A BETTER FOUNDATION

BUILDING A TAX SYSTEM THAT WORKS FOR ARKANSAS FAMILIES

ARKANSAS ADVOCATES FOR CHILDREN & FAMILIES

Table of Contents

October 2013

Arkansas Advocates for Children and Families

Central Arkansas Office:
Union Station
1400 W. Markham St., Suite 306
Little Rock, AR 72201
(501) 371-9678

Northwest Arkansas Office:
614 E. Emma Avenue, Suite 107
Springdale, AR 72764
(479) 927-9800

A BETTER FOUNDATION
Building a Tax System That Works for Arkansas Families

by Rich Huddleston, Executive Director
and Kim Reeve DeLong, Senior Data Analyst
Arkansas Advocates for Children and Families

Now that the dust has settled from the 2013 legislative session, it's a good time to take stock of the impacts of tax policy changes made by the Arkansas General Assembly. By any objective standard, the tax changes passed this year fail to make the fundamental changes that Arkansas needs to create a fair, adequate, and modern tax system that will meet the vital needs of its citizens and boost the state's ability to compete economically.

The changes passed during the 2013 session consisted largely of personal income tax cuts benefiting upper-income taxpayers and sales and use tax cuts targeted to specific industry groups. As a whole, the tax changes did little to improve overall tax fairness for low- and middle-income families; resulted in flat or underfunding for certain critical services for children and families in the short term; and further undermined an already strained base for funding future services that are critical to the state's needs.

The tax changes enacted by the 2013 General Assembly fall short on both fairness and adequacy, two key principles of a good tax system.

Fairness: The tax cuts enacted fundamentally fail to address a long-recognized shortcoming of the Arkansas state and local tax system. Low-income and middle-income families still pay substantially more in state and local taxes - as a percentage of their earned income - than do upper-income taxpayers. The cuts in personal income tax rates and the new cuts on capital gains (the income realized from the sale of assets such as stock portfolios) primarily benefited upper income taxpayers. The further cutting of the sales tax on food, while positive, will only kick in if certain conditions are met and fails to offset the 0.5 percent increase in overall sales taxes that were passed last year by the voters for highways and roads. A range of other sales tax cuts, such as utility purchases by manufacturers and sales of bailing wire, benefitted specific industry groups and will do little to improve fairness for low- and middle-income taxpayers

Revenue Adequacy: The tax cuts passed this session resulted in the flat funding (or major underfunding)

AACF Executive Director Rich Huddleston and Rep. Fred Love (D-LIttle Rock) testify before a committee on the benefits of the Earned Income Tax Credit.

of a range of services critical to vulnerable children and families, such as quality pre-k for at-risk 3 and 4 year olds, juvenile justice, services for abused and neglected children, higher education, the Department of Health, and continued under-funding for highways and roads. According to estimates by the Department of Finance and Administration, the tax cuts passed during the 2013 legislative session will result in lost state general revenue of $141.2 million in fiscal year 2016 - and a total revenue loss of $160.5 million if the impact on specifically-earmarked revenues is included - when they are fully implemented. These totals don't include future potential lost revenue from the cut in the grocery tax, which will kick in if certain costs in the state budget decline. That change, while good for the sales tax burden for fami-

DETAILS OF MAJOR TAX CUTS
Enacted by 2013 General Assembly

Personal Income Taxes

- Cut personal income tax rates by 0.1 percent, starting with a cut in the current lowest rate of 1.0 percent to 0.9 percent in tax year 2014, and cut of 0.1 percent in all of the other brackets in tax year 2015.
- Increased standard deduction by $200 from $2,000 to $2,200 for tax years 2015 and later.
- Increased exemption in capital gains income from 30 percent to 50 percent for tax years 2015 and later.
- Exempted realized capital gains income in excess of $10 million realized on or after January 1, 2014.
- Exempted from the personal income tax the service pay or allowance received by an active duty member of the armed services for those on active duty.

Sales and Use Taxes

- Exempted sales of utilities (electricity, natural gas, and liquefied petroleum gas) used by qualifying agricultural structures and qualifying aquacultural or horticultural equipment.
- Reduced sales tax rates on natural gas and electricity used by manufacturers from 2.75 percent (current law) to 0.625 percent, and the tax rates for natural gas and electricity used by electricity generators from 4.75 percent (current law) to 1.625 beginning July 1, 2015.
- Exempted sales of baling twine, net wrap, silage wrap, and similar products that are used for baling, packaging, tying, wrapping, or sealing animal feed products for use in commercial farming operations.
- Exempted sales of utilities used by a grain drying and storage facility
- Provided refunds for sales and use taxes paid by manufacturers on repair and replacement parts and services. The portion of the current 6.5 percent sales tax eligible for a refund is phased in beginning with one percent on January 1, 2014, increasing to 5.875 percent in 2019.
- Increased the exemption for sales of machinery and equipment used by timber foresters from the first $50,000 of purchase (current law) to the entire purchase.
- Exempted sales of dental appliances to or by a dentist, orthodontist, oral surgeon, maxillofacial surgeon, or endodontist.
- Cut the remaining state sales tax on groceries by another 0.5 percent if certain costs currently incurred by the State decline by specified amounts (thus eliminating the tax except for the 1/8 of a cent conservation tax that is constitutionally mandated under Amendment 75).

Other

- The New Market Jobs Act allows the Arkansas Economic Development Commission to issue insurance premium tax credits to entities making investments used to develop Arkansas business. An investor may receive a tax credit up to 58 percent of their total investments and total tax credits up to $166 million may be issued by AEDC.

FISCAL IMPACT OF 2013 TAX CUTS
Estimated impact over the next three years, according to the Department of Finance and Administration

	General Revenue			Total Revenue		
Fiscal Year	2014	2015	2016	2014	2015	2016
Grand Total	-$10,172,495	-$85,167,207	-$141,252,549	-$11,038,207	-$97,280,292	-$160,533,492

Does not include grocery tax cut, which takes effect only if certain conditions are met. For a detailed description of every tax cut see pg. 11

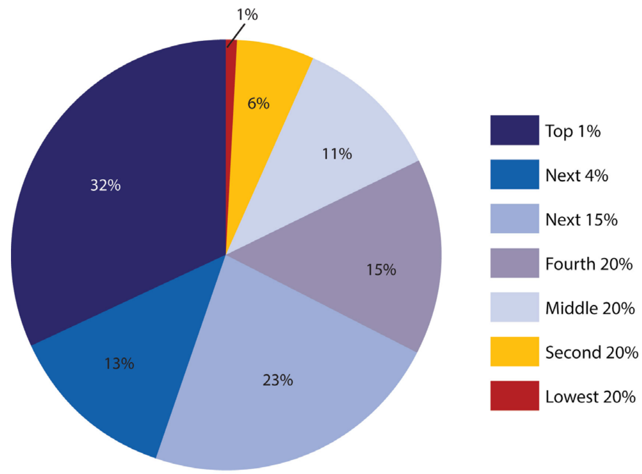
lies, will result in an additional $51.8 million loss in state general revenue (a total of $70 million including revenue earmarked for specific purposes).

Who Pays Arkansas Taxes Now?

What was the impact of the tax changes enacted by the 2013 legislature? Not surprisingly, the personal income tax rate cuts (Act 1459) and the increased exemption of capital gains income (Act 1488) disproportionately benefit high-income taxpayers. Low-income taxpayers generally do not have capital gains (capital gains are typically gains from the sale of assets such as stocks and bonds) and most already take advantage of the low-income tax tables which exempt many taxpayers from state income taxes. The bottom 20 percent of Arkansas taxpayers (those making less than $16,000) saw virtually no change in their tax burden (an average tax change of 0 percent, or $2). In contrast, the personal income tax cuts and the expanded capital gains exemption will provide a modest cut for the top one percent of Arkansas taxpayers (those with incomes more than $346,000). This group will receive an average tax cut of 0.2 percent or $1,962.

If the benefits of the income tax cuts passed during the session are viewed as a pie, then clearly the top one percent got the biggest slice. They will receive 32 percent of the total benefits from the cuts, while only one percent of the benefits will flow to the bottom 20 percent of Arkansas taxpayers.

LOW INCOME ARKANSANS BENEFIT THE LEAST FROM THE TAX CHANGES MADE DURING THE 2013 LEGISLATIVE SESSION: Impact of HB 1585 and HB1966



Source: Analysis by Institute of Taxation and Economic Policy (ITEP)

One tax cut passed during the session that will benefit low-income taxpayers was the cut in the sales tax on groceries (Act 1398). If implemented - it only takes effect if certain costs in the state budget go down - the state grocery tax will be cut by another 0.5 percent and will be virtually eliminated (except for the 1/8 of a cent conservation tax that is constitutionally mandated under Amendment 75). The grocery tax cut, however, will not be enough to offset broader 0.5 percent increase in the sales tax for highways and roads that was enacted by the voters last year.

In all, the tax changes enacted by the 2013 Arkansas legislature had little impact on the overall fairness of the Arkansas tax system. According to a new analysis by the Institute on Taxation and Economic Policy

IMPACT OF HOUSE BILLS 1585 AND 1966

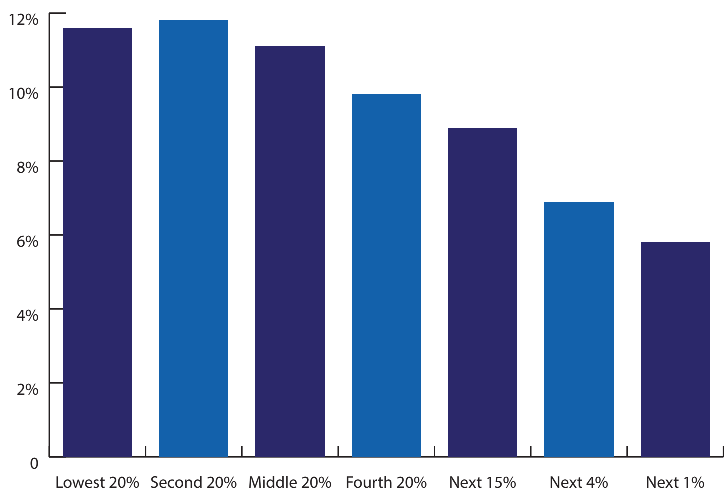
Based on Arkansas residents' 2012 income levels. HB 1585 cut the personal income tax rate. HB 1966 increased the standard deduction and cut capital gains.

2012 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Range	Less Than $16,000	$16,000 – $29,000	$29,000 – $49,000	$49,000 – $78,000	$78,000 – $155,000	$155,000 – $346,000	$346,000 – Or More
Average Income in Group	$10,000	$23,000	$38,000	$62,000	$101,000	$209,000	$867,000
Tax Change as % of Income	–0.0%	–0.1%	–0.1%	–0.1%	–0.1%	–0.1%	–0.2%
Average Tax Change	–2	–17	–34	–47	–93	–200	–1,962
Share of Tax Change	1%	6%	11%	15%	23%	13%	32%

SOURCE: Institute on Taxation and Economic Policy, April 2013

(ITEP), low-income and middle-income families still pay substantially more in state and local taxes - as a percentage of their earned income - than do upper-income taxpayers. In fact, they pay twice as much. The lowest 20 percent of taxpayers, those with incomes less than $15,000 pay nearly 12 percent of their income in state and local taxes. The top one percent of taxpayers, those with incomes of more than $311,000 (average income of $723,000), pay less than six cents on every dollar they earn. Low and middle-income Arkansas taxpayers still bear the greatest share of the burden of state and local taxes (see the bar graph below).

ARKANSAS STATE AND LOCAL TAXES AS SHARES OF FAMILY INCOME FOR NON-ELDERLY TAXPAYERS



Source: Institute on Tax and Economic Policy, 2013

Gaps in the Arkansas Tax System

There are four principles to a good tax system.

- Balanced – a good tax system has a broad tax base (the things that are taxed) so the state does not depend too much on a single source of revenue. It's especially important not to put too much of the tax burden on one group of taxpayers.
- Transparent and Accountable – taxpayers should be able to see where tax dollars come from and where these dollars go. When a system allows a lot of exemptions and loop-holes, it is harder for taxpayers to keep track of how the tax system works.

ARKANSAS STATE AND LOCAL TAXES AS A SHARE OF PERSONAL INCOME
Breakdown based on income group, updated for 2013 legislative changes

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than $15,000	$15,000 – $27,000	$27,000 – $44,000	$44,000 – $71,000	$71,000 – $144,000	$144,000 – $311,000	$311,000 or more
Average Income in Group	$8,600	$21,200	$35,200	$55,500	$94,400	$193,300	$723,300
Sales & Excise Taxes	9.4%	8.9%	7.6%	5.8%	4.6%	2.8%	1.4%
General Sales—Individuals	5.1%	5.2%	4.7%	3.6%	2.9%	1.8%	1.0%
Other Sales & Excise—Ind.	1.9%	1.5%	1.1%	0.8%	0.5%	0.3%	0.1%
Sales & Excise on Business	2.3%	2.2%	1.9%	1.4%	1.1%	0.7%	0.4%
Property Taxes	2.1%	1.4%	1.3%	1.5%	1.4%	1.5%	1.3%
Property Taxes on Families	2.0%	1.3%	1.3%	1.4%	1.3%	1.2%	0.7%
Other Property Taxes	0.0%	0.1%	0.0%	0.1%	0.1%	0.4%	0.6%
Income Taxes	0.2%	1.6%	2.2%	2.8%	3.7%	3.9%	4.6%
Personal Income Tax	0.2%	1.5%	2.2%	2.7%	3.6%	3.7%	4.4%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
Total Taxes	11.6%	11.9%	11.2%	10.1%	9.6%	8.2%	7.3%
Federal Deduction Offset	0.0%	0.0%	-0.1%	-0.3%	-0.7%	-1.3%	-1.5%
OVERALL TOTAL	11.6%	11.8%	11.1%	9.8%	8.9%	6.9%	5.8%

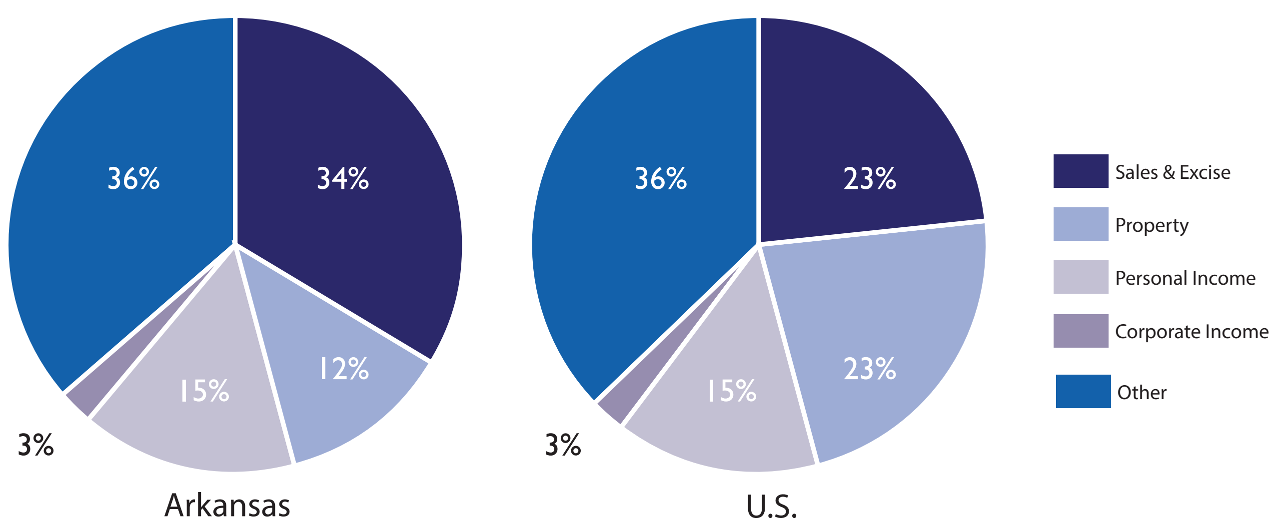
- Adequate – a good tax system should be able to generate enough revenue to support vital and necessary programs and services.
- Fair – a tax system should be based on a family's or busines's ability to pay. In short, a state's tax system should be progressive instead of regressive. A progressive tax or tax system has rates that increase as income or profits increase. A regressive tax or tax system has higher tax rates for people or businesses with lower income or profits.[1]

The Arkansas tax system clearly fails to meet at least three of these four standards. It doesn't generate adequate revenue to meet revenue to meet vital programs as has been shown by the recent flat or underfunding of key programs in the Arkansas budget that serve vulnerable children and families in areas such as pre-k, child welfare, and juvenile justice. The Arkansas tax system fails on the fundamental test of fairness. It's very regressive, which means that low- and middle-income Arkansans pay a much higher share of their income in state and local taxes than do the state's more well-to-do taxpayers. It places too much of the burden of paying for state and local programs and systems on those who can least afford it. Our tax system is also unbalanced and relies too much on certain taxes to pay for the state budget. This imbalance contributes to inequities in the tax system and reduces the state's ability to generate adequate revenue to meet its budget needs.

Over-reliance on Sales Taxes. A major reason why the Arkansas tax system hits low- and middle-income families the hardest is the over-reliance on state and local sales and use taxes. Arkansas relies much more on general sales and use taxes and excise taxes (such as those on alcohol and tobacco) than other states. Such taxes comprise nearly 34 percent of all state and local general revenue in Arkansas, compared to just 23 percent nationally. Sales and use taxes are, on paper, the same rate for all taxpayers regardless of their income. In reality, low- and moderate-income families spend much more of their income on products and services (like food and clothing) that are subject to sales tax. In contrast, high-income families spend much more of their income on items that are not subject to sales taxes, such as lawn care, cleaning services, or vacations out of state.

SOURCES OF STATE AND LOCAL GENERAL REVENUE

As a percent of total general revenue, 2010-2011

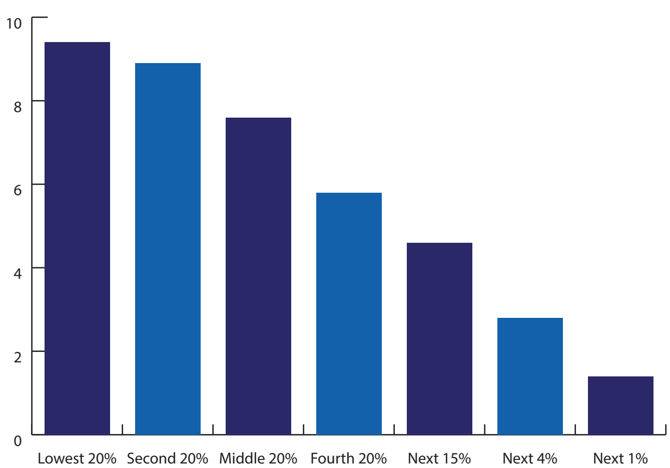


Source: AACF calculations based on data from the U.S. Census Bureau, 2010-2011

By any standard, Arkansas's state and local sales taxes are among the highest in the country, both in terms of rates and the amount actually paid relative to taxpayer income. The state sales tax rate is currently 6.5 percent, and local governments are allowed to levy smaller sales taxes as well, subject to voter approval.

Another problem with the Arkansas sales tax is that it needs to be modernized. The current base for the tax (i.e., the items subject to the tax) has not kept pace with the changing economic shift from goods to services and fails to reach online purchases that are downloaded over the internet, such as music, movie, or software downloads (note: for a more thorough discussion of this issue, see our recent blog post at http://aradvocates.org/modernizing-the-arkansas-sales-tax/). As a result, Arkansas has to levy a higher rate on other items, such as household items or clothes, that taxpayers are more likely to purchase locally in order to generate the same amount of income. While expanding and modernizing the sales tax base would make the overall tax system more regressive, it has to be done to improve revenue adequacy.

ARKANSAS SALES AND EXCISE TAX AS SHARES OF FAMILY INCOME FOR NON-ELDERLY TAXPAYERS



Source: Institute on Tax and Economic Policy, 2013

Low Property Taxes. In contrast, Arkansas under-relies on local property taxes. While property taxes are slightly regressive for low-income taxpayers, they are much less so than sales taxes. Arkansas relies very little on property taxes. According to ITEP estimates, Arkansas taxpayers pay about 1.3 to 2.1 percent of their income in local property taxes. Relative to income, Arkansas property taxes are generally among the lowest in the country, ranking 45th. There are numerous reasons for the state's low utilization of property taxes, most of which stem from Amendments 59 and 79 to the Arkansas Constitution that make it difficult to increase property taxes. These amendments limit how much additional local funding for education and other services can be raised by local property taxes, even among relatively wealthy communities and individuals; caps on the amount of property tax increases that must be paid each year; exempting Arkansas retirees from future increases, regardless of their income level; and a $350 annual homestead credit (again regardless of ability to pay). The major consequence of the caps on local property taxes is that they require the state to raise more funding for education through other means (such as sales taxes) that disproportionately hurt low- and middle-income families.

Preferential Treatment for High-income Earners. Personal income taxes are generally progressive because they require higher-income earners to pay a greater share of their income in taxes. This is generally true in Arkansas. Because of preferential treatment through the low-income tax tables, low-income taxpayers pay little, if anything in income taxes (unlike their high sales tax burden). According to ITEP estimates, low-income taxpayers pay less than one-percent in income taxes, middle-income taxpayers pay a little over two percent, while upper-income taxpayers pay over four percent.

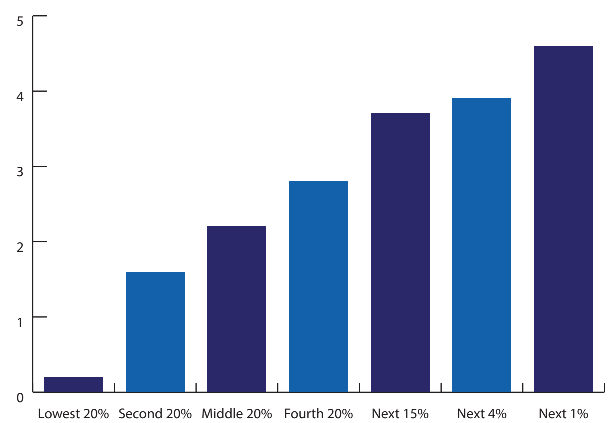
While some argue that Arkansas's top rate of seven percent (soon to be 6.9 percent) is too high, the reality is that no taxpayer pays that much because of various deductions and exemptions in the income tax. High-income earners, in particular, receive preferential treatment under the law because of the special treatment given to taxes on capital gains, which are the profits from the sale of an asset, like stocks and bonds, investments, vacation homes, art, and other items. This type of income is only owed when an asset is sold and profits are made. The capital "gain" that is taxed is the difference between the original purchase price and the sale price. Currently, Arkansas law exempts 30 percent of capital gains income from income tax. Through Act 1488 of 2013, 50 percent capital gains income will be exempted from taxation. This mostly benefits the top earners in Arkansas, reversing the progressive nature of the state income tax system and leaving the burden of income tax to fall most heavily on low- and moderate-income families who cannot take advantage of this exemption. [2]

A preference for high-income earners is also shown in how retirement and pension income is taxed under the Arkansas personal income tax. Arkansas does not tax social security earnings and exempts the first $6,000 in pension income. Because low-income families pay relatively little in personal income taxes, this amounts to a special preference for middle- and upper-income taxpayers.[3]

It should be noted that a much bigger problem with the rate structure of the personal income tax is that the top rate (soon to be 6.9 percent) kicks in at a relatively low level of income, at $34,000. Ideally, the rates would be spread out so that there would be more meaningful differences in the rates paid by taxpayers at different income levels. A major problem with fixing this problem is that the costs of doing so would be budget breaking, especially if the lost revenue were not replaced. Unless Arkansas had the political will to increase taxes to replace the lost revenue, fixing this could devastate funding for programs critical to the well-being of children and families.

Corporate Tax Avoidance. Large, multi-state corporations can often avoid paying Arkansas state corporate income taxes. Many small businesses in Arkansas don't file a "corporate" tax return. Instead, these business owners and stakeholders pay income taxes on profits through their individual tax returns. Larger corporations, especially those with 75 or more shareholders, file corporate income tax returns. Companies that file corporate income tax returns must pay a state income tax on the net income they earn. In tax year 2010, over 18,000 of the corporations that filed taxes (60 percent of all corporate filers) owed no corporate income taxes. However, large corporations can use many different loopholes and exemptions to lower the amount of taxes they pay in Arkansas. One of the most common corporate income tax avoidance strategies is the "Delaware holding company" tax shelter. Under this shelter, Arkansas companies transfer ownership of their trademarks and patents to a subsidiary corporation in a state that either doesn't tax certain types of income (like Delaware) or doesn't have a corporate income tax at all (like Nevada). These types of loopholes create an uneven tax playing field for small businesses that don't have the ability of large corporations to undertake complex tax avoidance for the sole purpose of lowering or avoiding paying state income taxes. In doing so, it increases the state's reliance on other taxes, such as sales taxes, that place a greater burden on low and middle-income taxpayers.

ARKANSAS PERSONAL AND CORPORATE INCOME TAXES AS SHARES OF FAMILY INCOME FOR NON-ELDERLY TAXPAYERS



Source: Institute on Tax and Economic Policy, 2013

Improving Who Pays and Strengthening the State's Fiscal Foundation

While a comprehensive plan for improving the Arkansas tax system is beyond the scope of this brief, there are some obvious changes that Arkansas could make to (1) strengthen the revenue foundation for the services needed to improve the well-being of the state's children and families and (2) improve the system's fairness for low- and middle-income families. These include the following:

Targeted Tax Relief for Low-income Taxpayers. Arkansas has to do more to offset the high sales tax burden faced by low- and middle-income families. One way to do would be to enact a targeted state Earned Income Tax Credit (EITC) to provide relief to hard-working, low-income families in Arkansas, helping them close the gap between what they earn and what they need to make ends meet. Arkansas should build on the success of the federal EITC, which has been called by many the most successful anti-poverty program with the exception of social security. To date, 24 states have enacted their own versions of the EITC. A state EITC in Arkansas would piggyback on the federal EITC and would require adding only one line to the state income tax form to implement the credit. Two features would be critical to a successful state EITC: (1) the credit must be refundable so any credit over the state income tax owed is returned to the family as a reward for working hard at a low-paying job and (2) it should be tied to the federal EITC to make it easy to administer. This program would start to balance the tax system away from depending on those who can least afford to pay. It also promotes work because a low-income taxpayer only qualifies if they are working. The cost of a state EITC would not be cheap. An EITC equal to five percent of the federal EITC would cost the state treasury $40 million, while a 10 percent EITC would cost $80 million.

Paying for Tax Reforms and Ensuring Revenue Adequacy. Arkansas needs to shore up its revenue foundation to pay for the types of reforms it needs to make the tax system fairer for low- and middle-income families and to strengthen its ability to make the types of investments in education and other areas it needs to promote the well-being of children and families and help the economy grow and prosper.

One way to do that is to reduce preferential treatment in the personal income tax for upper-income taxpayers by **fully taxing capital gains**. Arkansas should eliminate (or at least scale back) its generous exemption of capital gains income. Doing so would increase the overall fairness of the tax system for low- and middle-income families who are much less likely to ever have major capital gains.

Another is to help **close corporate tax loopholes** and reduce tax avoidance by large Arkansas corporations through a process known as **Combined Reporting**. Essentially, combined reporting requires that all of the profits of a parent company and its subsidiaries (regardless of where the income is reported as being earned) are added together before deciding what is to be taxed in Arkansas. Once all of the income for a company is identified through combined reporting, the amount to be taxed in Arkansas can be arrived at through a complex tax formula called "apportionment," which divides the profits of a parent company and its subsidiaries between the states where business is conducted.[4] The formula takes into account property that the corporation holds, where payroll takes place, and where the sales take place. Combined reporting ensures that corporations who do business in Arkansas pay taxes on the services and programs they need to operate. We conservatively estimate that closing corporate income loopholes in this way would increase tax revenues from the corporate income tax by about $42 million annually and would help level the economic playing field for small companies that rarely employ such tax avoidance strategies.

Another step Arkansas must take is to **modernize its sales tax**. Arkansas will lose more and more revenue over time if the sales tax base is not expanded to keep pace with the changing economic shift to services and online downloads of products. While expanding the base will increase sales tax burden, it must be done to maintain adequacy. The challenge will be (1) to ensure that more is done to offset the sales tax burden for low-income families through targeted tax relief, such as the ETIC discussed above, and (2) to look for more progressive ways to raise revenue, such as through personal and corporate income taxes and even property taxes.

One major way to improve the fairness, adequacy, and balance of the Arkansas tax system would be to **enact property tax reforms**, such as revising the caps in Amendments 59 and 79, to make it easier to raise revenue at the local level and lessen our dependence on sales taxes. Another would be to target existing property tax relief, such as the $350 home-

		General Revenue	Total Revenue
Act	Subject	FY16	FY16
1441	Cuts sales & use taxes on utilities used by qualifying agricultural structures and qualifying aquaculture/horticulture equipment	-$6,040,000	-$10,570,000
1411	Cuts sales & use taxes on electricity and natural gas in manufacturing	-$18,355,000	-$27,400,000
1459	Cuts personal income tax rates by 0.1 percent & changes the brackets	-$55,700,000	-$55,700,000
1488	Increases capital gains income exclusion to 50 percent, exempts gains in excess of $10 million, & increases standard deduction by $200.	-$24,500,000	-$24,500,000
1401	Exempts sales tax on utilities used by grain drying/storage facility	-$2,140,000	-$4,010,000
1404	Provides refunds for sales taxes paid by manufactures on repair and replacement parts/ services for manufacturing equipment	-$4,610,000	-$7,290,000
1414	Exempts sales of dental appliances to or by dentists/oral surgeons	-$1,260,000	-$2,200,000
1408	Exempts from personal income tax the active duty service pay for active duty military personnel	-$7,200,000	-$7,200,000
1474	New Markets Jobs Act allows AEDC to issue insurance premiumn tax credits to entities making investments to promote Ark business	-$19,920,000	-$19,920,000
	Other tax cuts each w/a FY16 SGR loss of less than $1,000,000	-$1,527,549	-$1,743,492
	Grand Total	**-$141,252,549**	**-$160,533,492**

Does not include grocery tax cut, which takes effect only if certain conditions are met and would result in the loss of $51.8 million in general revenue.

stead credit currently available to all homeowners regardless of income, to those most in need of relief. Unfortunately, of all the possible changes that might improve the tax system, reforming the property tax might be the toughest to do politically because of both constitutional changes required at the state level and voter approval requirements at the local level. In many respects, property tax reforms are political non-starters.

Conclusion

We all depend on programs provided by our state: roads, police and fire protection, and public schools to name a few. All of these important investments are paid for with our state and local tax dollars. Arkansas's current system of collecting revenue (through state and local taxes) is not meeting the vital needs of Arkansans. Public schools are struggling to provide all Arkansas children with quality learning experiences that will meet the needs of the future. Arkansas highways and roads are not maintained at levels needed to promote state economic development. Public safety is threatened because we cannot hire enough police officers and firefighters to keep our state safe. And the future well-being of our children is threatened when we cannot pay for investments like a quality pre-K program or services for children in the juvenile justice and child welfare systems in their greatest hour of need. Without these necessary investments, our state cannot do what it needs to do to help the economy growth and prosper and ensure our citizens have a brighter future.

These vital investments are paid for by the taxes we pay, but our current tax system is antiquated and insufficient to meet our critical needs. Low- and middle-income Arkansans pay a much higher share of their income in state and local taxes than do the richest families in Arkansas. State and local programs depend too much on sales and use taxes so revenue fluctuates with the economy and the burden falls too heavily on our low-income and moderate-income families. The Arkansas tax system should undergird our state's fiscal foundation for the future. Our citizens can and should expect a better tax system. Only by enacting needed reforms will Arkansas be able to safeguard and promote the investments in our great state.

[1] Barth, Jay and Ginny Blakenship, "Rules of the Games: An Advocate's Guide to the Arkansas Tax and Budget System." www.aradvocates.org/assets/PDFs/Advocates-Guide_FINAL-WEB.pdf

[2] Huddleston, Rich, "Millionaire's Gain: The Impact of Cutting Arkansas Capital Gains Taxes." www.aradvocates.org/assets/PDFs/Tax-and-budget/PP-Cap-Gains-2010.pdf

[3] Metzger, Jim and Rich Huddleston, "The Vanishing Arkansas Corporate Income Tax: Should We Close Loopholes." www.aradvocates.org/assets/PDFs/Tax-and-budget/TB-AACF-PP24-CorporateIncomeTax-2004.pdf

[4] Michael Mazerov, Presentation:SB354 –Combined Reporting

ARKANSAS ADVOCATES FOR CHILDREN & FAMILIES

www.aradvocates.org

facebook.com/aradvocates twitter.com/aacf @aradvocates