

Department of Finance and Administration

Legislative Impact Statement

Bill: SB6

As Engrossed: 1/22/2015

Bill Subtitle: TO CREATE THE MIDDLE CLASS TAX RELIEF ACT OF 2015; TO AMEND THE INCOME TAX RATES AND BRACKETS FOR INDIVIDUALS, TRUSTS, AND ESTATES; TO AMEND THE INCOME TAX ON CAPITAL GAINS; AND TO DECLARE AN EMERGENCY.

Basic Change : Sponsors: Sen. Dismang and Rep. Gillam

This bill reduces the income taxes owed by many Arkansas taxpayers. Beginning with tax year 2015, taxpayer's having taxable incomes of less than \$21,000 will pay income tax using the reduced tax rates of 0.9%, 2.4%, 3.4%, and 4.4% rather than the rates of 0.9%, 2.5%, 3.5% and 4.5% as in effect in 2014.

For tax year 2016 and after, taxpayers having taxable income between \$21,000 and \$75,000 will pay tax on that portion of their income between \$21,000 and \$35,099 at the rate of 5% rather than the 6% rate in effect for 2014. That portion of their income between \$35,100 and \$75,000 will be taxed at the rate of 6% rather than the 7% rate previously applicable. For 2015, these taxpayers will pay tax at the tax rates in effect in 2014.

For tax year 2016 and after, taxpayers having taxable incomes in excess of \$75,000 will pay tax on that portion of their income in excess of \$35,100 at the rate of 6.9%. The remainder of their income will be taxed at the tax rates in effect in 2014. Also, those persons having taxable income in excess of \$75,000 but not more than \$80,000 may claim a bracket adjustment of between \$440 and \$40. This bracket adjustment offsets a portion of the additional tax liability resulting from the fact that person making more than \$75,000 do not receive the benefits of the 5% and 6% tax rates received by those making between \$21,000 and \$75,000. For 2015, these taxpayers will pay tax at the tax rates in effect in 2014.

Also, this bill repeals capital gains provisions enacted by Act 1488 of 2013. Those provisions increased the capital gains exclusion from 30% to 50% effective tax years 2015 and after and provided an income tax exemption for that portion of capital gain received by an individual taxpayer in excess of \$10M in tax year 2014 and after. Both provisions will be repealed effective January 1, 2015 under this bill.

Revenue Impact :

FY 2016 - \$12.8M reduction

FY 2017 - \$80.6M reduction

Taxpayer Impact :

Taxpayers will have their income tax liability reduced as a result of this bill. However, taxpayers having capital gains income will continue to exclude 30% of that gain from taxable income as in past years. That income tax rate applicable to that capital gain income will be reduced for many taxpayers.

Resources Required :

None

Time Required :

Adequate time is provided.

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Procedural Changes :

Individual income tax brackets and tables will need to be updated. Withholding tables will need to be updated. Tax community will need to be informed.

Other Comments :

None

Legal Analysis :

The bill eliminates portions of the reduced income tax rate decreases enacted Act 1459 of 2013. This change will increase an income tax rate which requires a $\frac{3}{4}$ vote of both houses of the General Assembly under Ark. Const. Art. 5, § 38. The amendment adds an emergency clause sufficient to satisfy the requirements of Art. 5, § 38.