EXHIBIT E-1

Arkansas Tax Reform and Relief Legislative Task Force

Legislative Impact Statement

Proposals Under Consideration: Income Tax Proposal – Governor's Proposal #2

Executive Summary:

The Governor's Proposal under consideration amends and simplifies the Arkansas individual income tax rates and brackets under Arkansas Code § 26-51-201, effective for tax years beginning January 1, 2019. Specifically, it combines the current three income tax tables into one table and restructures the brackets in two phases. It is assumed that the Phase I bracket is enacted in 2019 and that the Phase II bracket is enacted in 2020. The proposed brackets are as follows:

Phase I	
Individual Income Tax Bracket	Tax Rate
$0-$8,000	2.0%
$8,001-$18,000	4.0%
$18,001-$65,000	5.9%
$65,000+	6.5%

Phase II	
Individual Income Tax Bracket	Tax Rate
$0-$8,000	2.0%
$8,001-$18,000	4.0%
$18,001+	5.9%

The Governor's Proposal also changes the standard deduction from $2,200 for single taxpayers to $6,800 and from $4,400 for married taxpayers to $13,600.

Overall, the Governor's Proposal reduces Arkansas' annual state income tax revenue by $94,827,469 in Phase I and by $191,734,473 in Phase II, based on a static impact analysis. The static estimate does not include the total macroeconomic effects of how consumers respond to the tax change.

The analysis shows annual economic output increasing by an annual average of $192.7 million and employment increasing by an annual average of 1,501 jobs over the 5-year period 2019-2023, with just over 90 percent of the growth occurring in private non-farm employment. It also shows an annual average net loss of $162.8 million in state revenue, which represents a 5.8% recovery of the static state revenue loss.

Methodology:

The economic and fiscal analysis of the Governor's Proposal 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., Personal Taxes for Personal Income Tax Revenue).

The analysis assumes that 100% of the personal income tax reductions are enjoyed by employees and non-business owners and are input into the model as a direct decrease in personal income taxes. 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 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 of the Governor's Proposal are reported in the next section with accompanying discussion.

Economic & Fiscal Impacts:

Under the Governor's Proposal, the annual **increase** in Arkansas' population rises from **584** in 2019 to **3,410** in 2023, with a 5-year average annual **increase** of **2,204.** This is driven by both higher after-tax compensation rates and an increase in employment opportunities raising the level of economic in-migration.

Total employment **rises** by an average of **1,501**, 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 **$117.3 million** and **$192.7 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 **$266.7 million**.

The static impact of the tax cut is a **$94.8 million loss** in state revenue in 2019 and a **$191.7 million loss** in state revenue per year during 2020-2023, but the increase in economic activity partially offsets the losses. Thus, the total revenue **loss** is **$90.6 million** in 2019 and averages **$162.8 million** during 2019-2023. This means that **5.8%** of the static revenue loss is recovered. The dynamic income tax revenue impacts by income tax bracket are given below. For the years 2020-2023, the impacts listed for the third bracket are for the Phase II bracket of $18,000+. All results shown below are differences from the baseline REMI forecast for the given year.

Dynamic Personal Income Tax Revenue Impact by Income Bracket

<table>
<tr><th>Income Bracket</th><th>Units</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th><th>Average</th></tr>
<tr><td>$0 - $8,000</td><td>Nominal Thousands</td><td>$0.87</td><td>$2.23</td><td>$2.23</td><td>$2.23</td><td>$2.23</td><td>$1.96</td></tr>
<tr><td>$8,001 - $18,000</td><td>Nominal Thousands</td><td>$14.19</td><td>$34.13</td><td>$41.13</td><td>$45.13</td><td>$47.13</td><td>$36.34</td></tr>
<tr><td>$18,001 - $65,000</td><td>Nominal Thousands</td><td>$241.68</td><td rowspan="2">$2,030.64</td><td rowspan="2">$2,485.64</td><td rowspan="2">$2,734.64</td><td rowspan="2">$2,825.64</td><td rowspan="2">$2,188.70</td></tr>
<tr><td>$65,001+</td><td>Nominal Thousands</td><td>$625.27</td></tr>
</table>

Largely as a result of the increase in population and GDP, state government expenditures **rise** by an average of **$4.4 million**.

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Economic, Demographic & Fiscal Impacts

Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	584	1,613	2,410	3,001	3,410	2,204
Total Employment	Individuals	758	1,621	1,760	1,734	1,633	1,501
Government Employment	Individuals	47	122	167	190	200	145
Private Non-Farm Employment	Individuals	711	1,499	1,594	1,543	1,433	1,356
Gross State Product (Value-Added)	Nominal Millions	$54.7	$121.0	$135.8	$139.0	$135.8	$117.3
Output (Industry Sales)	Nominal Millions	$90.6	$200.1	$223.7	$227.8	$221.4	$192.7
Disposable Personal Income	Nominal Millions	$131.9	$278.7	$298.7	$309.9	$314.2	$266.7
Government Revenue	Nominal Millions	-$90.6	-$182.1	-$180.9	-$180.3	-$179.9	-$162.8
Government Expenditure	Nominal Millions	$1.1	$3.2	$4.8	$6.1	$7.0	$4.4
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-$91.7	-$185.3	-$185.8	-$186.3	-$186.9	-$167.2

Conclusion:

The Governor's Proposal combines the current three income tax tables into one table and restructures the brackets in two phases, with the Phase I bracket enacted in 2019 and the Phase II bracket enacted in 2020. The Governor's Proposal also changes the standard deduction from $2,200 for single taxpayers to $6,800 and from $4,400 for married taxpayers to $13,600. This impact statement reports the 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 analysis shows annual economic output increasing by an annual average of $192.7 million and employment increasing by an annual average of 1,501 jobs over the 5-year period 2019-2023, with just over 90 percent of the growth occurring in private non-farm employment. It also shows an annual average net loss of $162.8 million in state revenue, which represents a 5.8% recovery of the static state revenue loss.