

# Arkansas:

## Options for Tax Reform

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

- Prioritizing Arkansas reforms

# TAX REFORM REVENUE IMPACT

- In the report, there are 22 specific recommendations.
- Ten of those have direct revenue impact.
- These include the updated scoring for single sales factor and throwback repeal, along with only the general revenue impact on the remote sales transactions.

Revenue Increases	
Sales Tax on Magazine Subscriptions	\$1,556,000
Capital Gains Exemption	\$4,650,000
Electric Vehicles	\$1,082,634
Remote Sales	\$24,491,000
Single Sales	\$714,289
<b>Total</b>	<b>\$32,493,923</b>
<b>Total Minus SSF</b>	<b>\$31,779,634</b>

# TAX REFORM

## REVENUE IMPACT

- In total, there are \$31.8 million in revenue increases available to offset \$288 million in revenue losses.

Revenue Decreases	
Throwback Rule/SSF Combined	(\$57,221,479)
Net Operating Losses	\$0
2/4/5.9/6.5 Phase One	(\$94,827,469)
Corporate Income Tax	(\$38,700,000)
2/4/5.9 Phase Two	(\$96,907,004)
<b>Total</b>	<b>(\$287,655,952)</b>

# TAX REFORM

## REVENUE IMPACT

- The question becomes: How does the task force limit the revenue impacts of its proposals?
- I've put together four packages of reforms, ranging from \$63 million to \$256 million in revenue impacts.
- All four plans assume including all available revenue increases.
- It also assumes no cost for NOL changes as their first revenue impact isn't until 2025, but future legislatures would have to handle those impacts.

# TAX REFORM

## REVENUE IMPACT

- Additionally, the task force should include a number of other nonrevenue impact reforms from the report in its final plan.
- These include:
  - Regular review of tax expenditures
  - Local sales tax caps
  - Other miscellaneous sales tax exemptions
  - Modifications to the franchise tax and property assessments
  - Fuel tax indexed
  - Road fees for electric and hybrid vehicles
- At this point, I would not recommend implementing the inventory tax credit or the pass-through entity tax.

# TAX REFORM

## REVENUE IMPACT

- Package #1
- This package only includes the first part of the DFA individual income tax changes.

Package #1	
2/4/5.9/6.5 Phase One	(\$94,827,469)
Total Cuts	(\$94,827,469)
Revenue Increases	\$31,779,634
<b>Net Cut</b>	<b>(\$63,047,835)</b>

# TAX REFORM

## SBTCI IMPACT

- Package #1
- This package only includes the first part of the DFA individual income tax changes.

2019 State Business Tax Climate Index			
	2019	Package 1	Change
Overall	46	43	3
Corporate	40	40	0
Individual	40	37	3
Sales	44	44	0
UI	34	34	0
Property	26	26	0



# TAX REFORM

## REVENUE IMPACT

- Package #2
- Includes package #1
- Repeals the throwback rule, moves to single sales factor, and expands NOLs

Package #2	
2/4/5.9/6.5 Phase One	(\$94,827,469)
Throwback/SSF Combined	(\$57,221,479)
Net Operating Losses	\$0
<b>Total Cuts</b>	<b>(\$152,048,948)</b>
Revenue Increases	\$31,779,634
<b>Net Cut</b>	<b>(\$120,269,314)</b>

# TAX REFORM

## SBTCI IMPACT

- Package #2
- Includes package #1
- Repeals the throwback rule and expands NOLs

2019 State Business Tax Climate Index			
	2019	Package 2	Change
Overall	46	43	3
Corporate	40	30	10
Individual	40	37	3
Sales	44	44	0
UI	34	34	0
Property	26	26	0

# TAX REFORM

## REVENUE IMPACT

- Package #3
- Includes package #2
- Lowers the corporate income tax rate to 5.9 percent

Package #3	
2/4/5.9/6.5 Phase One	(\$94,827,469)
Throwback/SSF Combined	(\$57,221,479)
Net Operating Losses	\$0
Corporate Rate Cut	(\$38,700,000)
<b>Total Cuts</b>	<b>(\$190,748,948)</b>
Revenue Increases	\$31,779,634
<b>Net Cut</b>	<b>(\$158,969,314)</b>

# TAX REFORM

## SBTCI IMPACT

- Package #3
- Includes package #2
- Lowers the corporate income tax rate to 5.9 percent

2019 State Business Tax Climate Index			
	2019	Package 2	Change
Overall	46	43	3
Corporate	40	30	10
Individual	40	37	3
Sales	44	44	0
UI	34	34	0
Property	26	26	0

# TAX REFORM REVENUE IMPACT

- Package #4
- Includes package #3
- Completes phase two of the DFA plan

Package #4	
2/4/5.9/6.5 Phase One	(\$94,827,469)
Throwback/SSF Combined	(\$57,221,479)
Net Operating Losses	\$0
Corporate Rate Cut	(\$38,700,000)
<b>Total</b>	<b>(\$190,748,948)</b>
Revenue Increases	\$31,779,634
<b>Net Cost</b>	<b>(\$158,969,314)</b>
Phase Two	(\$96,907,004)
<b>Net Cost</b>	<b>(\$255,876,318)</b>

# TAX REFORM

## SBTCI IMPACT

- Package #4
- Includes package #3
- Completes phase two of the DFA plan

2019 State Business Tax Climate Index			
	2019	Package 4	Change
Overall	46	42	4
Corporate	40	28	12
Individual	40	36	4
Sales	44	44	0
UI	34	34	0
Property	26	26	0

# TAX REFORM

## SBTCI IMPACT

2019 State Business Tax Climate Index					
	2019	Package 1	Package 2	Package 3	Package 4
Overall	46	43	43	43	42
Corporate	40	40	30	28	28
Individual	40	37	37	37	36
Sales	44	44	44	44	44
UI	34	34	34	34	34
Property	26	26	26	26	26
Net Revenue Cut	N/A	(\$63,047,835)	(\$120,269,314)	(\$158,969,314)	(\$255,876,318)

# TAX TRIGGERS

## SUGGESTED REFORMS

- Package #4, however, exceeds the task force's stated goal of \$200 million in net tax cuts.
- The task force can consider a phase-in or tax trigger to mitigate the revenue loss.



# TAX TRIGGERS

## SUGGESTED REFORMS

- Benefits of a phase-in approach compared to tax trigger:
  - Predictable
  - No additional changes are required
- Downside of a phase-in approach compared to a tax trigger:
  - Lose some flexibility during an economic downturn

# TAX TRIGGERS

## SUGGESTED REFORMS

- In general, I prefer tax triggers.
- However, given that only one change needs to be implemented, a phase-in approach is sufficient.
- I would decrease the 6.5 percent rate to 5.9 percent in tranches over the next several budgets, in \$50 million changes.
  - In 2019, enact everything in package #3
  - In 2021, cut the 6.5 percent rate by \$50 million (~6.25%)
  - In 2023, cut the rate to the final 5.9 percent.

# CONCLUSION

- Questions?
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