

INCOME TAX PROPOSAL #18
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Income Tax Trigger Using the Revenue Stabilization Act

Summary of Proposal for Consideration

This proposal would create a tax trigger to reduce the top marginal income tax rate on individual taxpayers making over seventy-five thousand dollars (\$75,000) from six and nine-tenths percent (6.9%) to six percent (6%) based on the Revenue Stabilization Act (RSA), effective for tax years beginning January 1, 2019. Under this proposal, the tax trigger would be created and implemented as follows:

- The target rate reduction would be identified by creating a planned rate reduction to the top marginal income tax rate for taxpayers making over seventy-five thousand dollars (\$75,000) from six and nine-tenths percent (6.9%) to six percent (6%);
- The amount of revenue required to trigger the tax reduction would be set at one hundred eighty million dollars (\$180,000,000);
- The tax trigger would be structured to implement the tax reductions incrementally. The amount spent on essential governmental services would be set at approximately five billion five hundred million dollars (\$5,500,000,000), and that amount would be indexed for inflation to ensure that essential government services are not disproportionately reduced. Forty million dollars (\$40,000,000) would be set aside and credited to a specified fund for the purpose of the income tax reductions each year of the biennium;
- At the end of each legislative session, the RSA would be drafted to specify that the forty million dollars (\$40,000,000) would be set aside to fund a category C appropriation and that such funds would be deposited into a holding account with a condition that the money would be transferred to the Long Term Reserve Fund or a similar fund upon designation of full funding by the Chief Fiscal Officer of the State (CFO);
- At the end of the following fiscal year, the CFO would certify whether revenue has been sufficient to fund the category C appropriation of forty million dollars (\$40,000,000). If the revenue has been sufficient to fund the category C appropriation of forty million dollars (\$40,000,000), the CFO would reduce the specified income tax rate based on this excess funding. If the revenue is not sufficient to fund the category C appropriation, the specified income tax rate would not be reduced. If the full forty million dollars (\$40,000,000) in funding is met, the forty million dollars (\$40,000,000) would be credited to the Long Term Reserve Fund or other similar fund; and
- The CFO would certify how much remained in the fund to meet the intent of the tax trigger and reduce the specified income tax rate to its target rate.

Fiscal Analysis

According to the Department of Finance and Administration, this proposal would be revenue neutral because the rate reduction would be dependent on funding that was allocated from a new fund created within the RSA.

Potential Legal Issues

None.