

ARKANSAS

A ROAD MAP FOR TAX REFORM

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Exhibit D1

Currently Three, Confusing Sets of Income Tax Brackets Following Recent Tax Reform

Table 3a.
Individual Income Tax Rates (2016)³

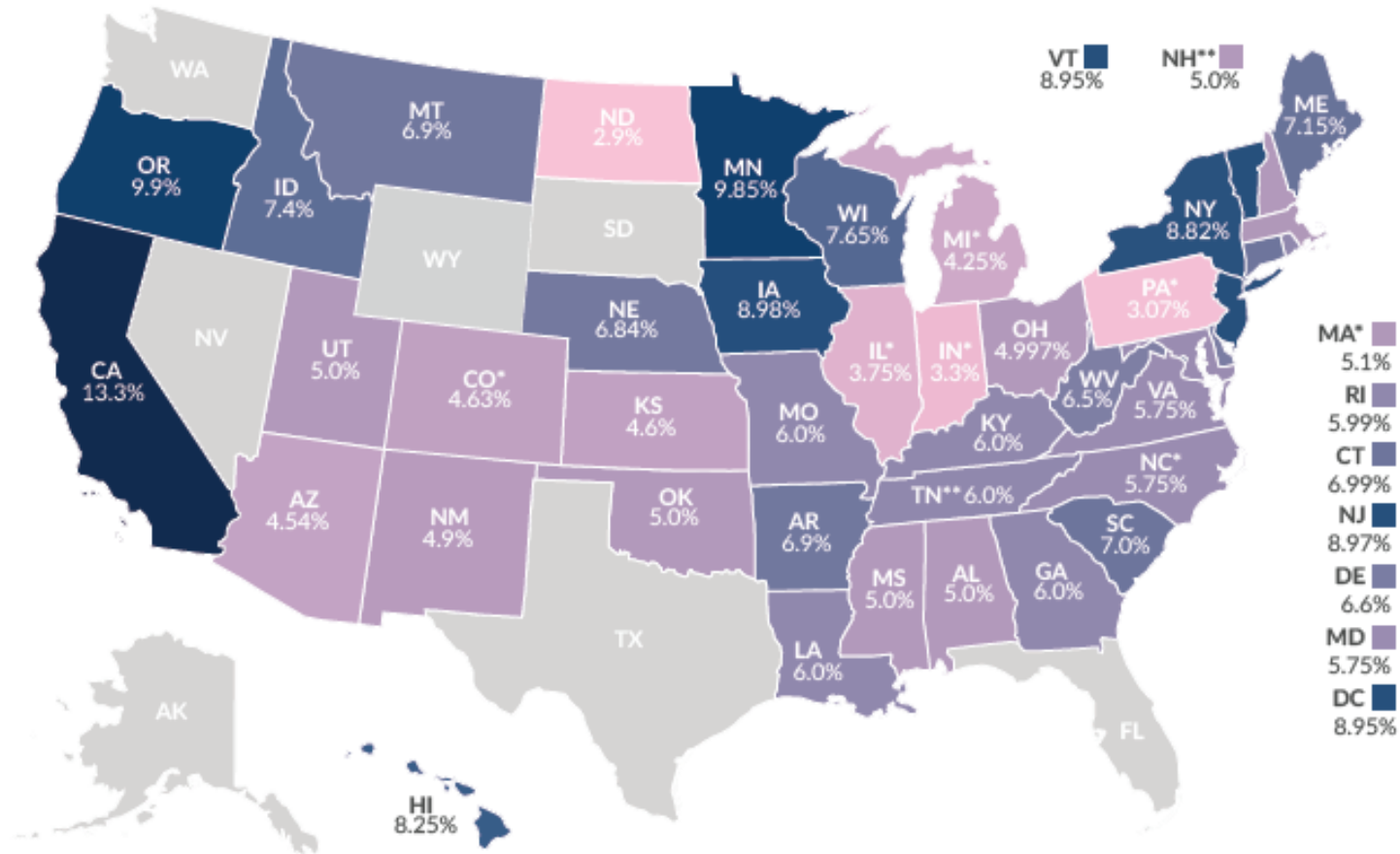
Income Level Under \$21,000		Income Level Between \$21,000 and \$75,000		Income Level Above \$75,000	
Income Bracket	Tax Rate	Income Bracket	Tax Rate	Income Bracket	Tax Rate
\$0-\$4,299	0.9%	\$0-\$4,299	0.9%	\$0-\$4,299	0.9%
\$4,300-\$8,399	2.4%	\$4,300-\$8,399	2.5%	\$4,300-\$8,399	2.5%
\$8,400-\$12,599	3.4%	\$8,400-\$12,599	3.5%	\$8,400-\$12,599	3.5%
\$12,600-\$20,999	4.4%	\$12,600-\$20,999	4.5%	\$12,600-\$20,999	4.5%
		\$21,000-\$35,099	5.0%	\$21,000-\$35,099	6.0%
		\$35,100-\$75,000	6.0%	\$35,100+	6.9%

- Note: does not include Low Income Tax Tables, essentially a fourth set of tax brackets

Top Personal Income Tax Rate Highest Among Neighbors

Figure 3a.

Top State Marginal Individual Income Tax Rates, 2016



Note: (*) State has a flat income tax. (**) State also only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. It is not an effective marginal tax rate, which would include the effects of phaseouts of various tax preferences. Local income taxes are not included.

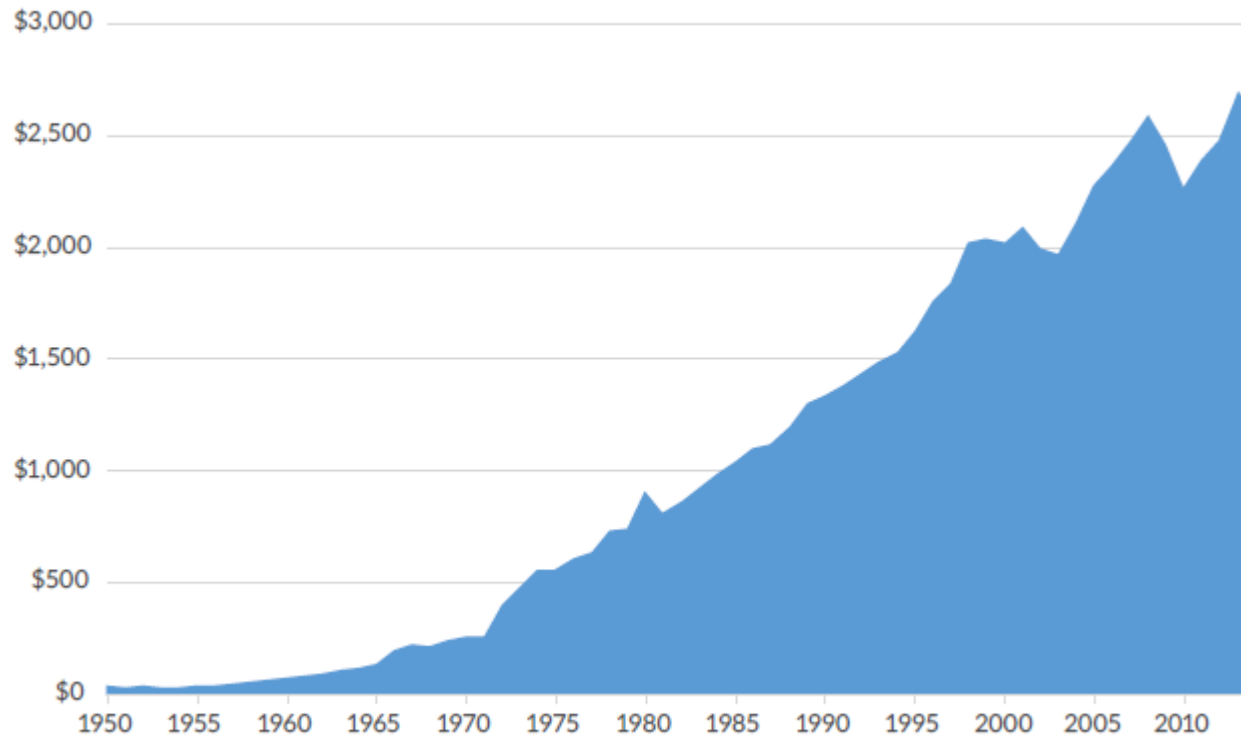
Source: State tax forms and instructions.



Income Tax Collections Have Increased Dramatically over Time

Figure 3b.

Arkansas Individual Income Tax Collections (1950-2014, 2014 Dollars)



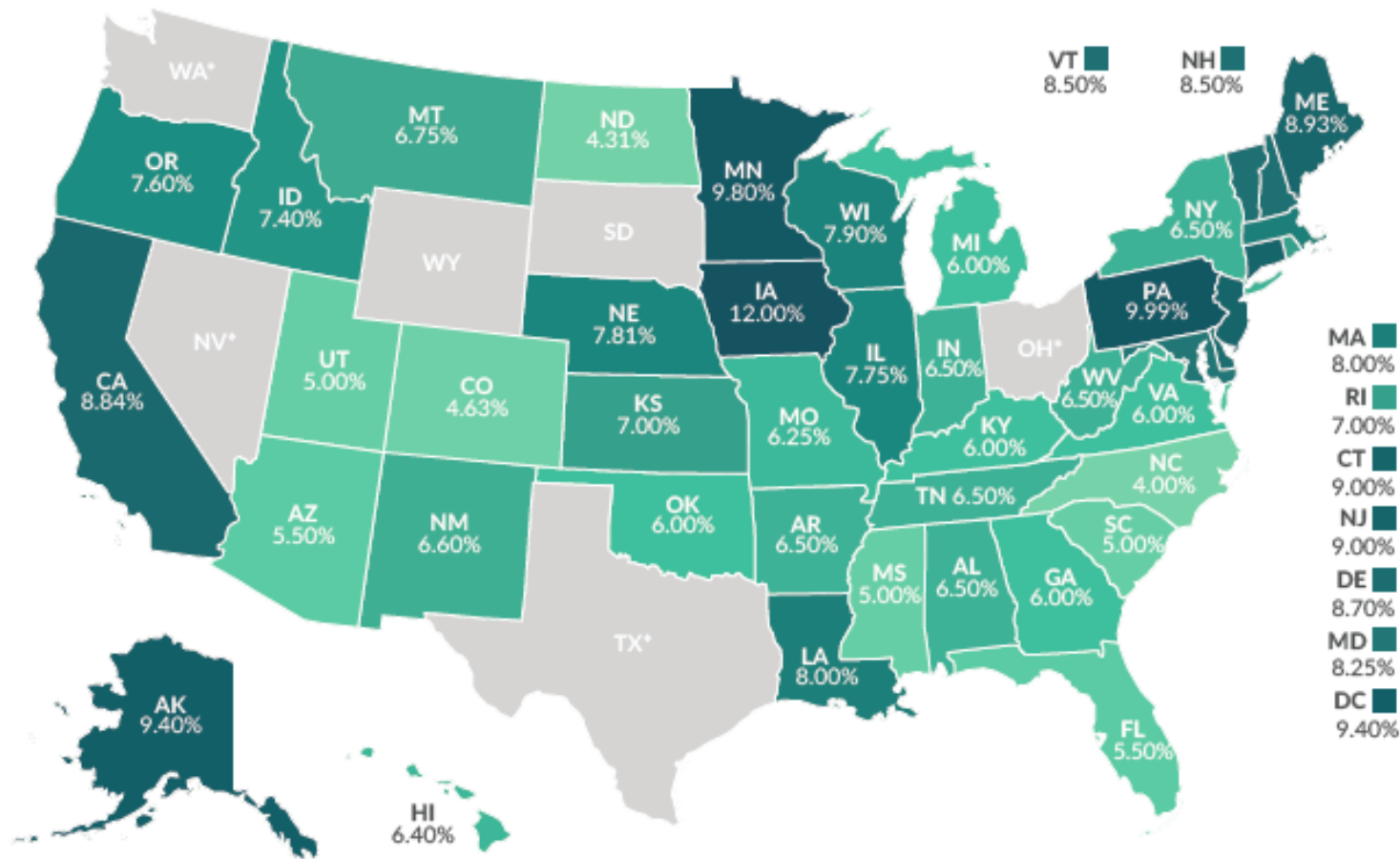
Note: Dollar amounts are inflation adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2014 base year.

Source: Census Bureau, State and Local Government Finances; Bureau of Labor Statistics, Consumer Price Indexes (All Urban Consumers).

Top Corporate Tax Rate is 2nd Highest in South

Figure 4a.

Top State Marginal Corporate Income Tax Rates (2016)



Note: (*) Nevada, Ohio, Texas, and Washington do not have corporate income taxes but do have gross receipts taxes with rates not strictly comparable to corporate income tax rates. Arkansas assesses a surcharge of 3% of the taxpayer's total liability. Connecticut's rate includes a 20% surtax. Delaware and Virginia have gross receipts taxes in addition to their corporate income taxes. Illinois' rate includes two separate corporate income taxes, one at a 5.25% rate and one at a 2.5% rate. The tax rate in Indiana will decrease to 6.25% on July 1, 2016.

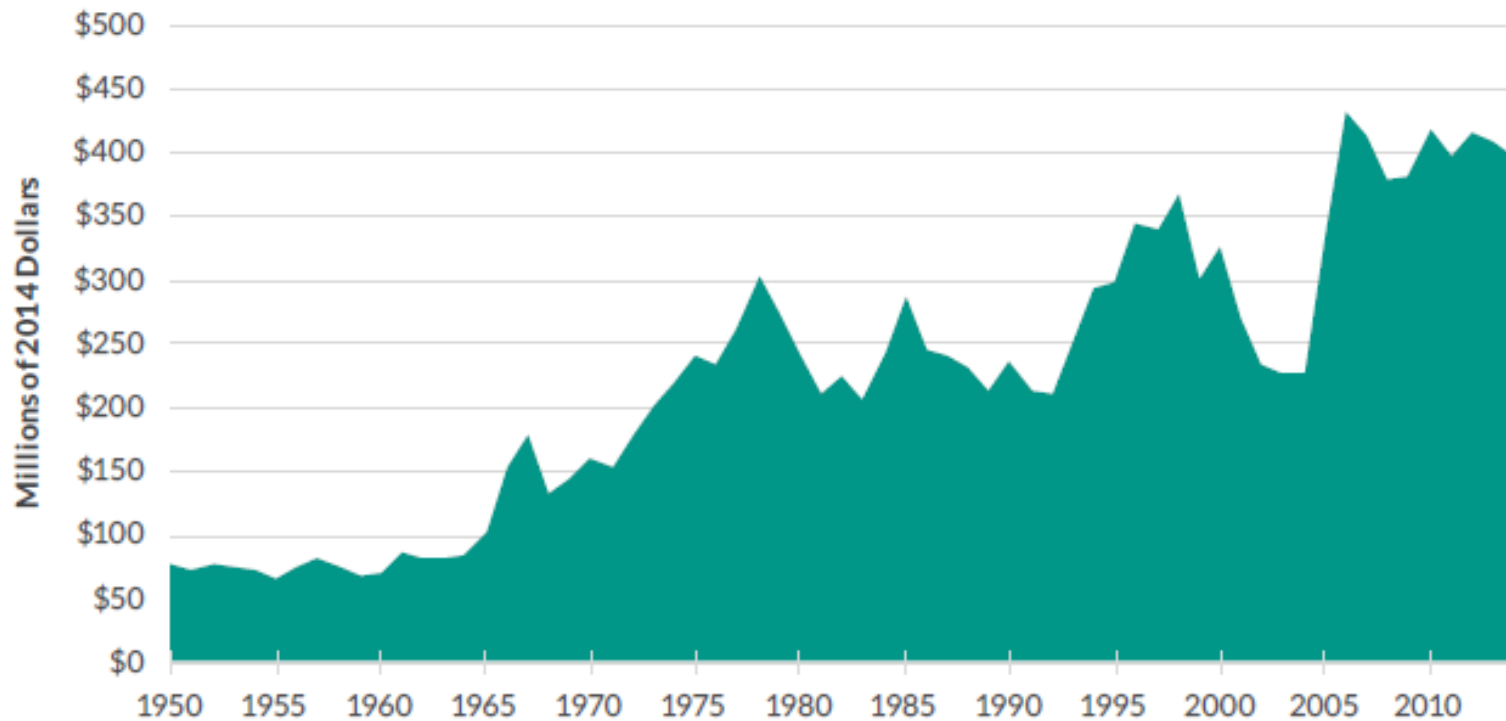
Source: State tax statutes, forms, and instructions; Commerce Clearinghouse.



Corporate Tax Collections Have Also Increased, But Are Very Volatile

Figure 4b.

Corporate Income Tax Collections (1950–2014, in 2014 Dollars)



Note: Dollar amounts are inflation adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2014 base year.

Source: Census Bureau, *State and Local Government Finances*; Bureau of Labor Statistics, *Consumer Price Indexes (All Urban Consumers)*.

State Sales Tax Rate Has Been Increased Six Times Since 1984

Table 5a.

Arkansas State Sales Tax Rates

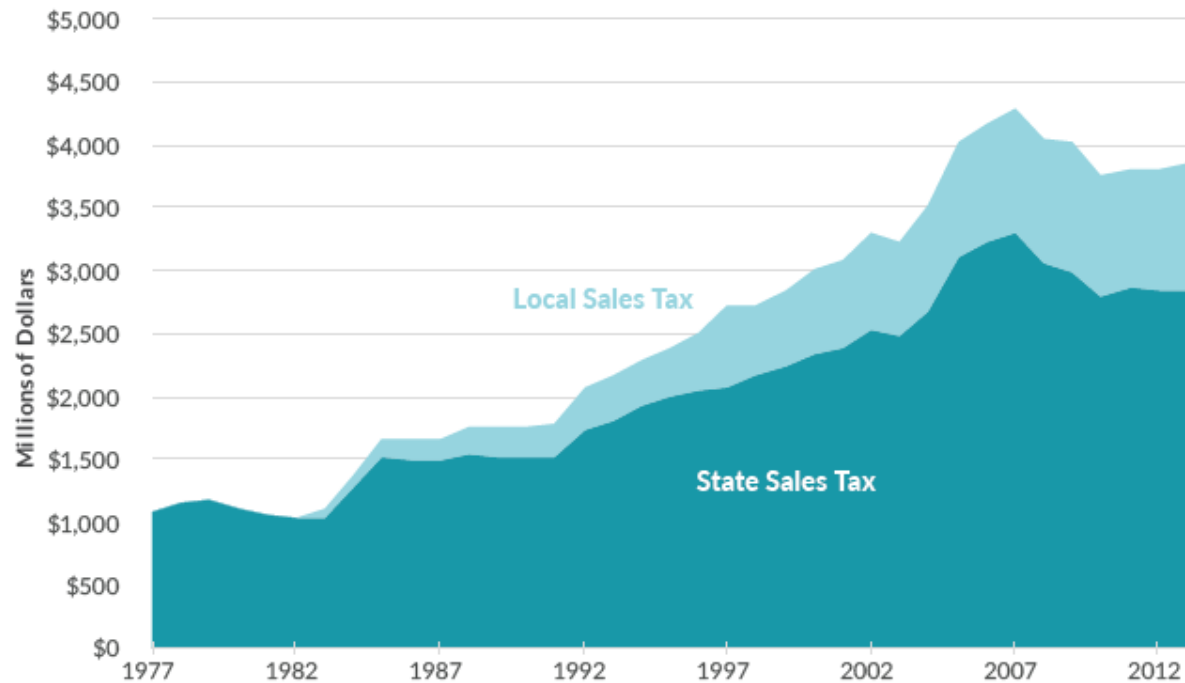
1935-2016

1935	2.000%	First Temporary Sales Tax
1941	2.000%	First Permanent Sales Tax
1958	3.000%	
1984	4.000%	
1991	4.500%	
1997	4.625%	<i>0.125% for Game Protection, Parks & Tourism, and Heritage</i>
2001	5.125%	<i>0.5% for Property Tax Relief</i>
2004	6.000%	<i>0.875% for Educational Adequacy</i>
2013	6.500%	<i>0.5% for Four Lane Highways (temporary)</i>

Note: Sales tax increases enacted as Constitutional Amendments are indicated in *italics* (Amendments 75, 79, and 91 to the Arkansas Constitution).

And Collections Have Increased at State and Local Level

Figure 5a.
Arkansas State and Local Tax Collections
(1977-2013, in 2013 Dollars)



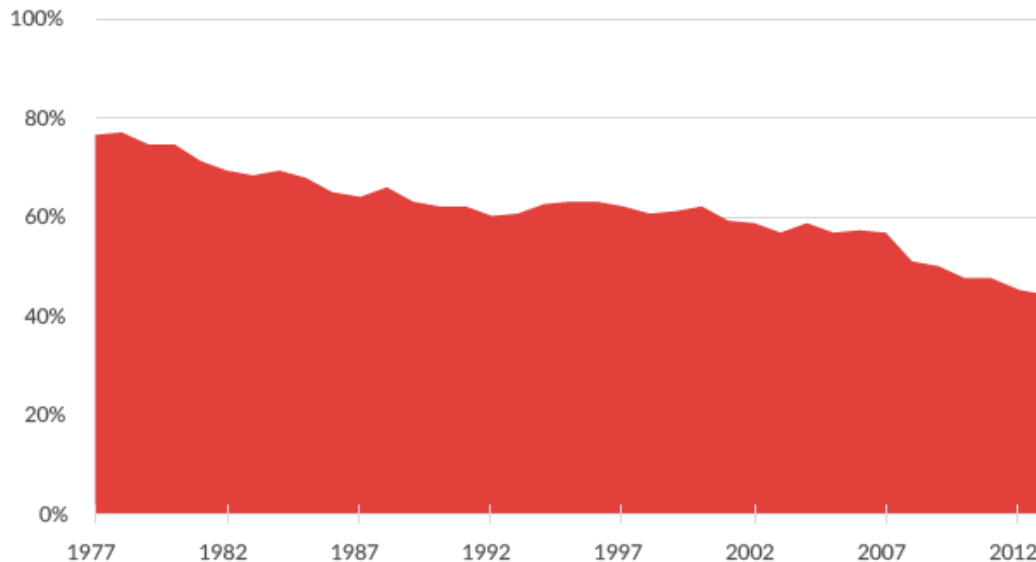
Note: Dollar amounts are adjusted for inflation based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2013 base year.
Source: Census Bureau, *State and Local Government Finances*; Bureau of Labor Statistics, *Consumer Price Indexes (All Urban Consumers)*.

At The Same Time, Sales Tax Base Has Been Eroding

Figure 5e.

Arkansas's Sales Tax Breadth

(1977-2013)



Source: Sales tax revenue from Census of State and Local Finances, Personal Income from BEA, method is modified version from John Mikesell, "The Disappearing Retail Sales Tax," State Tax Notes 63, 777-791.

- ▶ Note: This is due to both specifically granted exemptions (e.g., groceries) and gradual shift of economy from goods to services

Sales Tax Base Is Too Broad in Other Ways

- ▶ Arkansas includes a number of business inputs in the sales tax base, such as machinery and equipment and some business services.

Arkansas Now Has 3rd Highest Average Sales Tax Rate in Nation

Figure 5c.

How High Are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates (July 1, 2016)

