

Fix the Low Income Tax Threshold Problem and Exempt All Low-Income Families from State Income Taxes (HB 1056)



Exempt all low income families from state income taxes. Fix the 2007 law by adding a new credit for Heads of Households with 2 or more dependents, thereby exempting all families below the poverty line from state income taxes. It would impact 50,000 families.

What will it Cost? The revenue impact of this tax fix is estimated at \$3.7 million annually, beginning in SFY2012.

What's the Problem?

In 2007 the Arkansas General Assembly passed Act 195 to exempt low-income families at or below the poverty line from state income taxes and to reduce taxes for those families with incomes just above the poverty line. While positive overall, the legislation has a major design flaw: Heads of households with two or more dependents—many of whom are led by single parents—did not receive the same benefits as other family types and sizes. These families are facing many economic challenges on a daily basis and reducing their tax burden allows them to better buy food, shelter and gas to get to work or school. Many of these families already pay a larger proportion of their income in taxes than do wealthy families.

Research:

According to a 2010 report from the Center on Budget and Policy Priorities, Arkansas was one of 11 states that continue to levy a state income tax on working poor families below the poverty line. A single-parent family of three with income at the poverty line—\$17,102 in 2009—could have paid up to \$205 in state income taxes in Arkansas. That is the third highest in the nation after Hawaii (\$211) and Alabama (\$333).

In 2007, the General Assembly did a good thing by passing Act 195 to eliminate taxes for most low-income, working families below the poverty line and to cut taxes for those just above the poverty line. They should complete the job they started in 2007 by passing a bill that would fix the problem.

These families are playing by the rules, working hard, and yet struggle to make ends meet for their families. They should not be penalized because a mistake was made in the drafting the law in 2007.

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