

TAX POLICY IN ARKANSAS: IDEAL AND PRACTICAL

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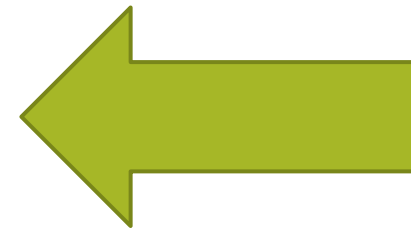
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Remember Three Things About Good Tax Policy

1. **Collecting a set amount of revenue** is the primary goal
2. Taxes should be collected in a way that **minimizes harm**
3. Arkansas would benefit from **reducing income tax rates** and relying more on sales or property taxes.

Ideal Tax and Budget Policy in Two (or Three) Easy Steps

1. Set the size of the budget
2. Design the tax system to minimize harm
3. (optional) Address equity concerns



Principles of Ideal Tax Theory

- Low tax rates
- Broad-based taxes
- Don't tax business inputs
- Choose taxes that minimize harm
 - Property Tax (least harmful)
 - Sales Tax
 - Individual Income Tax
 - Corporate Income Tax (most harmful)

Other Uses of Taxes

- Reduce Social Harm or “Externalities”
 - What: taxes can be used in a limited way to discourage behavior that harms society
 - Example: Tobacco
 - Solution: tax product by weight or volume according to amount of social harm
- User Fees
 - What: for some government services we would like to charge a user fee, but it may be challenging for technological or political reasons
 - Example: Highways
 - Solution: tax another good that serves as a proxy for this service, such as fuel

Does Arkansas Live Up to These Principles?

- Tax Rates
- Broad Tax Base
- Correct Tax Base
- Less Harmful Tax Types

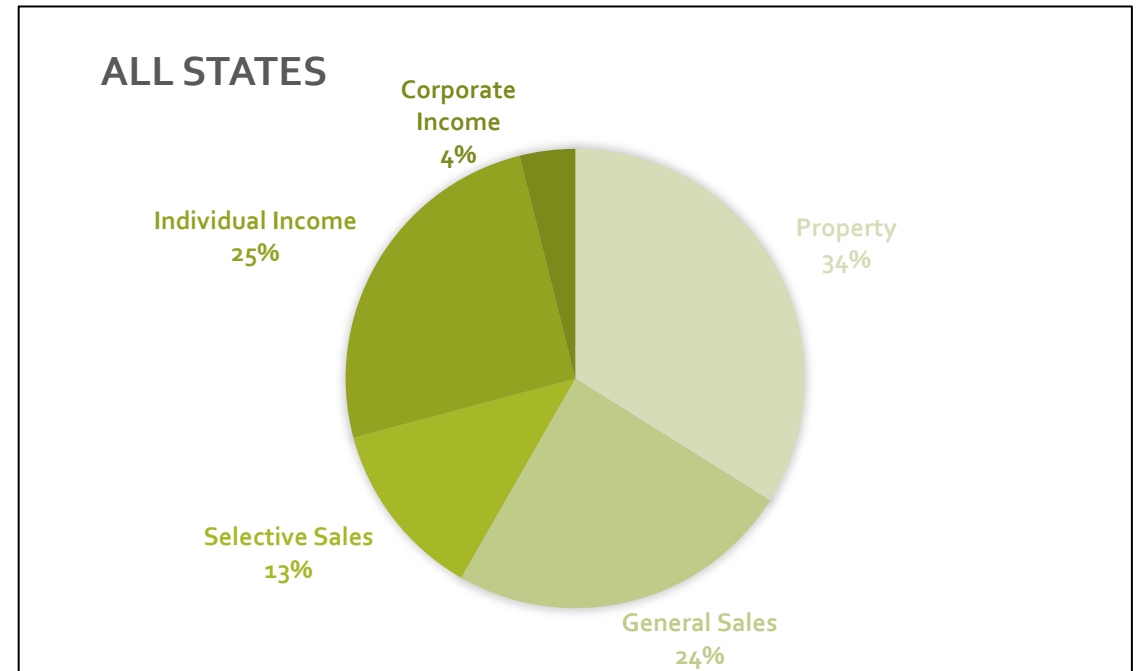
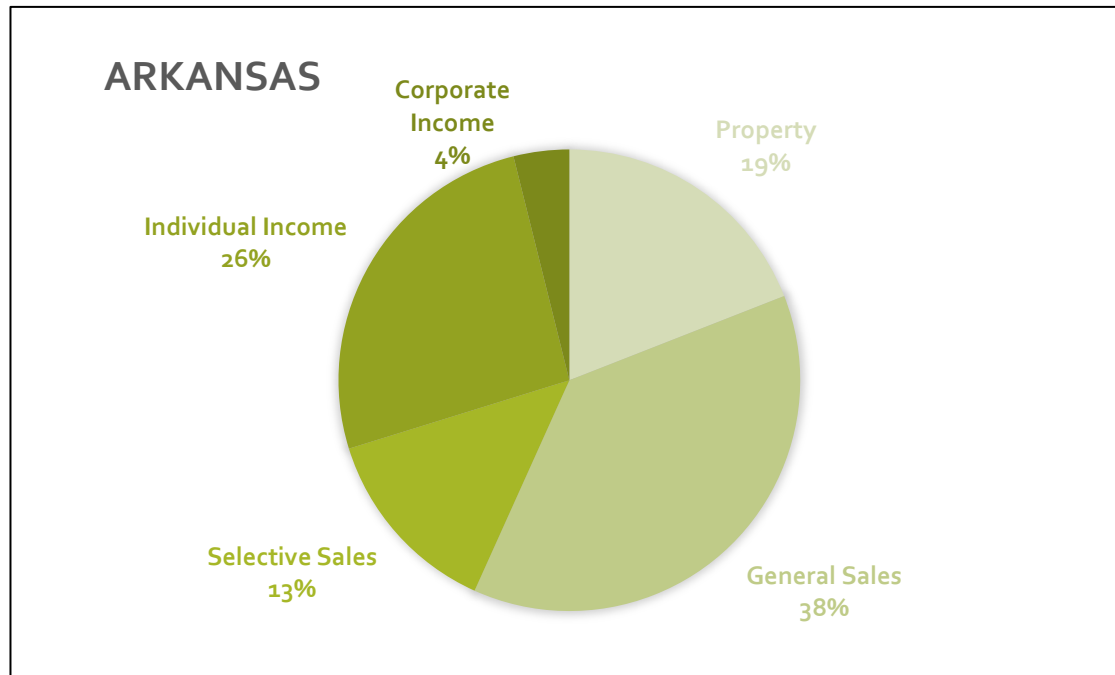
Tax Rates (state and local)

	Arkansas	All States	Regional Competitors
Property Tax (effective rate)	0.64%	0.96%	0.825%
Sales Tax (average combined rate)	9.3%	7.0%	7.55%
Personal Income Tax (top rate)	6.9%	6.0%	5.375%
Corporate Income Tax (top rate)	6.5%	6.875%	6.0%

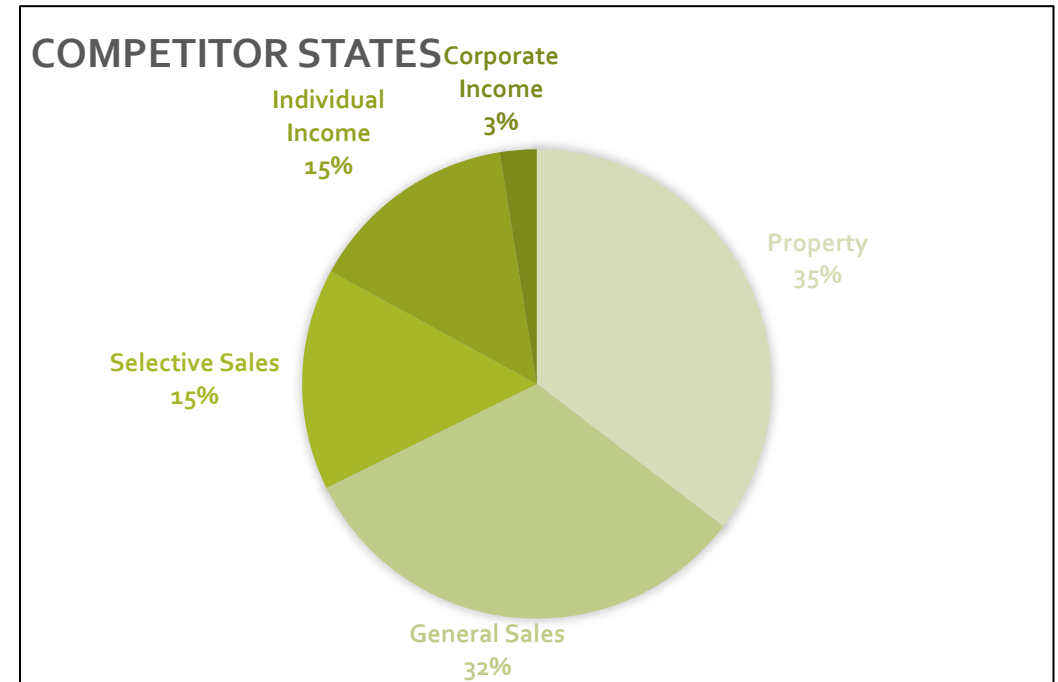
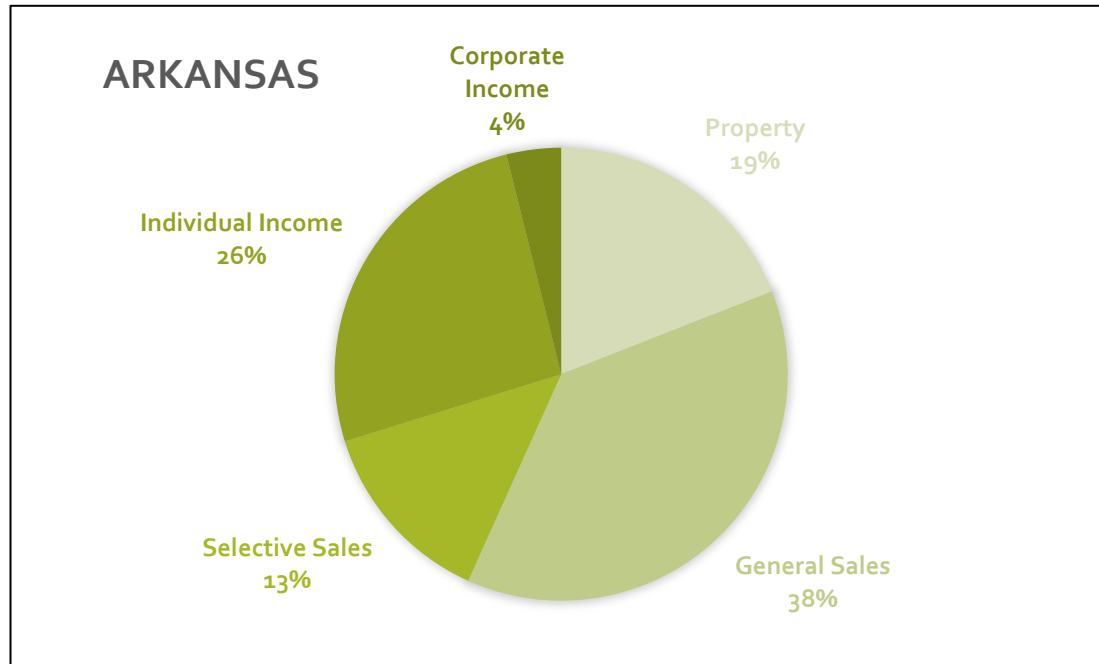
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Tax Collections in State (percent of total)



Tax Collections in State (percent of total)



Income Taxes as Percent of Revenue

Arkansas

30%

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Competitor States

18%

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Thank You For Your Time

- Feel free to contact me with any questions or if you would like any of the data sources
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