

BENEFITS OF HB 1585 GO TO WEALTHY LOW-INCOME FAMILIES LEFT OUT

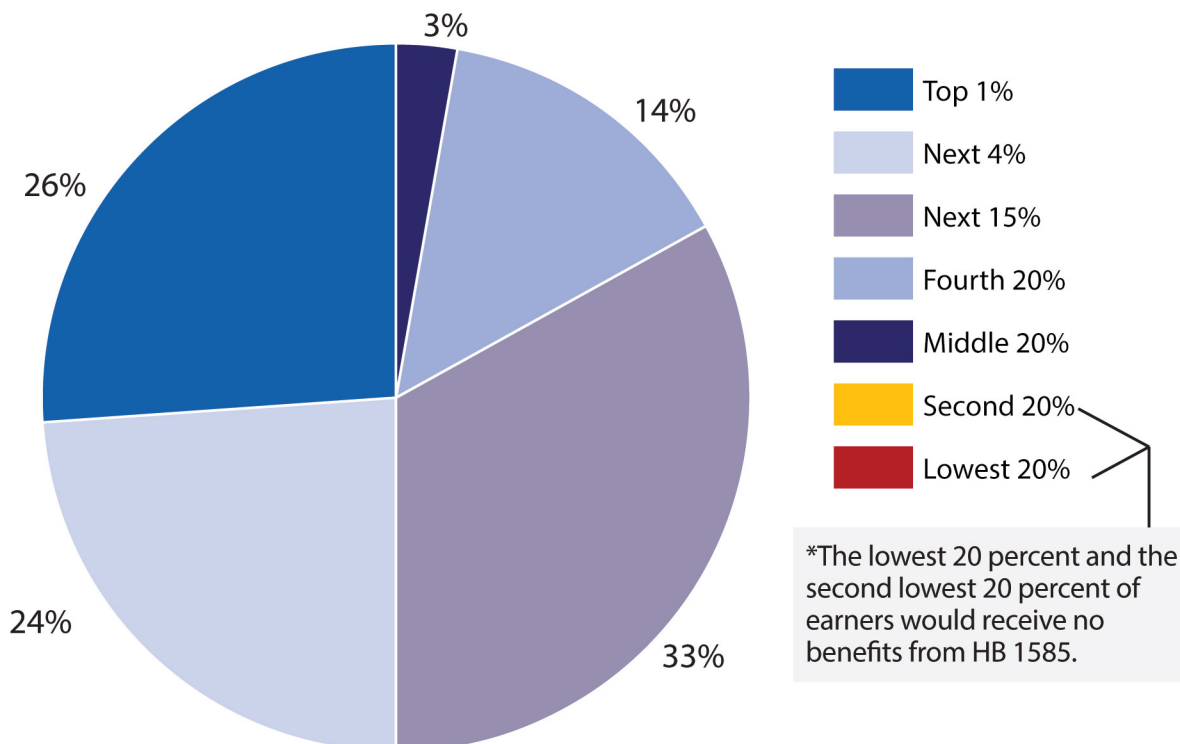
Top one percent of taxpayers to receive over 26 percent of total tax cut benefits

According to an analysis by the Institute on Taxation and Economic Policy (ITEP), House Bill 1585 would target personal income tax relief to Arkansas taxpayers who make over \$155,000 per year (the top five percent of earners). This group would receive one-half (50 percent) of the total benefits resulting from the tax cut. That's compared to those who make \$29,000 or less per year, who would get nothing.

The richest one percent of Arkansans, those with total incomes of \$346,000 or more, would see an average tax cut of \$1,275 and would receive over one-fourth (26 percent) of the total benefits of the proposed cut. The next highest four percent, those with incomes between \$155,000 and \$346,000, would see an average tax cut of \$301 and would receive 24 percent of the total benefits.

The bill doesn't offer many benefits to middle-income Arkansas families. The middle 20 percent of Arkansas taxpayers (those making between \$29,900, and \$49,000 a year) would see an average tax cut of only \$7 – just three percent of the total benefits from the tax cut. The bottom 40 percent of Arkansas taxpayers, those who make less than \$29,000, would see no tax cut (on average) and their share of the bill's benefits would be zero.

DISTRIBUTION OF BENEFITS FROM HB 1585 BY INCOME GROUP



HB1585 contains 2 new tax cuts. The bill would cut taxes for those who make between \$34,000 to \$43,999 range, who would now be subject to the lower rate of six percent rather than the current top rate of seven percent. While that's a positive step for middle income earners, the bill also contains another cut that would disproportionately benefit high income earners. HB 1585 reduces the top income tax rate of seven percent to 6.875 percent on taxable income of \$44,000 and above, cutting the taxes for everyone above that level including millionaires and other high income earners. The Department of Finance and Administration estimates HB1585 will cost the state \$57.2 million in revenue annually when fully implemented in fiscal year 2015.

Upper-income taxpayers would disproportionately benefit from the cut due to their higher incomes. The way HB 1585 is structured, the top 20 percent of taxpayers (those with total incomes above \$78,000) would get 83 percent of the total benefits of the tax cut.

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%
Average Tax Change	—	—	-7	-36	-108	-301	-1,275
Share of Tax Change	—	—	3%	14%	33%	24%	26%

The bill raises several important issues. First, given HB 1585's estimated large state revenue loss of \$57 million, can Arkansas afford this bill at the current time, especially given the number of other expensive tax cut bills that appear to have serious momentum at this time (there are bills to reduce sales and use taxes on manufacturers for utilities and for equipment repair, and a bill to reduce capital gains taxes, just to name a couple)? Governor Beebe has already proposed a balanced budget that reigns in government spending with no room for tax cuts. Much of the budget, including quality pre-K, child welfare, and juvenile justice programs have already been flat funded in recent years. This bill will only take resources out of the revenue base for future years that are necessary for crucial public services like education, health care, and public safety, that help build the foundation for future economic growth.

Second, the bill would do little to improve the overall fairness of the Arkansas tax system. According to an ITEP report released earlier this year, "*Who Pays: A Distributional Analysis of the Tax System in All 50 States*," Arkansas has a very regressive tax system. That is, low-income taxpayers pay a much higher share of their income in state and local taxes than do high income taxpayers. According to ITEP estimates in *Who Pays*, the lowest 40 percent of Arkansas taxpayers pay 12 cents on every dollar of income in state and local taxes, compared to only six cents on every dollar for the top one percent.

Third, there is widespread agreement that the Arkansas personal income tax needs reform (the current top rate of seven percent kicks in at only \$34,000 of taxable income). However, other bills that better reform the personal income tax have been introduced. HB 1926 by Rep. Warwick Sabin (D-Little Rock) spreads the benefits of income tax reform more fairly while at the same time protecting the state's investments in crucial services that are vital to building the foundation for long term economic growth. At the very least, wouldn't it make more sense to conduct an interim study on a more comprehensive approach that reforms the personal income tax but does so in such a way that both (1) improves overall tax fairness for low- and middle-income families and (2) protects state revenue for critical programs serving vulnerable children and families and public services that build the foundation for future economic growth?

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