



Comparison of Individual Income Tax Reduction Proposals

Arkansas Tax Reform and Relief Legislative Task Force

August 22-23, 2018

Arkansas Department of Finance and Administration



Overview of Income Tax Reduction Proposals – Option A

- Option A would reduce the number of Individual Income Tax tables from three to one and reduce the top marginal rate for individuals from 6.9% to 6.5%. The Individual Income Tax table under this proposal would be as follows:

Taxable Income	Tax Rate
\$0-\$4,299	0.00%
\$4,300 - \$8,399	2.00%
\$8,400 - \$12,599	3.00%
\$12,600 - \$20,999	3.40%
\$21,000 - \$35,099	5.00%
\$35,100 - \$80,000	6.00%
\$80,000+	6.50%

Revenue Impact – Option A

- Revenue impact calculated as though Option A was implemented during the 2018 tax year using brackets provided in proposal.
- Because revenue impact assumes change implemented in 2018, \$50M lower income tax cut to be implemented in 2019 not accounted for in revenue impact.

<u>Option A Brackets</u>			<u>2017 Brackets</u>		<u>Option A Rates</u>		
			<u># of Taxpayers</u>	<u>Revenue</u>	<u># of Taxpayers</u>	<u>Revenue</u>	<u>Revenue Impact</u>
\$0	\$4,299	0.0%	139,298	\$529,688	139,298	\$24,086	-\$505,602
\$4,300	\$8,399	2.0%	88,007	\$1,972,519	88,007	\$998,694	-\$973,825
\$8,400	\$12,599	3.0%	97,904	\$5,404,354	97,904	\$3,899,035	-\$1,505,319
\$12,600	\$20,999	3.4%	206,267	\$57,756,259	206,267	\$45,060,925	-\$12,695,334
\$21,000	\$35,099	5.0%	249,458	\$221,719,307	249,458	\$185,030,490	-\$36,688,817
\$35,100	\$80,000	6.0%	315,511	\$712,157,867	315,511	\$645,096,527	-\$67,061,340
\$80,000 and up		6.5%	<u>170,365</u>	<u>\$1,617,373,975</u>	<u>170,365</u>	<u>\$1,460,366,876</u>	<u>-\$157,007,099</u>
			1,266,810	\$2,616,913,969	1,266,810	\$2,340,476,633	-\$276,437,336

Overview of Income Tax Reduction Proposals – Option B

- Option B would reduce the number of individual income tax tables from three to one and reduce the top marginal rate for individuals from 6.9% to 6.5%. The individual income tax table under Option B would be as follows:

Taxable Income	Tax Rate
\$0-\$4,299	0.90%
\$4,300 - \$8,399	2.40%
\$8,400 - \$12,599	3.40%
\$12,600 - \$20,999	4.40%
\$21,000 - \$35,099	5.00%
\$35,100 - \$80,000	6.00%
\$80,000+	6.50%

Revenue Impact – Option B

- Revenue impact calculated as though Option B was implemented during the 2018 tax year using brackets provided in proposal.
- Because revenue impact assumes change implemented in 2018, \$50M lower income tax cut to be implemented in 2019 not accounted for in revenue impact.
- Option B revenue impact below does not include 10% EITC Credit, which is a separate \$77M revenue impact.

<u>Option B Brackets</u>			<u>2017 Brackets</u>		<u>Option B Rates</u>		
			<u># of Taxpayers</u>	<u>Revenue</u>	<u># of Taxpayers</u>	<u>Revenue</u>	<u>Revenue Impact (Revised)</u>
\$0	\$4,299	0.9%	139,298	\$529,688	139,298	\$534,277	\$4,589
\$4,300	\$8,399	2.4%	88,007	\$1,972,519	88,007	\$2,009,264	\$36,745
\$8,400	\$12,599	3.4%	97,904	\$5,404,354	97,904	\$5,515,837	\$111,483
\$12,600	\$20,999	4.4%	206,267	\$57,756,259	206,267	\$58,835,961	\$1,079,702
\$21,000	\$35,099	5.0%	249,458	\$221,719,307	249,458	\$220,975,417	-\$743,890
\$35,100	\$80,000	6.0%	315,511	\$712,157,867	315,511	\$705,958,242	-\$6,199,625
\$80,000 and up		6.5%	<u>170,365</u>	<u>\$1,617,373,975</u>	<u>170,365</u>	<u>\$1,497,318,294</u>	<u>-\$120,055,681</u>
			1,266,810	\$2,616,913,969	1,266,810	\$2,491,147,292	-\$125,766,677

Overview of Income Tax Reduction Proposals – 6.9% Top Rate Reduction

- **Analysis of Reduction of 6.9% top rate to 6.0%**

The 6.9% top rate would be reduced to 6% in the top income tax table. The middle income table would not be affected. This reduction would affect approximately **162,000** taxpayers and reduce revenue by approximately **\$180M**.

- **Analysis of Reduction of 6.9% top rate to 5.9% and 6% rate to 5.9%**

In this analysis, the 6.9% top rate would be reduced to 5.9% in the top income tax table. In addition, the 6% rate in the middle income table would also be reduced to 5.9%. This reduction would affect approximately **512,000** taxpayers and reduce revenue by approximately **\$206M**. (\$5 million revenue impact and 350,000 taxpayers affected in the middle income table and \$201M revenue impact and 162,000 in the upper income table).

*Calculations above performed in December 2017.

Overview of Income Tax

Reduction Proposals – 2-4-5.9/6.5 Phased-In Plan

- Combines the current three income tax tables into one table but restructures the brackets.
- Changes standard deduction from \$2,200 for single taxpayers to \$6,800 and \$4,400 for married taxpayers to \$13,600.
- Personal tax credit remains at \$26.
- Phase One top rate is 6.5% and Phase Two top rate is 5.9%.
- Gives tax relief to both middle income and upper income taxpayers.
- An additional “marriage bonus” is provided to married taxpayers, primarily as a result of increased standard deduction.

Overview of Income Tax

Reduction Proposals – 2-4-5.9/6.5 Phased-In Plan

- The Individual Income Tax tables under this phased-in proposal would be as follows:

2-4-5.9/6.5 Table – Phase One		
\$0 to	\$8,000	2.00%
\$8,001 to	\$18,000	4.00%
\$18,001 to	\$65,000	5.90%
\$65,001+		6.50%

2-4-5.9 Bracket – Phase Two		
\$0 to	\$8,000	2.00%
\$8,001 to	\$18,000	4.00%
\$18,001+		5.90%

Revenue Impact – 2-4-5.9/6.5 Phased-In Plan

- Revenue Impact calculated with the assumption of full implementation of \$50M revenue impact of Act 78 of 2017 as well as consumer price index adjustments to the current three individual income tax tables (baseline 2019 revenue of **\$2.562B**).

Revenue Impact – 2-4-5.9/6.5 Phased-In Plan

2-4-5.9 Plan			
2-4-5.9/6.5 Table			
\$0	\$8,000	2.0%	
\$8,001	\$18,000	4.0%	→
\$18,001	\$65,000	5.9%	
\$65,001	and up	6.5%	
2-4-5.9 Table			
\$0	\$8,000	2.0%	→
\$8,001	\$18,000	4.0%	
\$18,001	and up	5.9%	
Standard Deductions:			
Single		\$6,800	
Married		\$13,600	
Head of Household		\$6,800	

Phase 1	
Estimated Revenue:	2,467,246,331
2019 Estimated Revenue:	2,562,073,800
Impact: \$	(94,827,469)

Phase 2	
Estimated Revenue:	2,370,339,327
Phase 1 Estimated Revenue:	2,467,246,331
Impact: \$	(96,907,004)
Total Estimated Fiscal Impact: \$	(191,734,473)

Additional Analysis of Revenue Impacts

Option A, Option B, and Top Rate Reduction Proposals
Using 2019 Baseline Revenue

Additional Analysis – Assumptions Using 2019 Baseline Revenue Estimate

- Like the 2-4-5.9/6.5 Phased-In Plan, DFA performed an additional analysis of Option A, Option B, and the Top Rate Reduction using the 2019 baseline revenue estimate of \$2.562B.

Additional Analysis – Option A Top Rate of 6.5%

Option A				
<u>Option A Brackets</u>			<u>Fiscal Impact</u>	
\$0	\$4,599	0.0%		
\$4,600	\$9,099	2.0%		
\$9,100	\$13,699	3.0%	Estimated Revenue:	2,297,237,893
\$13,700	\$22,499	3.4%	2019 Estimated Revenue:	2,562,073,800
\$22,500	\$37,699	5.0%	Impact:	\$ (264,835,907)
\$37,700	\$80,500	6.0%		
\$80,501	and up	6.5%		

Additional Analysis – Option A Top Rate of 6.0%

<u>Option A Brackets</u>			<u>Fiscal Impact</u>	
\$0	\$4,599	0.0%	Estimated Revenue:	2,221,288,391
\$4,600	\$9,099	2.0%	2019 Estimated Revenue:	2,562,073,800
\$9,100	\$13,699	3.0%	Impact:	\$ (340,785,409)
\$13,700	\$22,499	3.4%		
\$22,500	\$37,699	5.0%		
\$37,700	and up	6.0%		

Additional Analysis – Option A Top Rate of 5.9%

<u>Option A Brackets</u>			<u>Fiscal Impact</u>	
\$0	\$4,599	0.0%	Estimated Revenue:	2,199,943,550
\$4,600	\$9,099	2.0%	2019 Estimated Revenue:	2,562,073,800
\$9,100	\$13,699	3.0%	Impact:	\$ (362,130,250)
\$13,700	\$22,499	3.4%		
\$22,500	\$37,699	5.0%		
\$37,700	and up	5.9%		

Additional Analysis – Option B Top Rate of 6.5% with 10% EITC

Option B			
Option B Brackets			Fiscal Impact
\$0	\$4,599	0.9%	
\$4,600	\$9,099	2.4%	Estimated Revenue: 2,453,245,646
\$9,100	\$13,699	3.4%	2019 Estimated Revenue: 2,562,073,800
\$13,700	\$22,499	4.4%	Impact: (108,828,154)
\$22,500	\$37,699	5.0%	
\$37,700	\$80,500	6.0%	10% EITC: (77,000,000)
\$80,501	and up	6.5%	Total Revenue Impact with EITC: (185,828,154)

Additional Analysis – Option B Top Rate of 6.0% with 10% EITC

<u>Option B Brackets</u>			<u>Fiscal Impact</u>	
\$0	\$4,599	0.9%	Estimated Revenue:	2,377,296,144
\$4,600	\$9,099	2.4%	2019 Estimated Revenue:	2,562,073,800
\$9,100	\$13,699	3.4%	Impact:	(184,777,656)
\$13,700	\$22,499	4.4%	10% EITC:	(77,000,000)
\$22,500	\$37,699	5.0%	Total Revenue Impact with EITC:	(261,777,656)
\$37,700	and up	6.0%		

Additional Analysis – Option B Top Rate of 5.9% with 10% EITC

<u>Option B Brackets</u>			<u>Fiscal Impact</u>	
\$0	\$4,599	0.9%	Estimated Revenue:	2,355,912,742
\$4,600	\$9,099	2.4%	2019 Estimated Revenue:	2,562,073,800
\$9,100	\$13,699	3.4%	Impact:	(206,161,058)
\$13,700	\$22,499	4.4%	10% EITC:	(77,000,000)
\$22,500	\$37,699	5.0%	Total Revenue Impact with EITC:	(283,161,058)
\$37,700	and up	5.9%		

Additional Analysis – Phased-In Top Rate Reduction 6.5% to 5.9%

Phased In Top Rate Reduction - 6.5% to 5.9%					
High Table Top Rate 6.5%			High and Middle Tables Top Rate 5.9%		
Net income less than \$22,500			Net income less than \$22,500		
\$0	\$4,599	0.0%	\$0	\$4,599	0.0%
\$4,600	\$9,099	2.0%	\$4,600	\$9,099	2.0%
\$9,100	\$13,699	3.0%	\$9,100	\$13,699	3.0%
\$13,700	\$22,499	3.4%	\$13,700	\$22,499	3.4%
Net income greater than \$22,500 but less than or equal \$80,500			Net income greater than \$22,500 but less than or equal \$80,500		
\$0	\$4,599	0.75%	\$0	\$4,599	0.75%
\$4,600	\$9,099	2.5%	\$4,600	\$9,099	2.5%
\$9,100	\$13,699	3.5%	\$9,100	\$13,699	3.5%
\$13,700	\$22,499	4.5%	\$13,700	\$22,499	4.5%
\$22,500	\$37,699	5.0%	\$22,500	\$37,699	5.0%
\$37,700	\$80,500	6.0%	\$37,700	\$80,500	5.9%
Net income greater than \$80,500			Net income greater than \$80,500		
\$0	\$4,599	0.9%	\$0	\$4,599	0.9%
\$4,600	\$9,099	2.5%	\$4,600	\$9,099	2.5%
\$9,100	\$13,699	3.5%	\$9,100	\$13,699	3.5%
\$13,700	\$22,499	4.5%	\$13,700	\$22,499	4.5%
\$22,500	\$37,699	6.0%	\$22,500	and up	5.9%
\$37,700	and up	6.5%			

Phase 1	
Estimated Revenue:	2,492,032,250
2019 Estimated Revenue:	2,562,073,800
Impact:	\$ (70,041,550)

Phase 2	
Estimated Revenue:	2,375,696,281
Phase 1 Est. Revenue:	2,492,032,250
Impact:	\$ (116,335,969)

Total Estimated Fiscal Impact: \$ (186,377,519)

AGI Comparison – Four Proposals Implemented at 6.5% Top Rate

AGI		Returns	2019	Option A - 6.5%	Difference	2-4-5.9/6.5	Difference	Option B - 6.5%	Difference	Top Rate Reduction - 6.5%	Difference
-	5,000	118,606	\$ 2,006	\$ 2,006	\$ -	\$ 2,006	\$ -	\$ 312,501	\$ 310,495	\$ 2,006	\$ -
5,000	10,000	109,023	\$ 883,433	\$ 883,433	\$ -	\$ 880,139	\$ (3,294)	\$ 2,131,054	\$ 1,247,621	\$ 883,433	\$ -
10,000	15,000	129,016	\$ 7,003,833	\$ 7,003,833	\$ -	\$ 6,496,368	\$ (507,465)	\$ 9,777,203	\$ 2,773,370	\$ 7,003,833	\$ -
15,000	20,000	126,049	\$ 22,714,643	\$ 22,714,643	\$ -	\$ 21,272,152	\$ (1,442,491)	\$ 29,988,829	\$ 7,274,186	\$ 22,714,643	\$ -
20,000	35,000	273,906	\$ 193,901,093	\$ 162,938,934	\$ (30,962,159)	\$ 174,803,881	\$ (19,097,212)	\$ 200,959,811	\$ 7,058,718	\$ 193,901,093	\$ -
35,000	80,000	341,541	\$ 726,349,734	\$ 652,451,140	\$ (73,898,594)	\$ 703,389,536	\$ (22,960,198)	\$ 721,173,039	\$ (5,176,695)	\$ 726,349,734	\$ -
80,000	and up	170,615	\$ 1,611,219,058	\$ 1,451,243,904	\$ (159,975,154)	\$ 1,560,402,249	\$ (50,816,809)	\$ 1,488,903,209	\$ (122,315,849)	\$ 1,541,177,508	\$ (70,041,550)
		1,268,756	\$ 2,562,073,800	\$ 2,297,237,893	\$ (264,835,907)	\$ 2,467,246,331	\$ (94,827,469)	\$ 2,453,245,646	\$ (108,828,154)	\$ 2,492,032,250	\$ (70,041,550)

AGI Comparison – Four Proposals Fully Implemented at 5.9% Top Rate

Revenue Estimates and # of Returns by Adjusted Gross Income											
AGI		Returns	2019	Option A - 5.9%	Difference	2-4-5.9	Difference	Option B - 5.9%	Difference	Top Rate Reduction - 5.9%	Difference
-	5,000	118,606	\$ 2,006	\$ 2,006	\$ -	\$ 2,006	\$ -	\$ 312,501	\$ 310,495	\$ 2,006	\$ -
5,000	10,000	109,023	\$ 883,433	\$ 883,433	\$ -	\$ 880,138	\$ (3,295)	\$ 2,131,054	\$ 1,247,621	\$ 883,433	\$ -
10,000	15,000	129,016	\$ 7,003,833	\$ 7,003,833	\$ -	\$ 6,496,368	\$ (507,465)	\$ 9,777,203	\$ 2,773,370	\$ 7,003,833	\$ -
15,000	20,000	126,049	\$ 22,714,643	\$ 22,714,643	\$ -	\$ 21,272,151	\$ (1,442,492)	\$ 29,988,829	\$ 7,274,186	\$ 22,714,643	\$ -
20,000	35,000	273,906	\$ 193,901,093	\$ 162,938,934	\$ (30,962,159)	\$ 174,803,881	\$ (19,097,212)	\$ 200,959,811	\$ 7,058,718	\$ 193,901,093	\$ -
35,000	80,000	341,541	\$ 726,349,734	\$ 648,339,730	\$ (78,010,004)	\$ 699,473,482	\$ (26,876,252)	\$ 717,030,875	\$ (9,318,859)	\$ 722,903,672	\$ (3,446,062)
80,000	and up	170,615	\$ 1,611,219,058	\$ 1,358,060,971	\$ (253,158,087)	\$ 1,467,411,300	\$ (143,807,758)	\$ 1,395,712,469	\$ (215,506,589)	\$ 1,428,287,601	\$ (182,931,457)
		1,268,756	\$ 2,562,073,800	\$ 2,199,943,550	\$ (362,130,250)	\$ 2,370,339,327	\$ (191,734,473)	\$ 2,355,912,742	\$ (206,161,058)	\$ 2,375,696,281	\$ (186,377,519)

Conclusion

- Questions?