

INCOME TAX PROPOSAL #5
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Individual Income Tax

Summary of Proposal for Consideration

This proposal would 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 proposal would consider two (2) options, “Option A” and “Option B”.

Option A 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 A would be 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 B 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%

Fiscal Analysis

Based on the information previously provided by the Department of Finance and Administration to the Arkansas Tax Reform and Relief Legislative Task Force on June 27, 2018, Option A would result in an estimated loss of \$276,437,336, and Option B would result in an estimated loss of \$125,766,677.

Potential Legal Issues

Amendment 19 to the Arkansas Constitution (incorporated at Article 5, § 38) requires an emergency clause and a three-fourths (3/4) vote of the legislature to increase the rate of certain taxes.¹ Income taxes are generally considered to fall under the Amendment 19 requirements.

Because Option A does not raise any individual income tax rates based on the individual income tax rates effective in calendar year 2018 and the individual income tax rates that will be effective as of January 1, 2019, Option A would not require an emergency clause and a three-fourths (3/4) vote of both houses of the General Assembly.

Option B does not raise any individual income tax rates based on the individual income tax rates effective for calendar year 2018. However, Option B would raise the individual income tax rates for individuals with income less than twenty-one thousand (\$21,000) dollars based on the individual income tax rates that will be effective on January 1, 2019, as enacted by Act 78 and Act 79 of 2017. Because Option B would result in an increase in the rate of individual income tax for some taxpayers, Option B would require an emergency clause and a three-fourths (3/4) vote of both houses of the General Assembly.

¹ Amendment 19 also allows for the General Assembly to refer such tax rate increases to the voters for their approval, in which case the bill would require only a majority vote of each house.