

PROPERTY TAX PROPOSAL #3
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Franchise Tax

Summary of Proposal for Consideration

This proposal would either reduce the franchise tax on corporations such that the franchise tax generated only eight million dollars (\$8,000,000) or repeal the franchise tax entirely. This proposal would also transfer the administration and collection authority for the franchise tax to the Department of Finance and Administration (DFA), allow for franchise taxes to be filed with a corporation's income tax, and eliminate the franchise tax penalty on closed businesses.

Fiscal Analysis

According to DFA, the corporate franchise tax currently generates approximately twenty-three million dollars (\$23,000,000) in revenue, with the amount in excess of the first eight million dollars being transferred to the Educational Adequacy Fund. Accordingly, reducing the corporate franchise tax to eight million dollars (\$8,000,000) would have a fiscal impact of fifteen million dollars (\$15,000,000), and completely eliminating the corporate franchise tax would have a fiscal impact of twenty-three million dollars (\$23,000,000).

Transferring the corporate franchise tax to the Department of Finance and Administration – Office of Corporation Income Tax would require an additional three (3) to four (4) employees to oversee corporate franchise tax in conjunction with the corporate income tax and programming costs. One-time programming costs to add the franchise tax to DFA's computer system would be six hundred thirty thousand dollars (\$630,000), and ongoing costs for upkeep would be two hundred thirty thousand dollars (\$230,000). Additional employees would cost two hundred seventy thousand dollars (\$270,000). The Secretary of State's Office appropriation currently includes costs to administer the corporate franchise tax.

Potential Legal Issues

Under Arkansas Constitution, Article 14, § 1, and as held by the court in *Lake View School District No. 25 v. Huckabee*, 91 S.W.3d (2002), the state is required to provide an equal opportunity for an adequate education for all students. The majority of the funds received by the corporate franchise tax are used to fund the Educational Adequacy Trust Fund, which is used to help ensure compliance with the educational adequacy requirements of the Arkansas Constitution and *Lake View*. The repeal or reduction of the corporate franchise tax would reduce the funding available for educational adequacy.