

BORDER STATES REDUCE INCOME TAXES (UPDATED)

"There is significant evidence that reductions in marginal state tax rates encourage state economic growth ... Rates on productive behavior should be reduced." Arkansas Policy Foundation, 1998

(July 2021) Four of six states that border Arkansas have acted this year to reduce state income tax rates. They are Tennessee, Oklahoma, Missouri and Louisiana.

A fifth border state-Texas-does not have a state income tax.

Mississippi, the only border state to not cut income tax rates this year has a lower top rate (5.0%) than Arkansas (5.9%), according to Federation of Tax Administrators records. (1)

Gov. Hutchinson Cut Taxes, Will Call Special Session

Arkansas Gov. Asa Hutchinson announced in April that he would call a special legislative session this Fall to consider income tax cut proposals.

Under Hutchinson's leadership, the following income tax cuts were enacted:

- A middle-class income tax cut (2015);
- An income tax cut for low-income Arkansans (2017);
- The 5.9 Tax Plan, which reduced the top marginal tax rate from 6.9% to 5.9% (2019).

All Arkansans have received an income tax cut under Gov. Hutchinson. He's stated a goal of cutting the top rate to 5.0%. Under Gov. Dale Bumpers (1971-75), the top rate was raised from 5.0% to 7.0% where it remained for decades.

The Year of the State Income Tax Cut

The Tax Foundation reported this month that 11 states have cut income tax rates this year. (2)

- Arizona "established a cap to prevent the combined top marginal rate exceeding 4.5 percent ..."
- Idaho's top individual rate was reduced "from 6.925 to 6.5 percent while consolidating seven individual income tax brackets into five."
- Iowa's top rate was cut from 8.53% this year to 6.50% in 2023.
- Louisiana voters will decide later this year whether to reduce the top rate from 6.0% to 4.25%. An election is required because changes to

the state's income tax deduction "require voter approval since the current deduction is written into the state constitution."

- Missouri "became the final state with a sales tax to adopt an economic nexus law from remote sales tax collections." Under the measure, the top rate will fall from 5.4% this year to 4.8% in 2028 if sales tax revenue triggers are achieved.
- Montana's top rate will be cut from 6.9% to 6.75% on Jan. 1, 2022.
- Nebraska reduced its top corporate income tax rate.
- New Hampshire will "phase out its tax on interest and dividends income," starting in 2023 "until it is fully repealed by 2027."
- Ohio reduced its top rate "from 4.797 to 3.99 percent."
- Oklahoma cut its top rate "from 5 to 4.75 percent."
- Wisconsin reduced its second-highest rate "from 6.27 to 5.3 percent."

In addition, a twelfth state--Tennessee--completed its multi-year phase-out of the state income tax on dividends and interest on Jan. 1, 2021.

Border State Update

Last month, the Policy Foundation reported on income tax cuts this year in Tennessee, Oklahoma and Louisiana. (3) The actions in Oklahoma and Louisiana are especially significant in terms of Arkansas' tax climate competitiveness versus other states.

- **Oklahoma.** The Sooner State and Arkansas shared a top 7% income tax rate in 2000. Oklahoma has cut its top rate to 4.75%. Arkansas' top rate is 5.9%, with another cut pending in the upcoming special session.
- **Louisiana.** The Pelican State would have the third lowest rate in the Southeast if voters approve the measure. The only area states with lower rates are Florida and Tennessee. Neither levy income taxes.
- **Missouri.** Show-Me State action was finalized June 30, 2021. The Tax Foundation observed: Instead "of pocketing the extra revenue (from sales tax collections), policymakers decided to use their windfall to reduce individual income taxes."

Conclusion

Policymakers in one-fourth of U.S. states have cut income tax rates in 2021. Arkansas policymakers are poised to follow, though the size is undetermined.

--Greg Kaza

End Notes

- (1) State Individual Income Tax Rates - January 1, 2021 (taxadmin.org)
- (2) "States Respond To Strong Fiscal Health with Income Tax Reforms." Tax Foundation, July 15, 2021
- (3) "Three Border States Reduce Income Taxes." Policy Foundation research memo (June 2021)