

# Arkansas:

## Options for Tax Reform

Presentation to the Arkansas Tax Reform  
and Relief Task Force  
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# TOPICS OF DISCUSSION

- The Impact of Tax Changes on Arkansas's Residents and the state's Competitiveness
- Revenue Impacts

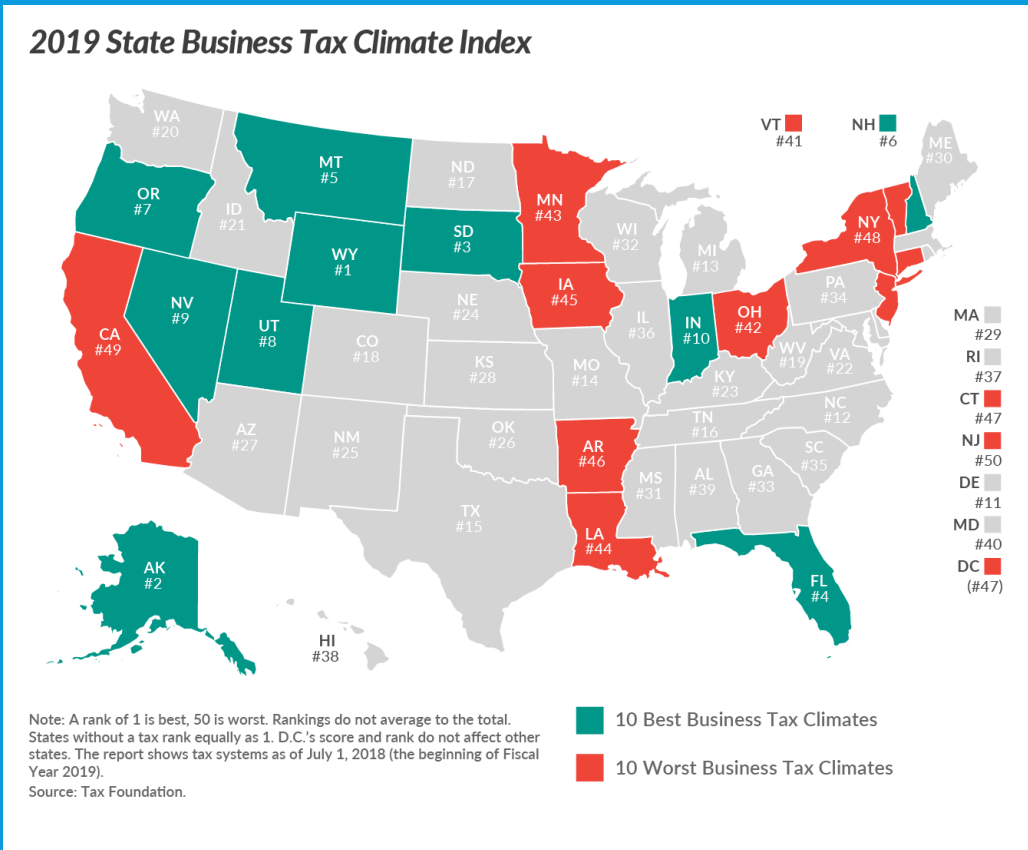
# *STATE BUSINESS TAX CLIMATE INDEX*

## 2019 EDITION

- The Tax Foundation released our 2019 edition of the *State Business Tax Climate Index* today.
- Arkansas's score fell by 3 points, largely due to other states moving forward.
- Results from 2018 are not directly comparable due to methodological changes. Instead, consult the backcasted scores from the new edition.
- These results underscore the importance of tackling tax reform in Arkansas.

# STATE BUSINESS TAX CLIMATE INDEX

## 2019 EDITION



# STATE BUSINESS TAX CLIMATE INDEX

## 2019 EDITION

2019 State Business Tax Climate Index			
	2019	2018	Change
Overall	46	43	-3
Corporate	40	41	1
Individual	40	39	-1
Sales	44	44	0
UI	34	32	-2
Property	26	22	-4

# TAX REFORM

## CHANGES IN TAX LIABILITY

- I was asked to discuss and compare Option A from the task force report to DFA's 2/4/5.9/6.5 plan.
- I analyzed a number of sample tax returns using both plans.
- Comparisons make the following assumptions:
  - Based on adjusted gross income
  - Tax returns are single or married filing separate filers
  - Assume no children
  - Take the standard deduction
  - 2019 low-income tax cut takes effect

# TAX REFORM

## CHANGES IN TAX LIABILITY

AGI	Net Tax				Change in Tax	
	Current	Option A	DFA		Option A	DFA
\$22,000	\$426.75	\$426.75	\$421.96		\$0.00	-\$4.79
\$25,000	\$723.64	\$557.52	\$545.70		-\$166.12	-\$177.94
\$50,000	\$2,100.59	\$1,934.47	\$2,020.70		-\$166.12	-\$79.89
\$75,000	\$3,600.59	\$3,434.47	\$3,495.70		-\$166.12	-\$104.89
\$85,000	\$4,777.33	\$3,866.47	\$4,085.70		-\$910.86	-\$691.62
\$100,000	\$5,812.33	\$5,023.40	\$4,970.70		-\$788.93	-\$841.63
\$200,000	\$12,712.33	\$11,523.40	\$10,870.70		-\$1,188.93	-\$1,841.63
\$250,000	\$16,162.33	\$14,773.40	\$13,820.70		-\$1,388.93	-\$2,341.63

# TAX REFORM

## CHANGES IN TAX LIABILITY

AGI	Change as % of Income			Change as % of Taxes	
	Option A	DFA		Option A	DFA
\$22,000	0.0%	0.0%		0.0%	-1.1%
\$25,000	-0.7%	-0.7%		-23.0%	-31.9%
\$50,000	-0.3%	-0.2%		-7.9%	-4.1%
\$75,000	-0.2%	-0.1%		-4.6%	-3.1%
\$85,000	-1.1%	-0.8%		-19.1%	-17.9%
\$100,000	-0.8%	-0.8%		-13.6%	-16.8%
\$200,000	-0.6%	-0.9%		-9.4%	-16.0%
\$250,000	-0.6%	-0.9%		-8.6%	-15.9%



# TAX REFORM

## REVENUE IMPACT

- This analysis highlights a few key points.
- In general, both plans result in net tax cuts for individuals.
  - The exception is the individual at \$22,000 in AGI under Option A. Their cut is captured by the scheduled low-income cut.
- The plans are largely progressive. Individuals making \$75,000 in AGI receive a smaller cut on a percentage basis than someone at \$50,000.
- The same is true at \$250,000 compared to \$100,000.
- However, the cuts above \$85,000 are larger on a percentage basis than those below, because middle-income filers received a tax cut in 2015.
  - These plans bring individuals down to those levels.

# TAX REFORM

## *SBTCI* IMPACT

- We modeled both plans within the *State Business Tax Climate Index*. The DFA plan resulted in a larger increase in score.

2019 State Business Tax Climate Index			
	2019	Option A	DFA
Overall	46	45	43
Corporate	40	40	40
Individual	40	39	37
Sales	44	44	44
UI	34	34	34
Property	26	26	26

# TAX REFORM

## *SBTCI* IMPACT

- Given these results, the revenue impacts, and net tax changes, I'd recommend that the task force adopt the DFA 2/4/5.9/6.5 percent plan as its final individual income tax recommendation.

2019 State Business Tax Climate Index			
	2019	Option A	DFA
Overall	46	45	43
Corporate	40	40	40
Individual	40	39	37
Sales	44	44	44
UI	34	34	34
Property	26	26	26

# CONCLUSION

- Questions?
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