

## PERSONAL INCOME TAX CUTS: PART 3

### WITHOUT TAX CUTS, ARKANSAS WOULD HAVE MORE TO INVEST IN BROAD PROSPERITY

If we rebuild our tax code in a way that works for everyone, we can afford to make public investments that will contribute to the common good. Unfortunately, recent tax cuts have put more money in the pockets of those at the top and less in the pockets of everyone else. The revenue we lost could have been used to invest in things that make communities strong like safe streets, good teachers, parks and libraries, and responsive police and safety services. Instead of letting powerful interests manipulate it, we can clean up the tax code to get the revenue we need to help communities thrive.

#### TAX CUTS AREN'T WORKING FOR MOST ARKANSANS:



Recent state income tax cuts in Arkansas were heavily tilted toward the wealthiest households. For example, the “Middle Income Tax Cut” in 2015 gave back to families making under \$30,000 less than \$3 for the entire year. Those making between \$30,000 and \$50,000 fared little better: they got back about \$40.<sup>1</sup>

In contrast, capital gains exemptions — which typically only apply to the wealthy — were widely expanded in 2015. Those exemptions included protecting all capital gains income over \$10 million a year from being taxed. All told, tax cuts over the past two sessions mean the state will have \$242 million less for public investment in 2017.

These tax cuts come at a time when the richest in our state are getting richer and the rest of us are being left out of economic growth. The wealthy elite in our state are pulling ahead of everyone else at historic levels. The top 1 percent in Arkansas has seen their incomes rise 10 times faster than everyone else since 1979.<sup>2</sup>

#### WE CAN CLEAN UP OUR TAX CODE:

Because of a history of tax cuts favoring the wealthy, Arkansas has one of the most upside-down tax structures in the U.S. That means that families with lower incomes actually pay more state and local taxes as a share of their income than wealthy families. Today in Arkansas, households making over \$330,000 a year — the state’s top 1 percent — pay less than 6 percent of their income in state and local taxes. By contrast, households making less than \$16,000 a year pay 12 percent of their income. Only 10 states are in worse shape, according to a recent report by the Institute on Taxation and Economic Policy.

Cleaning up the tax code would help get our system back toward being right-side-up. A good place to start would be to join the other 26 states that give a “bottom up” tax cut in the form of an Earned Income Tax Credit. A state EITC pegged at 5 percent of the federal credit would put about \$40 million annually into the pockets of Arkansans who work hard and are paid so little they struggle to make ends meet. This is money they will spend on necessities, which, in turn, boosts local businesses and helps our communities thrive.

Broad prosperity comes when we make public investments in the common good. The revenue we lost through tax cuts that mostly helped the wealthiest could have been used to invest in quality schools, state-of-the-art roads and other public infrastructure, safe neighborhoods and other building blocks of economic growth.

[1] Based on data by the Institute on Taxation and Economic Policy

[2] <http://www.epi.org/publication/income-inequality-in-the-us/>

#### WANT TO LEARN MORE?

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