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ARKANSAS ADVOCATES FOR CHILDREN & FAMILIES

PAYCHECK$ and POLITICS

Arkansas Advocates for Children & Families
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What's the Best Way to Pay for Education Reform in Arkansas?

Making Sure Everyone Pays Their Fair Share

Arkansas Advocates for Children and Families (AACF) believes that any plan for raising new revenue to pay for education reform should be based on core beliefs and guiding principles. This plan should be realistic, allow the state to provide a better education for our children, and protect and promote the economic well-being of the state's families. Our tax plan is based on the following beliefs:

- The plan must generate adequate revenue to fund Preschool-grade 12 education reforms including establishing quality pre-school programs for all 3- and 4-year old children up to 200 percent of the federal poverty line.
- Families at all income levels should pay their fair share of the taxes needed to generate adequate revenue for funding education. Low- and middle-income families, many of whom are already struggling to meet the basic needs of their children, should not be asked to disproportionately bear the burden of any tax increase.
- To make sure that everyone pays their fair share of taxes, the plan should include a balance of progressive tax measures such as increases in personal income taxes, corporate income taxes, and severance taxes. This will lessen the state's reliance on sales tax increases that disproportionately hurt low- and middle-income families while promoting a balanced tax system that will not hurt economic competitiveness.
- Broadening the sales tax base is preferable to raising the sales tax rate. No one tax has the capacity to raise all of the projected revenue needed to fund education, and some new revenue may have to be raised through the sales tax. However, this is best done by broadening the sales tax *base* by eliminating exemptions and taxing services. Broadening the base will help minimize (or at least hold the line) the taxes that low and middle-income families already have to pay on food and other commodities.
- Any sales tax increase should be offset by tax relief for low and middle-income families. Major increases in the sales tax would disproportionately hurt low and middle-income families (a greater share of their income already goes to paying the sales tax). The impact of any sales tax increase, however, could be minimized by offering targeted tax relief to families who bear the burden of paying the sales tax. Possible tax relief strategies include a targeted sales tax rebate for low- and middle-income families, a refundable state earned income tax credit, and increasing the personal income tax credit for all taxpayers.

AACF offers the following plan, a blueprint if you will, for funding education reform during the first year. We recognize that additional increases may be needed in later years. We believe this plan is realistic, generates adequate revenue, protects the economic well-being of our most vulnerable families, ensures that everyone pays their fair share, and promotes a balanced tax system that protects the state's economic competitiveness. We offer it as a blueprint to Governor Huckabee and the Arkansas General Assembly as they consider options for funding what may well be one of the most important initiatives in the state's history. Here's our plan (see reverse).

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AACF Tax Plan for Funding Education at $640 million

Dollar Impact Per Taxpayer, by Income Group & Average Income[1]

Revenue Options	Revenue Impact (Millions)	Lowest 20% Avg. Income $7,400	Second 20% Avg. Income $16,300	Middle 20% Avg. Income $26,900	Fourth 20% Avg. Income $44,500	Next 15% Avg. Income $73,200	Next 4% Avg. Income $141,400	Top 1% Avg. Income $574,600
		Dollars Per Taxpayer						
New Corporate Income Tax Bracket of 7%	15	0	0	1	1	3	13	76
Increase Severance Tax[2]	35	NA	NA	NA	NA	NA	NA	NA
Alternative Minimum Tax[3]	8	0	0	0	0	0	33	510
Add Personal Income Tax (PIT) Brackets 8% @$100K and 9% @$200K	54	0	0	0	0	0	287	2,714
Increase all PIT Brackets by 10%[4]	164	2	23	62	108	275	609	3,000
Decouple from Federal Estate Tax Repeal	20	0	0	0	0	0	57	2,241
Sales Tax on Services[5]	179	35	77	108	133	167	199	495
Remove Sales Tax Exemptions[6, 7]	72	15	30	44	56	74	91	200
Half-Cent Sales Tax	183	37	77	112	143	188	232	509
Total Revenues Raised	**$730 million**							
Tax Relief Option # 1								
Increase PIT Credit from $20 to $40 and	-40	-2	-17	-35	-46	-53	-48	-47
Establish Sales Tax Rebate of $50 for Low-Income Families below $20K	-43	-78	-72	-4	-2	-1	-3	-1
Tax Relief Option # 2								
State EITC @ 20% of federal credit	-94	-73	-191	-83	-39	-0	0	0
Total Relief Provided	**-$83 million** (option 1) **to -$94 million** (option 2)							
Total Revenue Impact	**$636 million to $647 million** (depending on relief option)							

Notes:

1. Taxpayer impacts reflect the final economic impact, e.g., after write-offs on federal taxes and business pass throughs to consumers.
2. Severance Tax. Would convert Arkansas severance tax rate to percentage of market value instead of a percent of volume produced.
3. Alternative Minimum Tax (AMT). Ensures that upper-income taxpayers pay at least a minimum of income tax. Based on a 7 percent AMT on federal base.
4. Increase All Personal Income Tax Brackets by 10%, e.g., 1% bracket goes to 1.1%, 2.5% bracket goes to 2.75%, etc.
5. Sales Tax on Services. Based on taxing select services (currently not taxed) at a rate of 5.125 percent. Increases would be limited to $179 million.
6. Remove Sales Tax Exemptions. Goods currently exempt would be taxed at a lower rate of one-half cent (reflecting an overall sales tax rate increase).
7. Numbers shown assme taxpayer impacts would be similar to a sales tax rate increase. In reality, impact would likely be more progressive than a rate increase because grocery and restaurant food sales, which are a major part of existing sales tax base (14%), would be mostly excluded.

Source: Preliminary Estimates by Arkansas Advocates for Children & Families and Institute on Taxation & Economic Policy.