - $35,099	Nominal Millions	-$0.22	-$0.22	-$0.23	-$0.24	-$0.25	-$0.23
$35,100 - $80,000	Nominal Millions	-$0.71	-$0.71	-$0.74	-$0.77	-$0.81	-$0.75
$80,000+	Nominal Millions	-$1.60	-$1.62	-$1.68	-$1.76	-$1.84	-$1.70

Largely as a result of the decrease in population and GDP, state government expenditures **decrease** by an average of **$3.9 million** over and above the **$276.4 million decrease** in expenditures corresponding with the tax cut for a total **decrease** of **$280.3 million**. Thus, the average annual change in net revenue is an **increase** of **$3.8 million**.

The results shown below are differences from the baseline REMI forecast.

S2 - Direct Personal Income Tax Decrease & Private Non-Farm Production Cost Decrease with Direct State Expenditure Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-89	-137	-177	-227	-281	-182
Total Employment	Individuals	-2,582	-2,294	-2,158	-2,078	-2,030	-2,228
Government Employment	Individuals	-2,093	-2,041	-1,990	-1,930	-1,877	-1,986
Private Non-Farm Employment	Individuals	-488	-253	-169	-148	-153	-242
Gross State Product (Value-Added)	Nominal Millions	-$167.7	-$151.3	-$145.7	-$144.5	-$145.4	-$150.9
Output (Industry Sales)	Nominal Millions	-$286.0	-$255.9	-$243.9	-$239.6	-$238.6	-$252.8
Disposable Personal Income	Nominal Millions	$143.3	$142.5	$138.4	$133.3	$127.8	$137.1
Government Revenue	Nominal Millions	-$276.3	-$276.2	-$276.3	-$276.6	-$276.8	-$276.4
Government Expenditure	Nominal Millions	-$278.1	-$279.4	-$280.4	-$281.3	-$282.1	-$280.3
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	$1.8	$3.2	$4.1	$4.8	$5.3	$3.8

Scenario 3

The third scenario treats 100% of the personal income tax cut as a decrease in business costs.

The annual **increase** in Arkansas' population rises from **1,117** in 2019 to **5,022** in 2023, with a 5-year average annual **increase** of **3,181.** This is largely driven by higher employment opportunities, which raises the level of economic in-migration.

Total employment **rises** by an average of **3,267**, of which **92.6%** comes from private non-farm sectors and **7.4%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) increase by an average of **$242.3 million** and **$421.4 million**, respectively. This **increase** in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **$175.7 million**.

The static impact of the tax cut is a **$276.4 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$264.4 million**. This means that **4.3%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

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Proposals Under Consideration: Income Tax Proposal – Option A

S3 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.01	$0.01	$0.01	$0.01	$0.01
$12,600 - $20,999	Nominal Millions	$0.05	$0.08	$0.10	$0.12	$0.13	$0.09
$21,000 - $35,099	Nominal Millions	$0.18	$0.29	$0.38	$0.45	$0.50	$0.36
$35,100 - $80,000	Nominal Millions	$0.59	$0.93	$1.22	$1.44	$1.61	$1.16
$80,000+	Nominal Millions	$1.34	$2.12	$2.76	$3.28	$3.66	$2.63

Largely as a result of the increase in population, state government expenditures **rise** by an average of **$7.1 million**.

The results shown below are differences from the baseline REMI forecast.

S3 - Direct Private Non-Farm Production Cost Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,117	2,237	3,297	4,235	5,022	3,181
Total Employment	Individuals	2,096	2,949	3,505	3,814	3,969	3,267
Government Employment	Individuals	102	189	260	311	348	242
Private Non-Farm Employment	Individuals	1,994	2,760	3,245	3,503	3,621	3,025
Gross State Product (Value-Added)	Nominal Millions	$140.1	$207.1	$256.6	$291.7	$315.7	$242.3
Output (Industry Sales)	Nominal Millions	$242.7	$360.6	$446.9	$507.6	$549.0	$421.4
Disposable Personal Income	Nominal Millions	$89.1	$141.0	$184.2	$219.0	$245.1	$175.7
Government Revenue	Nominal Millions	-$269.5	-$266.5	-$263.9	-$261.8	-$260.2	-$264.4
Government Expenditure	Nominal Millions	$2.3	$4.8	$7.3	$9.6	$11.6	$7.1
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$271.8	-$271.3	-$271.2	-$271.4	-$271.8	-$271.5

Scenario 4

The fourth scenario also treats 100% of the personal income tax cut as a decrease in business costs. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.

The annual **decrease** in Arkansas' population falls from **617** in 2019 to **489** in 2023, with a 5-year average annual **decrease** of **706**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.

Employment in the private non-farm sectors **increases** annually over the next 5 years by an average of **494** jobs while government sector employment **declines** by an average of **1,988** jobs, creating an average total employment **decline** of **1,494** jobs. Additionally, Gross State Product (GSP) and Total Output (which accounts for both GSP as well as the value of intermediate inputs) decline by an average of **$103.4 million** and **$153.8 million**, respectively. This decline in economic activity is driven mainly by two key factors: (1) the decline in population; and (2) a decrease in disposable personal income caused by a decline in government employment. Disposable personal income **decreases** by an average of **$92.9 million**.

The static impact of the tax cut is a **$276.4 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue loss averages **$279.7 million**. This means that the static revenue loss is **increased** by another **1.2%**. The dynamic income tax revenue impact by

bracket is:

S4 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	-$0.01	-$0.01	$0.00	$0.00	$0.00	$0.00
$12,600 - $20,999	Nominal Millions	-$0.07	-$0.06	-$0.05	-$0.04	-$0.03	-$0.05
$21,000 - $35,099	Nominal Millions	-$0.26	-$0.23	-$0.20	-$0.16	-$0.13	-$0.19
$35,100 - $80,000	Nominal Millions	-$0.82	-$0.73	-$0.63	-$0.51	-$0.41	-$0.62
$80,000+	Nominal Millions	-$1.86	-$1.65	-$1.42	-$1.17	-$0.93	-$1.41

Largely as a result of the decrease in population and GDP, state government expenditures **decrease** by an average of **$4.2 million** over and above the **$276.4 million decrease** in expenditures corresponding with the tax cut for a total decrease of **$280.6 million**. Thus, the average annual change in net revenue is an increase of approximately **$900,000**.

The results shown below are differences from the baseline REMI forecast.

S4 - Direct Private Non-Farm Production Cost Decrease with Direct State Expenditure Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-617	-852	-858	-714	-489	-706
Total Employment	Individuals	-2,689	-1,953	-1,377	-905	-547	-1,494
Government Employment	Individuals	-2,125	-2,070	-2,000	-1,914	-1,833	-1,988
Private Non-Farm Employment	Individuals	-563	117	622	1,009	1,286	494
Gross State Product (Value-Added)	Nominal Millions	-$185.3	-$137.1	-$97.3	-$62.8	-$34.5	-$103.4
Output (Industry Sales)	Nominal Millions	-$305.8	-$216.1	-$142.2	-$78.6	-$26.6	-$153.8
Disposable Personal Income	Nominal Millions	-$122.5	-$109.2	-$94.1	-$77.3	-$61.4	-$92.9
Government Revenue	Nominal Millions	-$281.6	-$280.6	-$279.7	-$278.7	-$277.7	-$279.7
Government Expenditure	Nominal Millions	-$278.9	-$280.4	-$281.1	-$281.3	-$281.3	-$280.6
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$2.7	-$0.3	$1.4	$2.7	$3.5	$0.9

Scenario 5

The fifth scenario treats 100% of the personal income tax cut as a direct decrease in personal income taxes.

The annual **increase** in Arkansas' population rises from **1,700** in 2019 to **5,246** in 2023, with a 5-year average annual **increase** of **3,758.** This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.

Total employment **rises** by an average of **2,446**, of which **90.0%** comes from private non-farm sectors and **10.0%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) increase by an average of **$189.1 million** and **$310.7 million**, respectively. This increase in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the increase in disposable personal income generated by lower personal income taxes. Specifically, disposable personal income **increases** by an average of **$431.1 million**.

The static impact of the tax cut is a **$276.4** million **loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$260.8 million**. This means that **5.6%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

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S5 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
$12,600 - $20,999	Nominal Millions	$0.06	$0.08	$0.09	$0.09	$0.09	$0.08
$21,000 - $35,099	Nominal Millions	$0.22	$0.30	$0.34	$0.36	$0.36	$0.32
$35,100 - $80,000	Nominal Millions	$0.72	$0.95	$1.09	$1.15	$1.16	$1.01
$80,000+	Nominal Millions	$1.62	$2.16	$2.47	$2.62	$2.64	$2.30

Largely as a result of the increase in population and GDP, state government expenditures **rise** by an average of **$7.5 million**.

The results shown below are differences from the baseline REMI forecast.

Proposals Under Consideration: Income Tax Proposal – Option A

S5 - Direct Personal Income Tax Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,700	3,027	4,048	4,771	5,246	3,758
Total Employment	Individuals	2,212	2,566	2,631	2,505	2,314	2,446
Government Employment	Individuals	137	222	270	292	299	244
Private Non-Farm Employment	Individuals	2,074	2,344	2,360	2,213	2,016	2,201
Gross State Product (Value-Added)	Nominal Millions	$159.5	$191.0	$202.5	$200.4	$191.9	$189.1
Output (Industry Sales)	Nominal Millions	$264.3	$315.7	$333.2	$328.0	$312.5	$310.7
Disposable Personal Income	Nominal Millions	$384.5	$420.6	$442.3	$452.9	$455.1	$431.1
Government Revenue	Nominal Millions	-$263.6	-$261.5	-$260.2	-$259.5	-$259.2	-$260.8
Government Expenditure	Nominal Millions	$3.2	$5.9	$8.0	$9.6	$10.7	$7.5
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$266.8	-$267.4	-$268.2	-$269.1	-$269.9	-$268.3

Scenario 6

The sixth scenario also treats 100% of the personal income tax cut as a direct decrease in personal income taxes. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.

The annual **decline** in Arkansas' population **rises** from **31** in 2019 to **257** in 2023, with a 5-year average annual **decrease** of **124.** This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.

Total employment **decreases** by an average of **2,310**, of which **14.0%** comes from private non-farm sectors and **86.0%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **decrease** by an average of **$156.2 million** and **$263.9 million**, respectively. This **decrease** in economic activity is driven mainly by the **decrease** in in-state consumption that comes from two key factors: (1) the decrease in population; and (2) a portion of consumers' increased after-tax income being spent on out-of-state goods and services. Specifically, disposable personal income will **increase** by an average of **$162.8 million**.

The static impact of the tax cut is a **$276.4 million loss** in state revenue per year, but the increase in economic activity created by the increase in consumer after-tax personal income generates an average increase in annual revenue of **$300,000**. Thus, the total revenue decrease under dynamic scoring averages approximately

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-$276.1 million. This means that **0.1%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

S6 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01
$12,600 - $20,999	Nominal Millions	-$0.06	-$0.06	-$0.06	-$0.06	-$0.07	-$0.06
$21,000 - $35,099	Nominal Millions	-$0.22	-$0.22	-$0.23	-$0.25	-$0.27	-$0.24
$35,100 - $80,000	Nominal Millions	-$0.69	-$0.71	-$0.75	-$0.80	-$0.86	-$0.76
$80,000+	Nominal Millions	-$1.58	-$1.61	-$1.71	-$1.82	-$1.94	-$1.73

Largely as a result of the relative decrease in population, state government expenditures **decrease** by an average of **$3.8 million** over and above the **$276.4 million** decrease that corresponds to the tax cut.

The results shown below are differences from the baseline REMI forecast.

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S6 - Direct Personal Income Tax Decrease with Direct State Expenditure Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-31	-57	-101	-172	-257	-124
Total Employment	Individuals	-2,570	-2,332	-2,246	-2,209	-2,195	-2,310
Government Employment	Individuals	-2,090	-2,037	-1,988	-1,932	-1,882	-1,986
Private Non-Farm Employment	Individuals	-480	-294	-257	-277	-314	-324
Gross State Product (Value-Added)	Nominal Millions	-$165.7	-$152.9	-$151.1	-$153.7	-$157.8	-$156.2
Output (Industry Sales)	Nominal Millions	-$283.8	-$260.4	-$255.3	-$257.5	-$262.3	-$263.9
Disposable Personal Income	Nominal Millions	$173.1	$170.6	$164.4	$156.9	$149.0	$162.8
Government Revenue	Nominal Millions	-$275.7	-$275.7	-$275.9	-$276.3	-$276.7	-$276.1
Government Expenditure	Nominal Millions	-$278.0	-$279.3	-$280.3	-$281.3	-$282.2	-$280.2
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	$2.3	$3.6	$4.4	$5.0	$5.5	$4.2

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Conclusion:

Option A would cut the number of individual income tax tables from three (3) to one (1) and lower the top marginal rate for individuals from six and nine-tenths percent (6.9%) to six and five-tenths percent (6.5%). This impact statement provides a range of possible effects on the state economy and budget that would result from adopting the proposal. By factoring in the total economic effects, dynamic scoring can indicate where the state may recover revenue reduced by cuts in tax rates.

As described above, the scenarios reflect three different approaches – one focused on production costs, another on income, and a third one that blends production and income based on publicly available data.

The blended approach shows annual economic output growing on average over 5 years by $321.9 million and an average annual increase of 2,528 jobs, with more than 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $268.6 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

The production-cost approach reflects the potential for tax cuts to cause a reduction in costs for businesses, which in turn affect the economy in ways that an income-only approach may not capture. Since Option A would affect after-tax wages and salaries, the plan would change the competitive position of Arkansas-based employers seeking to attract workers. Employers in the state have to compensate for the tax burden in order to compete with employers based in lower-tax states.

The production-cost approach shows annual economic output growing on average over 5 years by $421.4 million and an average annual increase of 3,267 jobs, with more than 92 percent of the growth occurring in private non-farm employment. It also shows a net loss of $271.5 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be concentrated in the public sector while the private sector would gain jobs.

The income-focused approach shows annual economic output growing on average over 5 years by $310.7 million and an average annual increase of 2,446 jobs, with 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $268.3 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

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Proposals Under Consideration: Income Tax Proposal – Option B

Executive Summary:

Three proposals under consideration amend and simplify the Arkansas individual income tax rates and brackets under Arkansas Code § 26-51-201, effective for tax years beginning January 1, 2019. This impact statement focuses on the proposal titled "Option B".

Option B reduces the number of individual income tax tables from three (3) to one (1) and reduces the top marginal rate for individuals from six and nine-tenths percent (6.9%) to six and five-tenths percent (6.5%). The individual income tax table under Option B is as follows:

Option B	
Individual Income Tax Bracket	Tax Rate
$0-$4,299	0.9%
$4,300-$8,399	2.4%
$8,400-$12,599	3.4%
$12,600-$20,999	4.4%
$21,000-$35,099	5.0%
$35,100-$80,000	6.0%
$80,000+	6.5%

Option B is being analyzed in combination with an $80 million refundable Earned Income Tax Credit (EITC), which provides relief to households in lower income tax brackets who see a statutory increase in their tax rates.

Overall, the combination of Option B and the EITC reduces Arkansas state income tax revenue by $205,766,677, based on a state impact analysis. The static estimate does not include the total macroeconomic effects of how consumers and business respond to the policy change.

This impact statement includes fiscal, economic, and demographic estimates based on three different analytical approaches to evaluating the combination of Option B and the EITC: (1) assessing changes in business production costs; (2) assessing changes to disposable personal income; and (3) a blended approach taking both production costs and disposable personal income into consideration.

For each approach, two scenarios are simulated using a dynamic economic model – one based on tax cuts alone, and the other factoring in corresponding cuts to government spending given the sizable static decrease in revenue. A dynamic model captures the macroeconomic feedback from behavioral changes among consumers and businesses and allows this to have feedback effects on state revenues and expenditures.

The production-based approach accounts for the connection between tax cuts and the lower cost of doing business in the state. Specifically, reduced taxes translate into higher after-tax salaries, which allows employers to compete for workers without having to pay more in salaries.

Major Arkansas-based companies must now compete for workers with companies in states with lower or no income taxes. To compensate for higher taxes, employers have to offer higher salaries, which increases production costs. A tax cut, on the other hand, could attract in-migration due to the higher after-tax compensation while lowering costs for employers.

Not all employers can choose to locate in a state based on taxation. While some major employers sell their goods and services across the country and internationally, other businesses (auto mechanics, restaurants, etc.) locate based on proximity to customers. The macroeconomic analysis within this dynamic fiscal note accounts for economic migration due to changes in business conditions and anticipated after-tax disposable

personal income.

The blended approach shows annual economic output growing on average over 5 years by $239.6 million and an average annual increase of 1,882 jobs, with more than 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $200.4 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

The production-cost approach shows annual economic output growing on average over 5 years by $313.5 million and an average annual increase of 2,430 jobs, with more than 92 percent of the growth occurring in private non-farm employment. It also shows a net loss of $202.6 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be concentrated in the public sector while the private sector would gain jobs.

The income-focused approach shows annual economic output growing on average over 5 years by $231.3 million and an average annual increase of 1,820 jobs, with over 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $200.2 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

Methodology:

The economic and fiscal analysis of the proposals is conducted by Regional Economic Models, Inc. (REMI) using their Tax-PI v2.1 software, which is a dynamic regional macroeconomic, demographic, and fiscal model. Specifically, they use a 1-region custom model of Arkansas that is calibrated to revenues and expenditures from the FY 2017 Arkansas state budget.

Each budget category is assigned both an "economic driver" that allows it to respond to changes in a specific economic variable (e.g., Personal Income for Personal Income Tax Revenue) and a "policy variable" that allows it to directly impact a specific economic variable (e.g., Production Cost for Personal Income Tax Revenue).

The relatively large decrease in personal income taxes and recent changes in federal income tax law merit a sensitivity analysis consisting of six scenarios.

Scenarios Reflecting Range of Outcomes from REMI Tax-PI Dynamic Fiscal Analysis

1) Both direct personal income tax and business cost decreases with no reduction in general state government expenditures
2) Both direct personal income tax and business cost decreases with equal reduction in general state government expenditures
3) Business cost decrease with no direct reduction in general state government expenditures
4) Business cost decrease with equal direct reduction in general state government expenditures
5) Direct personal income tax decrease with no direct reduction in general state government expenditures
6) Direct personal income tax decrease with equal direct reduction in general state government expenditures

Scenarios 1 and 2 reflect the impacts of reductions in personal income taxes on both employees and business owners across the state of Arkansas, a blended approach based on publicly available data. Specifically,

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Scenarios 1 and 2 assume that approximately 90% of the personal income tax reductions directly benefit employees or non-business owners and approximately 10% reduces costs of doing business.[1] Scenarios 3 and 4 reflect 100% of the personal income taxes being passed on to business owners through lower costs of doing business. Scenarios 5 and 6 reflect 100% of the personal income tax reductions being enjoyed by employees and non-business owners. The even numbered scenarios (2, 4, and 6) include an equal reduction in direct government expenditures.

For each proposal, the static income tax revenue impact and the resulting direct economic shock are input into the model for each year during the 5-year period 2019-2023. Then, the model produces estimates for each proposal of economic impacts on the state of Arkansas such as employment, GDP, output, and disposable personal income, demographic impacts on the state such as changes in population, and fiscal impacts on the state budget including both revenues and expenditures.

The results for the combination of Option B and the EITC are reported in the next section with accompanying discussion.

Economic & Fiscal Impacts:

The economic and fiscal impacts of the combination of Option B and the EITC are evaluated using six different scenarios.

Scenario 1

The first scenario follows the blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source.

The annual **increase** in Arkansas' population rises from **1,222** in 2019 to **3,888** in 2023, with a 5-year average annual **increase** of **2,755.** This is largely driven by higher after-tax compensation rates and employment opportunities, both of which raise the level of economic in-migration.

Total employment **rises** by an average of **1,882**, of which **90.3%** comes from private non-farm sectors and **9.7%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **increase** by an average of **$144.7 million** and **$239.6 million**, respectively. This increase in economic activity is driven mainly by three key factors: (1) the influx of new population; (2) the increase in disposable personal income generated by lower personal income taxes; and (3) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **$301.7 million**.

The static impact of the tax cut is a **$205.8 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$194.9 million**. This means that **5.3%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

[1] Personal income tax filings data are confidential and the responses within the Arkansas economy may not directly represent historic filing income distribution weights by personal income category or business ownership type.

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Proposals Under Consideration: Income Tax Proposal – Option B

S1 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.01	$0.01	$0.01	$0.01	$0.01
$12,600 - $20,999	Nominal Millions	$0.04	$0.06	$0.07	$0.07	$0.07	$0.06
$21,000 - $35,099	Nominal Millions	$0.16	$0.22	$0.26	$0.27	$0.28	$0.24
$35,100 - $80,000	Nominal Millions	$0.52	$0.71	$0.82	$0.88	$0.90	$0.77
$80,000+	Nominal Millions	$1.19	$1.60	$1.86	$2.00	$2.04	$1.74

Largely as a result of the increase in population and GDP, state government expenditures **rise** by an average of **$5.6 million**.

The results shown below are differences from the baseline REMI forecast.

Proposals Under Consideration: Income Tax Proposal – Option B

S1 - Direct Personal Income Tax Decrease & Private Non-Farm Production Cost Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,222	2,195	2,958	3,511	3,888	2,755
Total Employment	Individuals	1,637	1,939	2,024	1,963	1,846	1,882
Government Employment	Individuals	100	163	201	219	226	182
Private Non-Farm Employment	Individuals	1,538	1,776	1,823	1,743	1,620	1,700
Gross State Product (Value-Added)	Nominal Millions	$117.3	$143.4	$154.8	$156.0	$152.1	$144.7
Output (Industry Sales)	Nominal Millions	$195.1	$238.3	$256.5	$257.6	$250.3	$239.6
Disposable Personal Income	Nominal Millions	$264.1	$292.1	$309.9	$319.6	$323.0	$301.7
Government Revenue	Nominal Millions	-$197.1	-$195.5	-$194.4	-$193.8	-$193.5	-$194.9
Government Expenditure	Nominal Millions	$2.3	$4.3	$5.9	$7.1	$8.0	$5.6
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$199.5	-$199.8	-$200.3	-$201.0	-$201.5	-$200.4

Scenario 2

The second scenario also follows the blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.

The annual **decrease** in Arkansas' population rises from **66** in 2019 to **209** in 2023, with a 5-year average annual **decrease** of **135**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.

Total employment **falls** by an average of **1,659**, of which **10.9%** comes from private non-farm sectors and **89.1%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **decrease** by an average of **$112.3 million** and **$188.2 million**, respectively. This decrease in economic activity is driven mainly by two key factors: (1) the decrease in population; and (2) the decrease in government expenditures. Disposable personal income **increases** by an average of **$102.0 million**.

The static impact of the tax cut is a **$205.8 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue **loss** averages **$206.2 million**. This means that the static revenue loss is **increased** by another **0.2%**. The dynamic income tax revenue impact by

bracket is:

S2 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$12,600 - $20,999	Nominal Millions	-$0.04	-$0.04	-$0.05	-$0.05	-$0.05	-$0.05
$21,000 - $35,099	Nominal Millions	-$0.16	-$0.16	-$0.17	-$0.18	-$0.19	-$0.17
$35,100 - $80,000	Nominal Millions	-$0.53	-$0.53	-$0.55	-$0.58	-$0.60	-$0.56
$80,000+	Nominal Millions	-$1.19	-$1.20	-$1.25	-$1.31	-$1.37	-$1.27

Largely as a result of the decrease in population and GDP, state government expenditures **decrease** by an average of **$2.8 million** over and above the **$205.8 million decrease** in expenditures corresponding with the tax cut for a total **decrease** of **$208.6 million**. Thus, the average annual change in net revenue is an **increase** of **$2.4 million**.

The results shown below are differences from the baseline REMI forecast.

S2 - Direct Personal Income Tax Decrease & Private Non-Farm Production Cost Decrease with Direct State Expenditure Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-66	-102	-132	-168	-209	-135
Total Employment	Individuals	-1,922	-1,707	-1,607	-1,547	-1,511	-1,659
Government Employment	Individuals	-1,558	-1,519	-1,481	-1,437	-1,397	-1,478
Private Non-Farm Employment	Individuals	-363	-188	-126	-110	-114	-180
Gross State Product (Value-Added)	Nominal Millions	-$124.8	-$112.7	-$108.4	-$107.6	-$108.2	-$112.3
Output (Industry Sales)	Nominal Millions	-$212.9	-$190.5	-$181.5	-$178.3	-$177.6	-$188.2
Disposable Personal Income	Nominal Millions	$106.7	$106.1	$103.0	$99.2	$95.1	$102.0
Government Revenue	Nominal Millions	-$206.1	-$206.0	-$206.2	-$206.4	-$206.5	-$206.2
Government Expenditure	Nominal Millions	-$207.0	-$208.0	-$208.7	-$209.4	-$210.0	-$208.6
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	$0.9	$1.9	$2.6	$3.0	$3.4	$2.4

Scenario 3

The third scenario treats 100% of the personal income tax cut as a decrease in business costs.

The annual **increase** in Arkansas' population rises from **831** in 2019 to **3,736** in 2023, with a 5-year average annual **increase** of **2,367.** This is largely driven by higher employment opportunities, which raises the level of economic in-migration.

Total employment **rises** by an average of **2,430**, of which **92.6%** comes from private non-farm sectors and **7.4%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) increase by an average of **$180.2 million** and **$313.5 million**, respectively. This **increase** in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **$130.7 million**.

The static impact of the tax cut is a **$205.8 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$197.3 million**. This means that **4.1%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

S3 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.01	$0.01	$0.01	$0.01	$0.01
$12,600 - $20,999	Nominal Millions	$0.04	$0.06	$0.07	$0.09	$0.10	$0.07
$21,000 - $35,099	Nominal Millions	$0.14	$0.22	$0.28	$0.33	$0.37	$0.27
$35,100 - $80,000	Nominal Millions	$0.44	$0.69	$0.90	$1.07	$1.20	$0.86
$80,000+	Nominal Millions	$1.00	$1.58	$2.05	$2.44	$2.72	$1.96

Largely as a result of the increase in population, state government expenditures **rise** by an average of **$5.3 million**.

The results shown below are differences from the baseline REMI forecast.

S3 - Direct Private Non-Farm Production Cost Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	831	1,664	2,453	3,151	3,736	2,367
Total Employment	Individuals	1,559	2,194	2,607	2,837	2,952	2,430
Government Employment	Individuals	76	141	193	231	259	180
Private Non-Farm Employment	Individuals	1,483	2,053	2,414	2,606	2,693	2,250
Gross State Product (Value-Added)	Nominal Millions	$104.3	$154.1	$190.9	$217.0	$234.8	$180.2
Output (Industry Sales)	Nominal Millions	$180.6	$268.3	$332.5	$377.6	$408.4	$313.5
Disposable Personal Income	Nominal Millions	$66.3	$104.9	$137.0	$162.9	$182.4	$130.7
Government Revenue	Nominal Millions	-$201.1	-$198.8	-$196.9	-$195.4	-$194.2	-$197.3
Government Expenditure	Nominal Millions	$1.7	$3.6	$5.4	$7.1	$8.7	$5.3
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$202.8	-$202.4	-$202.3	-$202.5	-$202.8	-$202.6

Scenario 4

The fourth scenario also treats 100% of the personal income tax cut as a decrease in business costs. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.

The annual **decrease** in Arkansas' population falls from **459** in 2019 to **365** in 2023, with a 5-year average annual **decrease** of **526**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.

Employment in the private non-farm sectors **increases** annually over the next 5 years by an average of **367** jobs while government sector employment **declines** by an average of **1,480** jobs, creating an average total employment **decline** of **1,113** jobs. Additionally, Gross State Product (GSP) and Total Output (which accounts for both GSP as well as the value of intermediate inputs) decline by an average of **$77.0 million** and **$114.6 million**, respectively. This decline in economic activity is driven mainly by two key factors: (1) the decline in population; and (2) a decrease in disposable personal income caused by a decline in government employment. Disposable personal income **decreases** by an average of **$69.2 million**.

The static impact of the tax cut is a **$205.8 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue loss averages **$208.7 million**. This

means that the static revenue loss is **increased** by another **1.4%**. The dynamic income tax revenue impact by bracket is:

S4 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$12,600 - $20,999	Nominal Millions	-$0.05	-$0.04	-$0.04	-$0.03	-$0.03	-$0.04
$21,000 - $35,099	Nominal Millions	-$0.19	-$0.17	-$0.15	-$0.12	-$0.09	-$0.14
$35,100 - $80,000	Nominal Millions	-$0.61	-$0.54	-$0.47	-$0.38	-$0.30	-$0.46
$80,000+	Nominal Millions	-$1.38	-$1.23	-$1.06	-$0.87	-$0.69	-$1.05

Largely as a result of the decrease in population and GDP, state government expenditures **decrease** by an average of **$3.1 million** over and above the **$205.8 million decrease** in expenditures corresponding with the tax cut for a total decrease of **$208.9 million**. Thus, the average annual change in net revenue is an increase of approximately **$200,000**.

The results shown below are differences from the baseline REMI forecast.

S4 - Direct Private Non-Farm Production Cost Decrease with Direct State Expenditure Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-459	-634	-639	-532	-365	-526
Total Employment	Individuals	-2,002	-1,454	-1,026	-675	-408	-1,113
Government Employment	Individuals	-1,582	-1,541	-1,489	-1,424	-1,364	-1,480
Private Non-Farm Employment	Individuals	-420	87	463	750	957	367
Gross State Product (Value-Added)	Nominal Millions	-$137.9	-$102.1	-$72.5	-$46.8	-$25.7	-$77.0
Output (Industry Sales)	Nominal Millions	-$227.6	-$160.9	-$105.9	-$58.6	-$19.9	-$114.6
Disposable Personal Income	Nominal Millions	-$91.2	-$81.3	-$70.1	-$57.6	-$45.7	-$69.2
Government Revenue	Nominal Millions	-$210.1	-$209.4	-$208.7	-$207.9	-$207.2	-$208.7
Government Expenditure	Nominal Millions	-$207.6	-$208.7	-$209.2	-$209.4	-$209.4	-$208.9
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$2.5	-$0.7	$0.6	$1.5	$2.1	$0.2

Scenario 5

The fifth scenario treats 100% of the personal income tax cut as a direct decrease in personal income taxes.

The annual **increase** in Arkansas' population rises from **1,266** in 2019 to **3,905** in 2023, with a 5-year average annual **increase** of **2,798.** This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.

Total employment **rises** by an average of **1,820**, of which **90.1%** comes from private non-farm sectors and **9.9%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) increase by an average of **$140.7 million** and **$231.3 million**, respectively. This increase in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the increase in disposable personal income generated by lower personal income taxes. Specifically, disposable personal income **increases** by an average of **$320.9 million**.

The static impact of the tax cut is a **$205.8** million **loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$194.6 million**. This means that **5.4%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

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Proposals Under Consideration: Income Tax Proposal – Option B

S5 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.01	$0.01	$0.01	$0.01	$0.01
$12,600 - $20,999	Nominal Millions	$0.04	$0.06	$0.07	$0.07	$0.07	$0.06
$21,000 - $35,099	Nominal Millions	$0.17	$0.22	$0.25	$0.27	$0.27	$0.24
$35,100 - $80,000	Nominal Millions	$0.53	$0.71	$0.81	$0.86	$0.87	$0.75
$80,000+	Nominal Millions	$1.21	$1.60	$1.84	$1.95	$1.97	$1.71

Largely as a result of the increase in population and GDP, state government expenditures **rise** by an average of **$5.6 million**.

The results shown below are differences from the baseline REMI forecast.

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Proposals Under Consideration: Income Tax Proposal – Option B

S5 - Direct Personal Income Tax Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,266	2,254	3,014	3,552	3,905	2,798
Total Employment	Individuals	1,646	1,910	1,958	1,865	1,723	1,820
Government Employment	Individuals	102	165	201	218	222	182
Private Non-Farm Employment	Individuals	1,544	1,745	1,757	1,647	1,500	1,639
Gross State Product (Value-Added)	Nominal Millions	$118.7	$142.2	$150.7	$149.2	$142.9	$140.7
Output (Industry Sales)	Nominal Millions	$196.7	$235.0	$248.0	$244.2	$232.7	$231.3
Disposable Personal Income	Nominal Millions	$286.2	$313.1	$329.3	$337.1	$338.8	$320.9
Government Revenue	Nominal Millions	-$196.7	-$195.1	-$194.1	-$193.6	-$193.4	-$194.6
Government Expenditure	Nominal Millions	$2.4	$4.4	$6.0	$7.1	$8.0	$5.6
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$199.1	-$199.5	-$200.1	-$200.8	-$201.4	-$200.2

Scenario 6

The sixth scenario also treats 100% of the personal income tax cut as a direct decrease in personal income taxes. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.

The annual **decline** in Arkansas' population **rises** from **23** in 2019 to **191** in 2023, with a 5-year average annual **decrease** of **92.** This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.

Total employment **decreases** by an average of **1,720**, of which **14.1%** comes from private non-farm sectors and **85.9%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **decrease** by an average of **$116.3 million** and **$196.4 million**, respectively. This **decrease** in economic activity is driven mainly by the **decrease** in in-state consumption that comes from two key factors: (1) the decrease in population; and (2) a portion of consumers' increased after-tax income being spent on out-of-state goods and services. Specifically, disposable personal income will **increase** by an average of **$121.2 million**.

The static impact of the tax cut is a **$205.8 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue **loss** averages **$206.0 million**. This means that the static revenue loss is increased by another **0.1%**. The dynamic income tax revenue impact by

bracket is:

S6 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$12,600 - $20,999	Nominal Millions	-$0.04	-$0.04	-$0.05	-$0.05	-$0.05	-$0.05
$21,000 - $35,099	Nominal Millions	-$0.16	-$0.16	-$0.17	-$0.19	-$0.20	-$0.18
$35,100 - $80,000	Nominal Millions	-$0.52	-$0.53	-$0.56	-$0.60	-$0.64	-$0.57
$80,000+	Nominal Millions	-$1.17	-$1.20	-$1.27	-$1.36	-$1.45	-$1.29

Largely as a result of the relative decrease in population, state government expenditures **decrease** by an average of **$2.8 million** over and above the **$205.8 million** decrease that corresponds to the tax cut.

The results shown below are differences from the baseline REMI forecast.

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S6 - Direct Personal Income Tax Decrease with Direct State Expenditure Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-23	-42	-75	-128	-191	-92
Total Employment	Individuals	-1,913	-1,736	-1,672	-1,644	-1,634	-1,720
Government Employment	Individuals	-1,556	-1,516	-1,480	-1,438	-1,401	-1,478
Private Non-Farm Employment	Individuals	-357	-219	-191	-206	-234	-242
Gross State Product (Value-Added)	Nominal Millions	-$123.4	-$113.8	-$112.5	-$114.4	-$117.4	-$116.3
Output (Industry Sales)	Nominal Millions	-$211.3	-$193.8	-$190.0	-$191.7	-$195.2	-$196.4
Disposable Personal Income	Nominal Millions	$128.8	$127.0	$122.4	$116.8	$110.9	$121.2
Government Revenue	Nominal Millions	-$205.7	-$205.7	-$205.9	-$206.2	-$206.5	-$206.0
Government Expenditure	Nominal Millions	-$206.9	-$207.9	-$208.7	-$209.4	-$210.0	-$208.6
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	$1.3	$2.2	$2.8	$3.2	$3.6	$2.6

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Proposals Under Consideration: Income Tax Proposal – Option B

Conclusion:

Option B would cut the number of individual income tax tables from three (3) to one (1) and lower the top marginal rate for individuals from six and nine-tenths percent (6.9%) to six and five-tenths percent (6.5%). Also, a refundable EITC is being considered in combination with Option B. This impact statement provides a range of possible effects on the state economy and budget that would result from adopting the proposal. By factoring in the total economic effects, dynamic scoring can indicate where the state may recover revenue reduced by cuts in tax rates.

As described above, the scenarios reflect three different approaches – one focused on production costs, another on income, and a third one that blends production and income based on publicly available data.

The blended approach shows annual economic output growing on average over 5 years by $239.6 million and an average annual increase of 1,882 jobs, with more than 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $200.4 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

The production-cost approach reflects the potential for tax cuts to cause a reduction in costs for businesses, which in turn affect the economy in ways that an income-only approach may not capture. Since Option B and the EITC would affect after-tax wages and salaries, the plan would change the competitive position of Arkansas-based employers seeking to attract workers. Employers in the state have to compensate for the tax burden in order to compete with employers based in lower-tax states.

The production-cost approach shows annual economic output growing on average over 5 years by $313.5 million and an average annual increase of 2,430 jobs, with more than 92 percent of the growth occurring in private non-farm employment. It also shows a net loss of $202.6 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be concentrated in the public sector while the private sector would gain jobs.

The income-focused approach shows annual economic output growing on average over 5 years by $231.3 million and an average annual increase of 1,820 jobs, with over 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $200.2 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

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Proposals Under Consideration: Franchise Tax Repeal Proposal

Executive Summary:

The proposal under consideration repeals the Arkansas franchise tax. The total static fiscal impact of the proposal is a reduction in Arkansas state tax revenue of $29,000,000. Currently, all franchise tax revenue over $8 million is put into a special revenue fund that is earmarked for K-12 education. Thus, the repeal is analyzed in combination with a decrease in general state government expenditures of $21,000,000 to model the scenario in which the lost education funding is made up elsewhere in the state budget.

This impact statement includes fiscal, economic, and demographic estimates from a dynamic economic model. A dynamic model captures the macroeconomic feedback from behavioral changes among consumers and businesses and allows this to have feedback effects on state revenues and expenditures.

The results show annual economic output falling on average over 5 years by $9.1 million and an average annual decrease of 149 jobs, but a small increase in private non-farm employment. It also shows a net loss of $29.3 million in revenue.

Methodology:

The economic and fiscal analysis of the proposals is conducted by Regional Economic Models, Inc. (REMI) using their Tax-PI v2.1 software, which is a dynamic regional macroeconomic, demographic, and fiscal model. Specifically, they use a 1-region custom model of Arkansas that is calibrated to revenues and expenditures from the FY 2017 Arkansas state budget.

Each budget category is assigned both an "economic driver" that allows it to respond to changes in a specific economic variable (e.g., Value Added for Corporate Income Tax Revenue) and a "policy variable" that allows it to directly impact a specific economic variable (e.g., Production Cost for Corporate Income Tax Revenue).

The static tax revenue impact and the resulting direct economic shock and static expenditure impact are input into the model for each year during the 5-year period 2019-2023. The economic shock is a decrease in production costs for all applicable industries. Then, the model produces estimates for each proposal of economic impacts on the state of Arkansas such as employment, GDP, output, and disposable personal income, demographic impacts on the state such as changes in population, and fiscal impacts on the state budget including both revenues and expenditures.

The results are reported in the next section with accompanying discussion.

Economic & Fiscal Impacts:

The annual **decrease** in Arkansas' population rises from **60** in 2019 to **92** in 2023, with a 5-year average annual **decrease** of **89**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.

Total employment **falls** by an average of **149**, though the decline is concentrated in the government sector and the private non-farm sectors see a small average increase in employment. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **decrease** by an average of **$6.1 million** and **$9.1 million**, respectively. This decrease in economic activity is driven mainly by two key factors: (1) the loss of new population; and (2) the decline in general state government

expenditures. Disposable personal income **decreases** by an average of **$8.2 million**.

The static impact of the tax cut is a **$29.0 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue **loss** averages **$29.3 million**. This means that the static revenue **loss** is increased by another **1.0%**.

Largely as a result of the decrease in population and GDP, state government expenditures **decrease** by an average of **$400,000** over and above the **$21.0 million decrease** in expenditures corresponding to the loss of K-12 funding for a total **decrease** of **$21.4 million**.

The results shown below are differences from the baseline REMI forecast.

Franchise Tax Repeal: Revenue, Expenditures, and Production Costs Decrease by $29M

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-60	-90	-101	-101	-92	-89
Total Employment	Individuals	-230	-181	-142	-109	-85	-149
Government Employment	Individuals	-162	-158	-153	-146	-140	-152
Private Non-Farm Employment	Individuals	-68	-23	11	37	55	2
Gross State Product (Value-Added)	Nominal Millions	-$13.5	-$9.2	-$5.6	-$2.5	$0.0	-$6.1
Output (Industry Sales)	Nominal Millions	-$22.5	-$14.6	-$8.0	-$2.4	$2.2	-$9.1
Disposable Personal Income	Nominal Millions	-$10.0	-$9.2	-$8.3	-$7.2	-$6.2	-$8.2
Government Revenue	Nominal Millions	-$29.4	-$29.4	-$29.3	-$29.2	-$29.2	-$29.3
Government Expenditure	Nominal Millions	-$21.2	-$21.4	-$21.4	-$21.5	-$21.5	-$21.4
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$8.2	-$8.0	-$7.9	-$7.7	-$7.7	-$7.9

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Proposals Under Consideration: Franchise Tax Repeal Proposal

Conclusion:

The proposal under consideration repeals the Arkansas franchise tax. The repeal is analyzed in combination with a decrease in general state government expenditures to model the scenario in which the lost education funding is made up elsewhere in the state budget. This impact statement provides the possible effects on the state economy and budget that would result from adopting the proposal. By factoring in the total economic effects, dynamic scoring can indicate where the state may recover revenue reduced by cuts in tax rates.

The results show annual economic output falling on average over 5 years by $9.1 million and an average annual decrease of 149 jobs, but a small increase in private non-farm employment. It also shows a net loss of $29.3 million in revenue.

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Proposals Under Consideration: Income Tax Proposal – Governor's Proposal

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Executive Summary:

Three proposals under consideration amend and simplify the Arkansas individual income tax rates and brackets under Arkansas Code § 26-51-201, effective for tax years beginning January 1, 2019. This impact statement focuses on the Governor's Proposal.

The Governor's Proposal reduces the top marginal rate for individuals from six and nine-tenths percent (6.9%) to six percent (6%). The total static fiscal impact of the Governor's Proposal is a reduction in Arkansas state income tax revenue of $180,000,000.

This impact statement includes fiscal, economic, and demographic estimates based on three different analytical approaches to evaluating the Governor's Proposal: (1) assessing changes in business production costs; (2) assessing changes to disposable personal income; and (3) a blended approach taking both production costs and disposable personal income into consideration.

For each approach, two scenarios are simulated using a dynamic economic model – one based on tax cuts alone, and the other factoring in corresponding cuts to government spending given the sizable static decrease in revenue. A dynamic model captures the macroeconomic feedback from behavioral changes among consumers and businesses and allows this to have feedback effects on state revenues and expenditures.

The production-based approach accounts for the connection between tax cuts and the lower cost of doing business in the state. Specifically, reduced taxes translate into higher after-tax salaries, which allows employers to compete for workers without having to pay more in salaries.

Major Arkansas-based companies must now compete for workers with companies in states with lower or no income taxes. To compensate for higher taxes, employers have to offer higher salaries, which increases production costs. A tax cut, on the other hand, could attract in-migration due to the higher after-tax compensation while lowering costs for employers.

Not all employers can choose to locate in a state based on taxation. While some major employers sell their goods and services across the country and internationally, other businesses (auto mechanics, restaurants, etc.) locate based on proximity to customers. The macroeconomic analysis within this dynamic fiscal note accounts for economic migration due to changes in business conditions and anticipated after-tax disposable personal income.

The blended approach shows annual economic output growing on average over 5 years by $209.6 million and an average annual increase of 1,646 jobs, with more than 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $174.9 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

The production-cost approach shows annual economic output growing on average over 5 years by $274.0 million and an average annual increase of 2,124 jobs, with more than 92 percent of the growth occurring in private non-farm employment. It also shows a net loss of $176.8 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be concentrated in the public sector while the private sector would gain jobs.

The income-focused approach shows annual economic output growing on average over 5 years by $202.4 million and an average annual increase of 1,593 jobs, with 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $174.7 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would

be mostly concentrated in the public sector.

Methodology:

The economic and fiscal analysis of the proposals is conducted by Regional Economic Models, Inc. (REMI) using their Tax-PI v2.1 software, which is a dynamic regional macroeconomic, demographic, and fiscal model. Specifically, they use a 1-region custom model of Arkansas that is calibrated to revenues and expenditures from the FY 2017 Arkansas state budget.

Each budget category is assigned both an "economic driver" that allows it to respond to changes in a specific economic variable (e.g., Personal Income for Personal Income Tax Revenue) and a "policy variable" that allows it to directly impact a specific economic variable (e.g., Production Cost for Personal Income Tax Revenue).

The relatively large decrease in personal income taxes and recent changes in federal income tax law merit a sensitivity analysis consisting of six scenarios.

Scenarios Reflecting Range of Outcomes from REMI Tax-PI Dynamic Fiscal Analysis

1) Both direct personal income tax and business cost decreases with no reduction in general state government expenditures
2) Both direct personal income tax and business cost decreases with equal reduction in general state government expenditures
3) Business cost decrease with no direct reduction in general state government expenditures
4) Business cost decrease with equal direct reduction in general state government expenditures
5) Direct personal income tax decrease with no direct reduction in general state government expenditures
6) Direct personal income tax decrease with equal direct reduction in general state government expenditures

Scenarios 1 and 2 reflect the impacts of reductions in personal income taxes on both employees and business owners across the state of Arkansas, a blended approach based on publicly available data. Specifically, Scenarios 1 and 2 assume that approximately 90% of the personal income tax reductions directly benefit employees or non-business owners and approximately 10% reduces costs of doing business.[1] Scenarios 3 and 4 reflect 100% of the personal income taxes being passed on to business owners through lower costs of doing business. Scenarios 5 and 6 reflect 100% of the personal income tax reductions being enjoyed by employees and non-business owners. The even numbered scenarios (2, 4, and 6) include an equal reduction in direct government expenditures.

For each proposal, the static income tax revenue impact and the resulting direct economic shock are input into the model for each year during the 5-year period 2019-2023. Then, the model produces estimates for each proposal of economic impacts on the state of Arkansas such as employment, GDP, output, and disposable personal income, demographic impacts on the state such as changes in population, and fiscal impacts on the state budget including both revenues and expenditures.

The results for the Governor's Proposal are reported in the next section with accompanying discussion.

[1] Personal income tax filings data are confidential and the responses within the Arkansas economy may not directly represent historic filing income distribution weights by personal income category or business ownership type.

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Proposals Under Consideration: Income Tax Proposal – Governor's Proposal

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Economic & Fiscal Impacts:

The economic and fiscal impacts of the governor's proposal are evaluated using six different scenarios.

Scenario 1

The first scenario follows the blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source.

The annual **increase** in Arkansas' population rises from **1,070** in 2019 to **3,401** in 2023, with a 5-year average annual **increase** of **2,410.** This is largely driven by higher after-tax compensation rates and employment opportunities, both of which raise the level of economic in-migration.

Total employment **rises** by an average of **1,646**, of which **90.3%** comes from private non-farm sectors and **9.7%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **increase** by an average of **$126.6 million** and **$209.6 million**, respectively. This increase in economic activity is driven mainly by three key factors: (1) the influx of new population; (2) the increase in disposable personal income generated by lower personal income taxes; and (3) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **$264.0 million**.

The static impact of the tax cut is a **$180.0 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$170.0 million**. This means that **5.6%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

S1 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.01	$0.01	$0.01	$0.01	$0.01
$12,600 - $20,999	Nominal Millions	$0.04	$0.05	$0.06	$0.06	$0.06	$0.05
$21,000 - $35,099	Nominal Millions	$0.14	$0.19	$0.22	$0.24	$0.25	$0.21
$35,100 - $80,000	Nominal Millions	$0.46	$0.62	$0.72	$0.77	$0.79	$0.67
$80,000+	Nominal Millions	$1.04	$1.40	$1.63	$1.75	$1.79	$1.52

Largely as a result of the increase in population and GDP, state government expenditures **rise** by an average of **$4.9 million**.

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Proposals Under Consideration: Income Tax Proposal – Governor's Proposal

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The results shown below are differences from the baseline REMI forecast.

S1 - Direct Personal Income Tax Decrease & Private Non-Farm Production Cost Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,070	1,920	2,587	3,072	3,401	2,410
Total Employment	Individuals	1,432	1,696	1,770	1,717	1,615	1,646
Government Employment	Individuals	87	142	175	192	198	159
Private Non-Farm Employment	Individuals	1,345	1,554	1,595	1,525	1,417	1,487
Gross State Product (Value-Added)	Nominal Millions	$102.6	$125.4	$135.4	$136.5	$133.1	$126.6
Output (Industry Sales)	Nominal Millions	$170.7	$208.5	$224.4	$225.3	$219.0	$209.6
Disposable Personal Income	Nominal Millions	$231.0	$255.6	$271.1	$279.6	$282.6	$264.0
Government Revenue	Nominal Millions	-$172.0	-$170.6	-$169.6	-$169.1	-$168.8	-$170.0
Government Expenditure	Nominal Millions	$2.0	$3.8	$5.2	$6.3	$7.0	$4.9
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$174.1	-$174.4	-$174.8	-$175.4	-$175.9	-$174.9

Scenario 2

The second scenario also follows the blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.

The annual **decrease** in Arkansas' population rises from **58** in 2019 to **182** in 2023, with a 5-year average annual **decrease** of **118**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.

Total employment **falls** by an average of **1,451**, of which **10.9%** comes from private non-farm sectors and **89.1%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **decrease** by an average of **$98.3 million** and **$164.6 million**, respectively. This decrease in economic activity is driven mainly by two key factors: (1) the decrease in population; and (2) the decrease in government expenditures. Disposable personal income **increases** by an average of **$89.2 million**.

The static impact of the tax cut is a **$180.0 million loss** in state revenue per year, and the change in economic

activity does not materially affect the size of this loss. Thus, the total revenue **loss** averages **$180.0 million**. This means that **0.0%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

S2 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$12,600 - $20,999	Nominal Millions	-$0.04	-$0.04	-$0.04	-$0.04	-$0.04	-$0.04
$21,000 - $35,099	Nominal Millions	-$0.14	-$0.14	-$0.15	-$0.16	-$0.16	-$0.15
$35,100 - $80,000	Nominal Millions	-$0.46	-$0.46	-$0.48	-$0.50	-$0.53	-$0.49
$80,000+	Nominal Millions	-$1.04	-$1.05	-$1.09	-$1.14	-$1.20	-$1.11

Largely as a result of the decrease in population and GDP, state government expenditures **decrease** by an average of **$2.5 million** over and above the **$180.0 million decrease** in expenditures corresponding with the tax cut for a total **decrease** of **$182.5 million**. Thus, the average annual change in net revenue is an **increase** of **$2.5 million**.

The results shown below are differences from the baseline REMI forecast.

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S2 - Direct Personal Income Tax Decrease & Private Non-Farm Production Cost Decrease with Direct State Expenditure Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-58	-89	-115	-147	-182	-118
Total Employment	Individuals	-1,681	-1,494	-1,405	-1,353	-1,322	-1,451
Government Employment	Individuals	-1,363	-1,329	-1,295	-1,257	-1,222	-1,293
Private Non-Farm Employment	Individuals	-318	-165	-110	-96	-100	-158
Gross State Product (Value-Added)	Nominal Millions	-$109.2	-$98.5	-$94.9	-$94.1	-$94.7	-$98.3
Output (Industry Sales)	Nominal Millions	-$186.3	-$166.7	-$158.8	-$156.0	-$155.4	-$164.6
Disposable Personal Income	Nominal Millions	$93.3	$92.8	$90.1	$86.8	$83.2	$89.2
Government Revenue	Nominal Millions	-$179.9	-$179.8	-$179.9	-$180.1	-$180.3	-$180.0
Government Expenditure	Nominal Millions	-$181.1	-$181.9	-$182.6	-$183.2	-$183.7	-$182.5
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	$1.2	$2.1	$2.7	$3.1	$3.4	$2.5

Scenario 3

The third scenario treats 100% of the personal income tax cut as a decrease in business costs.

The annual **increase** in Arkansas' population rises from **727** in 2019 to **3,266** in 2023, with a 5-year average annual **increase** of **2,070.** This is largely driven by higher employment opportunities, which raises the level of economic in-migration.

Total employment **rises** by an average of **2,124**, of which **92.6%** comes from private non-farm sectors and **7.4%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) increase by an average of **$157.5 million** and **$274.0 million**, respectively. This **increase** in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **$114.3 million**.

The static impact of the tax cut is a **$180.0 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$172.2 million**. This means that **4.4%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

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S3 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.01	$0.01	$0.01	$0.01	$0.01
$12,600 - $20,999	Nominal Millions	$0.03	$0.05	$0.06	$0.08	$0.09	$0.06
$21,000 - $35,099	Nominal Millions	$0.12	$0.19	$0.25	$0.29	$0.33	$0.23
$35,100 - $80,000	Nominal Millions	$0.39	$0.61	$0.79	$0.94	$1.05	$0.75
$80,000+	Nominal Millions	$0.87	$1.38	$1.80	$2.13	$2.38	$1.71

Largely as a result of the increase in population, state government expenditures **rise** by an average of **$4.6 million**.

The results shown below are differences from the baseline REMI forecast.

S3 - Direct Private Non-Farm Production Cost Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	727	1,456	2,145	2,755	3,266	2,070
Total Employment	Individuals	1,364	1,919	2,279	2,480	2,580	2,124
Government Employment	Individuals	66	123	169	202	226	157
Private Non-Farm Employment	Individuals	1,298	1,796	2,111	2,278	2,353	1,967
Gross State Product (Value-Added)	Nominal Millions	$91.2	$134.8	$166.9	$189.6	$205.1	$157.5
Output (Industry Sales)	Nominal Millions	$158.0	$234.6	$290.7	$330.0	$356.8	$274.0
Disposable Personal Income	Nominal Millions	$58.0	$91.8	$119.8	$142.4	$159.4	$114.3
Government Revenue	Nominal Millions	-$175.5	-$173.5	-$171.8	-$170.5	-$169.4	-$172.2
Government Expenditure	Nominal Millions	$1.5	$3.1	$4.7	$6.2	$7.6	$4.6
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$177.0	-$176.6	-$176.6	-$176.7	-$177.0	-$176.8

Scenario 4

The fourth scenario also treats 100% of the personal income tax cut as a decrease in business costs. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.

The annual **decrease** in Arkansas' population falls from **402** in 2019 to **321** in 2023, with a 5-year average annual **decrease** of **461**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.

Employment in the private non-farm sectors **increases** annually over the next 5 years by an average of **320** jobs while government sector employment **declines** by an average of **1,295** jobs, creating an average total employment **decline** of **975** jobs. Additionally, Gross State Product (GSP) and Total Output (which accounts for both GSP as well as the value of intermediate inputs) decline by an average of **$67.5 million** and **$100.4 million**, respectively. This decline in economic activity is driven mainly by two key factors: (1) the decline in population; and (2) a decrease in disposable personal income caused by a decline in government employment. Disposable personal income **decreases** by an average of **$60.6 million**.

The static impact of the tax cut is a **$180.0 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue loss averages **$182.1 million**. This means that the static revenue loss is **increased** by another **1.2%**. The dynamic income tax revenue impact by

bracket is:

S4 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$12,600 - $20,999	Nominal Millions	-$0.04	-$0.04	-$0.03	-$0.03	-$0.02	-$0.03
$21,000 - $35,099	Nominal Millions	-$0.17	-$0.15	-$0.13	-$0.10	-$0.08	-$0.13
$35,100 - $80,000	Nominal Millions	-$0.53	-$0.47	-$0.41	-$0.34	-$0.27	-$0.40
$80,000+	Nominal Millions	-$1.21	-$1.08	-$0.93	-$0.76	-$0.61	-$0.92

Largely as a result of the decrease in population and GDP, state government expenditures **decrease** by an average of **$2.7 million** over and above the **$180.0 million decrease** in expenditures corresponding with the tax cut for a total decrease of **$182.7 million**. Thus, the average annual change in net revenue is an increase of approximately **$600,000**.

The results shown below are differences from the baseline REMI forecast.

S4 - Direct Private Non-Farm Production Cost Decrease with Direct State Expenditure Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-402	-555	-559	-467	-321	-461
Total Employment	Individuals	-1,751	-1,272	-898	-592	-359	-975
Government Employment	Individuals	-1,384	-1,348	-1,302	-1,246	-1,194	-1,295
Private Non-Farm Employment	Individuals	-367	76	404	654	834	320
Gross State Product (Value-Added)	Nominal Millions	-$120.6	-$89.3	-$63.5	-$41.1	-$22.8	-$67.5
Output (Industry Sales)	Nominal Millions	-$199.1	-$140.7	-$92.8	-$51.6	-$17.8	-$100.4
Disposable Personal Income	Nominal Millions	-$79.7	-$71.1	-$61.3	-$50.5	-$40.2	-$60.6
Government Revenue	Nominal Millions	-$183.4	-$182.7	-$182.1	-$181.5	-$180.9	-$182.1
Government Expenditure	Nominal Millions	-$181.6	-$182.6	-$183.0	-$183.2	-$183.1	-$182.7
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$1.7	-$0.2	$0.9	$1.7	$2.3	$0.6

Scenario 5

The fifth scenario treats 100% of the personal income tax cut as a direct decrease in personal income taxes.

The annual **increase** in Arkansas' population rises from **1,108** in 2019 to **3,417** in 2023, with a 5-year average annual **increase** of **2,448.** This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.

Total employment **rises** by an average of **1,593**, of which **90.0%** comes from private non-farm sectors and **10.0%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) increase by an average of **$123.1 million** and **$202.4 million**, respectively. This increase in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the increase in disposable personal income generated by lower personal income taxes. Specifically, disposable personal income **increases** by an average of **$280.7 million**.

The static impact of the tax cut is a **$180.0** million **loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$169.8 million**. This means that **5.7%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

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S5 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.01	$0.01	$0.01	$0.01	$0.01
$12,600 - $20,999	Nominal Millions	$0.04	$0.05	$0.06	$0.06	$0.06	$0.05
$21,000 - $35,099	Nominal Millions	$0.15	$0.19	$0.22	$0.23	$0.24	$0.21
$35,100 - $80,000	Nominal Millions	$0.47	$0.62	$0.71	$0.75	$0.76	$0.66
$80,000+	Nominal Millions	$1.06	$1.40	$1.61	$1.70	$1.72	$1.50

Largely as a result of the increase in population and GDP, state government expenditures **rise** by an average of **$4.9 million**.

The results shown below are differences from the baseline REMI forecast.

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S5 - Direct Personal Income Tax Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,108	1,972	2,637	3,107	3,417	2,448
Total Employment	Individuals	1,440	1,671	1,713	1,631	1,507	1,593
Government Employment	Individuals	89	144	176	190	195	159
Private Non-Farm Employment	Individuals	1,351	1,527	1,537	1,441	1,313	1,434
Gross State Product (Value-Added)	Nominal Millions	$103.8	$124.4	$131.9	$130.5	$125.0	$123.1
Output (Industry Sales)	Nominal Millions	$172.1	$205.6	$217.0	$213.6	$203.5	$202.4
Disposable Personal Income	Nominal Millions	$250.4	$273.9	$288.0	$294.9	$296.4	$280.7
Government Revenue	Nominal Millions	-$171.6	-$170.3	-$169.4	-$169.0	-$168.8	-$169.8
Government Expenditure	Nominal Millions	$2.1	$3.8	$5.2	$6.3	$7.0	$4.9
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$173.7	-$174.1	-$174.6	-$175.2	-$175.7	-$174.7

Scenario 6

The sixth scenario also treats 100% of the personal income tax cut as a direct decrease in personal income taxes. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.

The annual **decline** in Arkansas' population **rises** from **20** in 2019 to **167** in 2023, with a 5-year average annual **decrease** of **80.** This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.

Total employment **decreases** by an average of **1,504**, of which **14.0%** comes from private non-farm sectors and **86.0%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **decrease** by an average of **$101.7 million** and **$171.8 million**, respectively. This **decrease** in economic activity is driven mainly by the **decrease** in in-state consumption that comes from two key factors: (1) the decrease in population; and (2) a portion of consumers' increased after-tax income being spent on out-of-state goods and services. Specifically, disposable personal income will **increase** by an average of **$106 million**.

The static impact of the tax cut is a **$180.0 million loss** in state revenue per year, but the increase in economic activity created by the increase in consumer after-tax personal income generates an average increase in annual revenue of **$244,000**. Thus, the total revenue decrease under dynamic scoring averages approximately

-$179.8 million. This means that **0.1%** of the static revenue loss is recovered. The dynamic income tax revenue impact by bracket is:

S6 - Dynamic Personal Income Tax Revenue Impact by Income Bracket

Income Bracket	Units	2019	2020	2021	2022	2023	Average
$0 - $4,299	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$4,300 - $8,399	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$8,400 - $12,599	Nominal Millions	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
$12,600 - $20,999	Nominal Millions	-$0.04	-$0.04	-$0.04	-$0.04	-$0.05	-$0.04
$21,000 - $35,099	Nominal Millions	-$0.14	-$0.14	-$0.15	-$0.16	-$0.17	-$0.15
$35,100 - $80,000	Nominal Millions	-$0.45	-$0.46	-$0.49	-$0.52	-$0.56	-$0.50
$80,000+	Nominal Millions	-$1.03	-$1.05	-$1.11	-$1.19	-$1.27	-$1.13

Largely as a result of the relative decrease in population, state government expenditures **decrease** by an average of **$2.5 million** over and above the **$180.0 million** decrease that corresponds to the tax cut.

The results shown below are differences from the baseline REMI forecast.

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S6 - Direct Personal Income Tax Decrease with Direct State Expenditure Decrease

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-20	-37	-65	-111	-167	-80
Total Employment	Individuals	-1,673	-1,518	-1,462	-1,438	-1,430	-1,504
Government Employment	Individuals	-1,361	-1,327	-1,295	-1,258	-1,225	-1,293
Private Non-Farm Employment	Individuals	-312	-192	-168	-180	-204	-211
Gross State Product (Value-Added)	Nominal Millions	-$107.9	-$99.6	-$98.4	-$100.1	-$102.7	-$101.7
Output (Industry Sales)	Nominal Millions	-$184.8	-$169.6	-$166.2	-$167.7	-$170.8	-$171.8
Disposable Personal Income	Nominal Millions	$112.7	$111.1	$107.0	$102.2	$97.0	$106.0
Government Revenue	Nominal Millions	-$179.5	-$179.5	-$179.7	-$179.9	-$180.2	-$179.8
Government Expenditure	Nominal Millions	-$181.0	-$181.8	-$182.5	-$183.2	-$183.7	-$182.5
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	$1.5	$2.4	$2.9	$3.2	$3.6	$2.7

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Conclusion:

The Governor is proposing to lower the tax rate from 6.9 percent to 6 percent for people with taxable incomes with $80,000 or more. This impact statement provides a range of possible effects on the state economy and budget that would result from adopting the proposal. By factoring in the total economic effects, dynamic scoring can indicate where the state may recover revenue reduced by cuts in tax rates.

As described above, the scenarios reflect three different approaches – one focused on production costs, another on income, and a third one that blends production and income based on publicly available data.

The blended approach shows annual economic output growing on average over 5 years by $209.6 million and an average annual increase of 1,646 jobs, with more than 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $174.9 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

The production-cost approach reflects the potential for tax cuts to cause a reduction in costs for businesses, which in turn affect the economy in ways that an income-only approach may not capture. Since the Governor's Proposal would affect after-tax wages and salaries, the plan would change the competitive position of Arkansas-based employers seeking to attract workers. Employers in the state have to compensate for the tax burden in order to compete with employers based in lower-tax states.

The production-cost approach shows annual economic output growing on average over 5 years by $274.0 million and an average annual increase of 2,124 jobs, with more than 92 percent of the growth occurring in private non-farm employment. It also shows a net loss of $176.8 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be concentrated in the public sector while the private sector would gain jobs.

The income-focused approach shows annual economic output growing on average over 5 years by $202.4 million and an average annual increase of 1,593 jobs, with 90 percent of the growth occurring in private non-farm employment. It also shows a net loss of $174.7 million in revenue. Corresponding cuts in government spending would compensate for this loss. Output and job growth would turn negative, though the job loss would be mostly concentrated in the public sector.

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Proposals Under Consideration: Inventory Tax Repeal Proposal

Executive Summary:

The proposal under consideration repeals the Arkansas inventory tax. There is no direct static fiscal impact of the proposal on the Arkansas state budget because the inventory tax falls under local property taxes, which decrease by $70,000,000. While the state budget is not directly impacted in the analysis, it is acknowledged that given the decrease in local property taxes, K-12 education funding discrepancies may arise between counties that the state government may need to step in to equalize.

This impact statement includes fiscal, economic, and demographic estimates from a dynamic economic model. A dynamic model captures the macroeconomic feedback from behavioral changes among consumers and businesses and allows this to have feedback effects on state revenues and expenditures.

The results show annual economic output growing on average over 5 years by $88.1 million and an average annual increase of 488 jobs, with more than 91 percent of the growth occurring in private non-farm employment. It also shows a net gain of $2.8 million in state revenue.

Methodology:

The economic and fiscal analysis of the proposals is conducted by Regional Economic Models, Inc. (REMI) using their Tax-PI v2.1 software, which is a dynamic regional macroeconomic, demographic, and fiscal model. Specifically, they use a 1-region custom model of Arkansas that is calibrated to revenues and expenditures from the FY 2017 Arkansas state budget.

Each budget category is assigned both an "economic driver" that allows it to respond to changes in a specific economic variable (e.g., Value Added for Corporate Income Tax Revenue) and a "policy variable" that allows it to directly impact a specific economic variable (e.g., Production Cost for Corporate Income Tax Revenue).

The direct economic shock is input into the model for each year during the 5-year period 2019-2023. The economic shock is a decrease in production costs for all applicable industries. Then, the model produces estimates for each proposal of economic impacts on the state of Arkansas such as employment, GDP, output, and disposable personal income, demographic impacts on the state such as changes in population, and fiscal impacts on the state budget including both revenues and expenditures.

The results are reported in the next section with accompanying discussion.

Economic & Fiscal Impacts:

The annual **increase** in Arkansas' population rises from **183** in 2019 to **789** in 2023, with a 5-year average annual **increase** of **506**. This is largely driven by higher employment opportunities, which raises the level of economic in-migration.

Total employment **rises** by an average of **488**, of which **91.4%** comes from private non-farm sectors and **8.6%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **increase** by an average of **$47.0 million** and **$88.1 million**, respectively. This increase in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **$28.9 million**.

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Proposals Under Consideration: Inventory Tax Repeal Proposal

The static impact of the tax cut is **$0.0 million** in state revenue per year, but the increase in economic activity generates a gain in state revenue. Thus, the total state revenue **gain** averages **$2.8 million**.

Largely as a result of the increase in population and GDP, state government expenditures **rise** by an average of **$1.1 million**.

The results shown below are differences from the baseline REMI forecast.

Inventory Tax Repeal: Production Costs Decrease by $70M

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	183	360	526	670	789	506
Total Employment	Individuals	314	442	525	570	591	488
Government Employment	Individuals	18	33	45	54	61	42
Private Non-Farm Employment	Individuals	296	409	480	515	530	446
Gross State Product (Value-Added)	Nominal Millions	$26.2	$39.6	$49.7	$57.1	$62.5	$47.0
Output (Industry Sales)	Nominal Millions	$48.2	$73.7	$93.1	$107.5	$118.0	$88.1
Disposable Personal Income	Nominal Millions	$14.6	$23.2	$30.3	$36.0	$40.3	$28.9
Government Revenue	Nominal Millions	$1.9	$2.5	$2.9	$3.2	$3.5	$2.8
Government Expenditure	Nominal Millions	$0.4	$0.7	$1.1	$1.5	$1.8	$1.1
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	$1.6	$1.7	$1.8	$1.8	$1.8	$1.7

Conclusion:

The proposal under consideration repeals the Arkansas inventory tax. This impact statement provides the possible effects on the state economy and budget that would result from adopting the proposal. By factoring in the total economic effects, dynamic scoring can indicate where the state may recover revenue reduced by cuts in tax rates.

The results show annual economic output growing on average over 5 years by $88.1 million and an average annual increase of 488 jobs, with more than 91 percent of the growth occurring in private non-farm employment. It also shows a net gain of $2.8 million in state revenue.

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Proposals Under Consideration: Throwback Rule Repeal Proposal

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Executive Summary:

The proposal under consideration repeals the Arkansas Throwback Rule, in which Arkansas business' out-of-state sales that are not taxed by any other jurisdiction are "thrown back" to be taxed by Arkansas. The total static fiscal impact of the proposal is a reduction in Arkansas state corporate income tax revenue of $25,000,000.

This impact statement includes fiscal, economic, and demographic estimates from a dynamic economic model. A dynamic model captures the macroeconomic feedback from behavioral changes among consumers and businesses and allows this to have feedback effects on state revenues and expenditures.

The results show annual economic output growing on average over 5 years by $28.7 million and an average annual increase of 152 jobs, with more than 92 percent of the growth occurring in private non-farm employment. It also shows a net loss of $24.5 million in revenue.

Methodology:

The economic and fiscal analysis of the proposals is conducted by Regional Economic Models, Inc. (REMI) using their Tax-PI v2.1 software, which is a dynamic regional macroeconomic, demographic, and fiscal model. Specifically, they use a 1-region custom model of Arkansas that is calibrated to revenues and expenditures from the FY 2017 Arkansas state budget.

Each budget category is assigned both an "economic driver" that allows it to respond to changes in a specific economic variable (e.g., Value Added for Corporate Income Tax Revenue) and a "policy variable" that allows it to directly impact a specific economic variable (e.g., Production Cost for Corporate Income Tax Revenue).

The static corporate income tax revenue impact and the resulting direct economic shock are input into the model for each year during the 5-year period 2019-2023. The economic shock is a decrease in production costs for all applicable industries. Then, the model produces estimates for each proposal of economic impacts on the state of Arkansas such as employment, GDP, output, and disposable personal income, demographic impacts on the state such as changes in population, and fiscal impacts on the state budget including both revenues and expenditures.

The results are reported in the next section with accompanying discussion.

Economic & Fiscal Impacts:

The annual **increase** in Arkansas' population rises from **37** in 2019 to **181** in 2023, with a 5-year average annual **increase** of **111**. This is largely driven by higher employment opportunities, which raises the level of economic in-migration.

Total employment **rises** by an average of **152**, of which **92.8%** comes from private non-farm sectors and **7.2%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **increase** by an average of **$14.5 million** and **$28.7 million**, respectively. This increase in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **$8.0 million**.

Arkansas Tax Reform and Relief Legislative Task Force

Legislative Impact Statement

Proposals Under Consideration: Throwback Rule Repeal Proposal

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The static impact of the tax cut is a **$25.0 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **$24.5 million**. This means that **2%** of the static revenue loss is recovered.

Largely as a result of the increase in population and GDP, state government expenditures **rise** by an average of approximately **$300,000**.

The results shown below are differences from the baseline REMI forecast.

Throwback Rule Repeal: Revenue and Production Costs Decrease by $25M

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	37	76	114	149	181	111
Total Employment	Individuals	88	132	163	182	194	152
Government Employment	Individuals	4	8	12	15	17	11
Private Non-Farm Employment	Individuals	83	124	152	168	177	141
Gross State Product (Value-Added)	Nominal Millions	$7.4	$11.8	$15.3	$18.0	$20.0	$14.5
Output (Industry Sales)	Nominal Millions	$14.3	$23.2	$30.3	$35.7	$39.9	$28.7
Disposable Personal Income	Nominal Millions	$3.8	$6.3	$8.4	$10.2	$11.6	$8.0
Government Revenue	Nominal Millions	-$24.7	-$24.6	-$24.4	-$24.3	-$24.2	-$24.5
Government Expenditure	Nominal Millions	$0.1	$0.2	$0.3	$0.3	$0.4	$0.3
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$24.8	-$24.7	-$24.7	-$24.7	-$24.7	-$24.7

Conclusion:

The proposal under consideration repeals the Arkansas Throwback Rule. This impact statement provides the possible effects on the state economy and budget that would result from adopting the proposal. By factoring in the total economic effects, dynamic scoring can indicate where the state may recover revenue reduced by cuts in tax rates.

The results show annual economic output growing on average over 5 years by $28.7 million and an average annual increase of 152 jobs, with more than 92 percent of the growth occurring in private non-farm employment. It also shows a net loss of $24.5 million in revenue.

Arkansas Tax Reform and Relief Legislative Task Force

Legislative Impact Statement

Proposals Under Consideration: Single Sales Factor Proposal

Executive Summary:

The proposal under consideration amends the Arkansas corporate income tax base by implementing a Single Sales Factor. This apportionment system only considers the percentage of sales that occur within the state of Arkansas to determine each corporation's percentage of net income that is taxable in Arkansas, while the current apportionment system also factors in the corporation's percentages of payroll and property that exist in Arkansas.[1]

This impact statement includes fiscal, economic, and demographic estimates from a dynamic economic model. A dynamic model captures the macroeconomic feedback from behavioral changes among consumers and businesses and allows this to have feedback effects on state revenues and expenditures.

The results show annual economic output falling on average over 5 years by $13.8 million and an average annual decrease of 94 jobs, with more than 91 percent of the decline occurring in private non-farm employment. It also shows a net increase of $8.6 million in revenue.

Methodology:

The economic and fiscal analysis of the proposals is conducted by Regional Economic Models, Inc. (REMI) using their Tax-PI v2.1 software, which is a dynamic regional macroeconomic, demographic, and fiscal model. Specifically, they use a 1-region custom model of Arkansas that is calibrated to revenues and expenditures from the FY 2017 Arkansas state budget.

Each budget category is assigned both an "economic driver" that allows it to respond to changes in a specific economic variable (e.g., Value Added for Corporate Income Tax Revenue) and a "policy variable" that allows it to directly impact a specific economic variable (e.g., Production Cost for Corporate Income Tax Revenue).

The static corporate income tax revenue impact and the resulting direct economic shock are input into the model for each year during the 5-year period 2019-2023. The economic shock is an increase in production costs for all applicable industries. Then, the model produces estimates for each proposal of economic impacts on the state of Arkansas such as employment, GDP, output, and disposable personal income, demographic impacts on the state such as changes in population, and fiscal impacts on the state budget including both revenues and expenditures.

The results are reported in the next section with accompanying discussion.

Economic & Fiscal Impacts:

The annual **decrease** in Arkansas' population rises from **34** in 2019 to **147** in 2023, with a 5-year average annual **decrease** of **94**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.

Total employment **falls** by an average of **94**, of which **91.5%** comes from private non-farm sectors and **8.5%** comes from the government sector. Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **decrease** by an average of **$8.1 million** and **$13.8**

[1] Currently, the sales factor has double the weight of each of the payroll and property factors.

million, respectively. This decrease in economic activity is driven mainly by two key factors: (1) the loss of new population; and (2) the increase in business costs which makes Arkansas industries less competitive with imports. Disposable personal income **decreases** by an average of **$5.4 million**.

The static impact of the tax cut is a **$9.0 million gain** in state revenue per year, but the decrease in economic activity partially offsets the gain. Thus, the total revenue **gain** averages **$8.6 million**. This means that **4.4%** of the static revenue gain is lost.

Largely as a result of the decrease in population and GDP, state government expenditures **fall** by an average of approximately **$200,000**.

The results shown below are differences from the baseline REMI forecast.

Single Sales Factor Enactment: Revenue and Production Costs Increase by $9M

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-34	-67	-98	-125	-147	-94
Total Employment	Individuals	-62	-86	-101	-109	-112	-94
Government Employment	Individuals	-3	-6	-8	-10	-11	-8
Private Non-Farm Employment	Individuals	-58	-80	-93	-99	-101	-86
Gross State Product (Value-Added)	Nominal Millions	-$4.8	-$7.0	-$8.6	-$9.7	-$10.5	-$8.1
Output (Industry Sales)	Nominal Millions	-$8.1	-$11.9	-$14.6	-$16.5	-$17.7	-$13.8
Disposable Personal Income	Nominal Millions	-$2.8	-$4.4	-$5.7	-$6.7	-$7.4	-$5.4
Government Revenue	Nominal Millions	$8.8	$8.7	$8.6	$8.5	$8.5	$8.6
Government Expenditure	Nominal Millions	-$0.1	-$0.1	-$0.2	-$0.3	-$0.3	-$0.2
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	$8.8	$8.8	$8.8	$8.8	$8.8	$8.8

Arkansas Tax Reform and Relief Legislative Task Force

Legislative Impact Statement

Proposals Under Consideration: Single Sales Factor Proposal

Conclusion:

The proposal under consideration amends the Arkansas corporate income tax base by implementing a Single Sales Factor. This impact statement provides the possible effects on the state economy and budget that would result from adopting the proposal. By factoring in the total economic effects, dynamic scoring can indicate where the state may recover revenue reduced by cuts in tax rates.

The results show annual economic output falling on average over 5 years by $13.8 million and an average annual decrease of 94 jobs, with more than 91 percent of the decline occurring in private non-farm employment. It also shows a net increase of $8.6 million in revenue.