

INCOME TAX CUT WOULD PLACE ARKANSAS AMONG THIRD OF STATES WITH LOWEST RATES

(2Q-2021) Cutting Arkansas' top income tax rate to 4.79% would place it among the third of states with the lowest rates, a reversal of its relative position in 2015 when it ranked among states with the highest rates.

Gov. Asa Hutchinson will call a special legislative session to consider income tax cuts. Since Hutchinson took office in 2015, Arkansas' top rate has declined from 6.9% to 5.9%. He has proposed a further reduction to 5.5%, though a 4.79% rate would place Arkansas in a stronger competitive position versus other states, a point illustrated in the following seven charts compiled with Council of State Governments and Federation of Tax Administrators data.

Third of States with Highest Rates (2015)

| | |
|-----------------|-------------|
| California | 12.3% |
| Hawaii | 11.0% |
| Oregon | 9.9% |
| Minnesota | 9.85% |
| Iowa | 8.98% |
| New Jersey | 8.97% |
| Vermont | 8.95% |
| New York | 8.82% |
| Maine | 7.95% |
| Wisconsin | 7.65% |
| Idaho | 7.4% |
| South Carolina | 7.0% |
| Arkansas | 6.9% |
| Montana | 6.9% |
| Nebraska | 6.84% |
| Connecticut | 6.7% |
| Delaware | 6.6% |

Middle Third (2015)

| | |
|----------------|-------|
| West Virginia | 6.5% |
| Georgia | 6.0% |
| Kentucky | 6.0% |
| Louisiana | 6.0% |
| Missouri | 6.0% |
| Rhode Island | 5.99% |
| Maryland | 5.75% |
| North Carolina | 5.75% |

| | |
|---------------|-------|
| Virginia | 5.75% |
| Ohio | 5.33% |
| Oklahoma | 5.25% |
| Massachusetts | 5.15% |
| Alabama | 5.0% |
| Mississippi | 5.0% |
| Utah | 5.0% |
| New Mexico | 4.9% |

Third of States with Lowest Rates (2015)

| | |
|---------------|---------------------------|
| Colorado | 4.63% |
| Kansas | 4.6% |
| Arizona | 4.54% |
| Michigan | 4.25% |
| Illinois | 3.75% |
| Indiana | 3.3% |
| North Dakota | 3.22% |
| Pennsylvania | 3.07% |
| New Hampshire | Dividends & Interest only |
| Tennessee | Dividends & Interest only |
| Alaska | 0.0% |
| Florida | 0.0% |
| Nevada | 0.0% |
| South Dakota | 0.0% |
| Texas | 0.0% |
| Washington | 0.0% |
| Wyoming | 0.0% |

Today, Arkansas is in the middle third of states, due to the reduction of its top rate from 6.9% to 5.9% since 2015.

Middle Third (2021)

| | |
|-----------------|-------------|
| West Virginia | 6.5% |
| Louisiana | 6.0% |
| Rhode Island | 5.99% |
| Arkansas | 5.9% |
| New Mexico | 5.9% |
| Georgia | 5.75% |
| Maryland | 5.75% |
| Virginia | 5.75% |
| Kansas | 5.7% |

| | |
|----------------|-------|
| Missouri | 5.4% |
| North Carolina | 5.25% |
| Massachusetts | 5.0% |
| Alabama | 5.0% |
| Kentucky | 5.0% |
| Oklahoma | 5.0% |
| Mississippi | 5.0% |

Kansas also joined the middle third after policymakers failed to expand their sales tax base, forcing reversal of their earlier decision to cut income tax rates.

Arizona joined states with the highest rates after voters approved Proposition 208 last year. The measure targets married filing jointly or single taxpayers with annual taxable incomes greater than \$500,000, and single or married filing separately households with taxable income greater than \$250,000.

Third of States with Highest Rates (2021)

| | |
|----------------|--------|
| California | 12.3% |
| Hawaii | 11.0% |
| New Jersey | 10.75% |
| Oregon | 9.9% |
| Minnesota | 9.85% |
| New York | 8.82% |
| Vermont | 8.75% |
| Iowa | 8.53% |
| Arizona | 8.0% |
| Wisconsin | 7.65% |
| Maine | 7.15% |
| South Carolina | 7.0% |
| Connecticut | 6.99% |
| Idaho | 6.925% |
| Montana | 6.9% |
| Nebraska | 6.84% |
| Delaware | 6.6% |

By contrast, Utah and Ohio joined states with the lowest rates after policymakers approved income tax cuts.

States with Lowest Rates (2021)

| | |
|----------|--------|
| Illinois | 4.95% |
| Utah | 4.95% |
| Ohio | 4.797% |

| | |
|---------------|---------------------------|
| Colorado | 4.55% |
| Michigan | 4.25% |
| Indiana | 3.23% |
| Pennsylvania | 3.07% |
| North Dakota | 2.90% |
| New Hampshire | Dividends & Interest only |
| Alaska | 0.0% |
| Florida | 0.0% |
| Nevada | 0.0% |
| South Dakota | 0.0% |
| Tennessee | 0.0% |
| Texas | 0.0% |
| Washington | 0.0% |
| Wyoming | 0.0% |

In May, policymakers in Oklahoma, which borders Arkansas, cut the state's top income tax rate from 5.0 to 4.75%. (*The Oklahoman*, May 23, 2021). Oklahoma will join states with the lowest rates as a result of the action. **Arkansas would also join this group if policymakers used part of the state's \$1 billion surplus to cut the top rate to 4.79% in the upcoming special session.**

States with Lowest Rates (Hypothetical 2022)

| | |
|-----------------|---------------------------|
| Arkansas | 4.79% |
| Oklahoma | 4.75% |
| Colorado | 4.55% |
| Michigan | 4.25% |
| Illinois | 4.95% |
| Indiana | 3.23% |
| Pennsylvania | 3.07% |
| North Dakota | 2.90% |
| New Hampshire | Dividends & Interest only |
| Alaska | 0.0% |
| Florida | 0.0% |
| Nevada | 0.0% |
| South Dakota | 0.0% |
| Tennessee | 0.0% |
| Texas | 0.0% |
| Washington | 0.0% |
| Wyoming | 0.0% |

--Greg Kaza