

## THE TWO-FOUR-FIVE POINT NINE PLAN

*"There is significant evidence that reductions in marginal state tax rates encourage state economic growth ...Rates on productive behavior should be reduced." "Reduce the state's income tax."* Policy Foundation, Murphy Commission project, 1998

(January 30, 2019) A fiscal proposal by Gov. Asa Hutchinson and state legislators is being described as the "two-four-five point nine" (2-4-5.9) plan because of the lower income tax rates it would levy on Arkansas taxpayers.

An *Arkansas Democrat-Gazette* article noted the new plan "is a scaled down version of the 2%-4%-5.9% plan that the Tax Reform and Relief Legislative Task Force had recommended."<sup>1</sup> The paper explained the plan "comes with a much-reduced fiscal impact: a \$97 million reduction in revenue instead of a \$192 million reduction."<sup>2</sup> The new plan sets the following tax rates:

0-\$4,000	2%
\$4,000-\$8,000	4%
\$8,000 +	5.9%

Under the measure, Arkansas would no longer have the second-highest income tax rate in the southeast region:<sup>3</sup>

South Carolina	7.0%
West Virginia	6.5%
Georgia, Louisiana	6.0%
<b>Arkansas</b>	<b>5.9%</b>
Virginia	5.75%
North Carolina	5.499%
Alabama, Kentucky, Mississippi	5.0%
Florida, Tennessee	0

The Tax Reform and Relief Legislative Task Force recommended reducing state income tax rates in 2018.<sup>4</sup>

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<sup>1</sup> *Arkansas Democrat-Gazette*, January 30, 2019

<sup>2</sup> The original 2-4-5.9 plan set a 2% rate for taxpayers with taxable income up to \$8,000; a 4% rate for those with income between \$8,001 and \$18,000; and a 5.9% rate for those making more than \$18,000.

<sup>3</sup> Federation of State Tax Administrators, [https://www.taxadmin.org/assets/docs/Research/Rates/ind\\_inc\\_070118.pdf](https://www.taxadmin.org/assets/docs/Research/Rates/ind_inc_070118.pdf)

<sup>4</sup> PA 79 of 2017. The Task Force was established "to examine and identify areas of potential tax reform within the tax laws of the State of Arkansas and to recommend legislation to the General Assembly for consideration during the 2019 regular session in order to: (A) Modernize and simplify the Arkansas tax code; (B) Make the Arkansas tax laws competitive with other states in order to attract businesses to the state; (C) Create jobs for Arkansas; and (D) Ensure fairness to all individuals and entities impacted by the tax laws of the State of Arkansas.