

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." Arkansas Policy Foundation, Murphy Commission project, 1998

(January 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 revised income tax rates it would levy on Arkansas taxpayers.

An *Arkansas Democrat-Gazette* article provided the following explanation:

"People with taxable income up to \$8,000 would pay a 2 percent rate; those with between \$8,001 and \$18,000 in taxable income would pay 4 percent; and those making \$18,001 and up would pay 5.9 percent. The current top rate is 6.9 percent."¹

0-\$8,000	2.0%
\$8,001-\$18,000	4.0%
\$18,001 +	5.9% ²

The policy goal is to ensure that no Arkansas taxpayers would pay "more net income taxes." Under the measure, Arkansas would no longer have the second-highest income tax rate in the southeast region:³

South Carolina	7.0%
West Virginia	6.5%
Georgia, Louisiana	6.0%
Arkansas	5.9%
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. 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."⁴

¹ *Arkansas Democrat-Gazette*, January 11, 2019

² The current top Arkansas income tax rate (6.9%) is levied on income of \$77,401 and higher.

³ Federation of State Tax Administrators, https://www.taxadmin.org/assets/docs/Research/Rates/ind_inc_070118.pdf

⁴ PA 79 of 2017