

Updated Fiscal Impact and Proposed Timeline for 2-4-5.9 Plan

Arkansas Tax Reform and Relief Legislative Task Force
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Arkansas Department of Finance and Administration



Overview of 2-4-5.9 Plan – Phase One

- In Phase One (Tax Year 2020) Combines the current three income tax tables into one table and 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 reduces the top rate to 6.5%.
- 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.

2-4-5.9 Plan – Phase One Tax Table

• The Individual Income Tax table under Phase One (effective for Tax Year 2020) would be as follows:

2-4-5.9/6.5 Bracket			
\$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 Plan – Phase One Revenue Impact

• In Phase One, the revenue impact in Fiscal Year 2020 is \$47.4 million.

2-4-5.9 Plan – Phase Two

• The Individual Income Tax table under Phase Two (effective for Tax Year 2021) would be as follows:

2-4-5.9/6.3 Bracket			
\$0	\$8,000	2.0%	
\$8,001	\$18,000	4.0%	
\$18,001	\$65,000	5.9%	
\$65,001	and up	6.3%	

2-4-5.9 Plan – Phase Two Revenue Impact

• In Phase Two, the revenue impact in Fiscal Year 2021 is \$63.6 million.

2-4-5.9 Plan — Phase Three Tax Table

• The Individual Income Tax table under Phase Three (effective for Tax Year 2022) would be as follows:

2-4-5.9/6.1 Bracket			
\$0	\$8,000	2.0%	
\$8,001	\$18,000	4.0%	
\$18,001	\$65,000	5.9%	
\$65,001	and up	6.1%	

2-4-5.9 Plan – Phase Three Revenue Impact

• In Phase Three, the revenue impact in Fiscal Year 2022 is \$32.4 million.

2-4-5.9 Plan — Phase Four Tax Table

• The Individual Income Tax table under Phase Four (effective for Tax Years 2023 and thereafter) would be as follows:

2-4-5.9 Bracket			
\$0	\$8,000	2.0%	
\$8,001	\$18,000	4.0%	
\$18,001	and up	5.9%	

2-4-5.9 Plan – Phase Four Revenue Impact

• In Phase Four, the revenue impact in Fiscal Year 2023 is \$32.2 million and \$16 million in Fiscal Year 2024.

2-4-5.9 Plan – Four-Year Overview

Fiscal Year Impa	ict	Phase 1 TY 2020	2-4-5.9/6.5 Bracket		et
FY 2020					
Estimated Revenue:	2,514,660,066		\$0	\$8,000	2.0%
2019 Estimated Revenue:	2,562,073,800		\$8,001	\$18,000	4.0%
Impact:	\$ (47,413,735)		\$18,001	\$65,000	5.9%
			\$65,001	and up	6.5%
			Effec	tive Jan 1, 20	020
FY 2021		Phase 2 TY 2021	2-4-5.9/6.3 Bracket		et
FY 2021 Estimated Revenue:	2,451,011,507				
FY 2020 Estimated Revenue:	2,514,660,066		\$0	\$8,000	2.0%
Impact:	\$ (63,648,559)		\$8,001	\$18,000	4.0%
			\$18,001	\$65,000	5.9%
			\$65,001	and up	6.3%
			Effective Jan 1, 2021		021
FY 2022				Ì	
FY 2022 Estimated Revenue:	2,418,563,338	Phase 3 TY 2022	2-4-5.9/6.1 Bracket		et
FY 2021 Estimated Revenue:	2,451,011,507				
Impact:	\$ (32,448,169)		\$0	\$8,000	2.0%
			\$8,001	\$18,000	4.0%
			\$18,001	\$65,000	5.9%
			\$65,001	and up	6.1%
FY 2023			Effective Jan 1, 2022		022
FY 2023 Estimated Revenue:	2,386,344,661				
FY 2022 Estimated Revenue:	2,418,563,338	Phase 4 TY 2023	2-4	1-5.9 Bracket	:
Impact:	\$ (32,218,678)				
			\$0	\$8,000	2.0%
			\$8,001	\$18,000	4.0%
			\$18,001	and up	5.9%
FY 2024			Effective Jan 1, 2023		023
FY 2024 Estimated Revenue:	2,370,339,327				
FY 2023 Estimated Revenue:	2,386,344,661				
Impact:	\$ (16,005,334)				
Total Estimated Fiscal Impact:	\$ (191,734,473)				

Revenue Offsets

Tax Cuts and Jobs Act – Itemized Deductions Conformity and Sales Tax on Magazine Subscriptions

2-4-5.9 Plan – Revenue Offsets - TCJA

 Tax Cuts and Jobs Act – Itemized Deductions Conformity 	
IRC Itemized Deductions Adopted by Arkansas	
Charitable Contributions	\$ -968,319
Moving Expenses	409,696
Personal Casualty and Theft Losses	457,866
Mortgage Interest Deduction	1,944,573
Alimony Deduction	<u>925,949</u>
Total	\$ 2,769,765
§ 26-51-437 Miscellaneous Deductions	
Unreimbursed Employee Business Expenses	\$ 17,983,794
Other Miscellaneous Expenses	<u>8,079,676</u>
Total	\$ 26,063,470
Total Revenue Impact – Federal Conformity	\$ 28,833,235

2-4-5.9 Plan – Revenue Offsets – Magazine Subscriptions

Estimated revenue impact of collecting sales tax on sales of magazine subscriptions is \$1.56 million.

Conclusion

• Questions?