



STATE OF ARKANSAS  
**Department of Finance  
and Administration**

**Assistant Commissioner of Revenue**  
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September 16, 2013

Eden Howard  
Bureau of Legislative Research  
One Capitol Mall, 5<sup>th</sup> Floor  
Little Rock, AR 72201

Re: Information Requested by the Joint House and Senate Revenue and Tax Committees --  
August 27, 2013

Dear Ms. Howard:

During the recent Joint Revenue and Tax Committee meeting of August 27, 2013 the Department of Finance and Administration (DFA) was asked to provide various items of information. First, DFA was asked to confirm the revenue cost for HB 1585 of 2013 which was enacted into law as Act 1459 of 2013. The final cost of that Act is:

FY2014 - \$ 2.5M  
FY2015 - \$30.4M  
FY2016 - \$55.7M

The second issue raised in the committee meeting resulted from comments by Mr. Richard Wilson. Mr. Wilson indicated that if total gross state income tax collections for FY 2013, before refunds, of approximately \$3B were reduced by 1/10 of 1%, the reduction in total state individual income tax collections would be approximately \$42M. DFA was asked to explain the difference between the \$42M calculation by Mr. Wilson versus DFA's projected revenue cost for HB 1585 of 2013 upon full implementation of \$55.7M per year.

The difference between Mr. Wilson's calculation and DFA's revenue impact results from substantive differences between the respective goals of those calculations. As Mr. Wilson explained in the committee meeting, he performed his calculation for estimating purposes and his estimate is based on a flat 7% income tax rate. Mr. Wilson's calculation was designed to show that if all income was taxed at the 7% rate, a 1/10<sup>th</sup>% reduction would result in a revenue loss of \$42.8M. Mr. Wilson's calculation divided \$3B by seventy because 7% equals seventy 1/10<sup>th</sup>s. A 1/10<sup>th</sup> of 1% reduction from 7% to 6.9% equals a 1.43% total tax rate reduction.

DFA's calculation was designed to match the substance of HB 1585 of 2013. That bill reduced each tax bracket by 1/10<sup>th</sup> of 1% as follows:

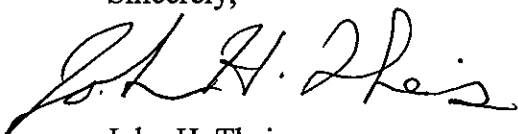
1% rate reduced to 0.9% = 10% tax rate reduction  
2.5% rate reduced to 2.4% = 4% tax rate reduction  
3.5% rate reduced to 3.4% = 2.86% tax rate reduction  
4.5% rate reduced to 4.4% = 2.22% tax rate reduction  
6% rate reduced to 5.9% = 1.67% tax rate reduction  
7% rate reduced to 6.9% = 1.43% tax rate reduction

DFA's revenue impact for HB 1585 was calculated by applying the revised tax rates proposed by HB 1585 to the historical tax return data for 2011. Unlike Mr. Wilson, DFA had access to actual tax report data from income tax returns filed by taxpayers. Use of this actual tax return data allows for a more precise estimate of the actual effects of a proposed bill.

Finally, DFA was asked to provide income tax filing statistics indicating tax collections and the number of tax returns filed at various income levels. That data is contained in the attached document. It is important to understand that this document reflects the actual tax collections for tax year 2011 after subtracting refunds paid and refunds carried forward to subsequent tax years. Gross income tax collections for tax year 2011 were \$2.80B. Refunds from those gross income tax collections equaled \$468.3M for 2011 and an additional \$260M in available refunds were carried forward by the taxpayer to subsequent tax years. After subtracting these refunds and carry forwards, the resulting income tax collections for 2011 totaled \$2.077B.

I trust that this letter provides the information requested by members of the Revenue and Tax committee. If additional information is needed please contact me.

Sincerely,



John H. Theis  
Assistant Commissioner of Revenue  
Policy and Legal

# IIT Tax Liability

Tax Year 2011

Income Low	Income High	Number Returns	Tax Liability
-1.00	-1.00	15,007	\$24,420
0.00	999.00	18,687	\$2,328,757
1,000.00	1,999.00	16,597	\$1,818,125
2,000.00	2,999.00	19,541	\$2,335,933
3,000.00	3,999.00	20,764	\$2,486,185
4,000.00	4,999.00	21,980	\$2,494,455
5,000.00	5,999.00	22,888	\$2,568,718
6,000.00	6,999.00	23,556	\$2,438,749
7,000.00	7,999.00	23,919	\$2,411,631
8,000.00	8,999.00	24,225	\$2,673,364
9,000.00	9,999.00	25,544	\$2,720,235
10,000.00	10,999.00	26,363	\$2,989,052
11,000.00	11,999.00	24,721	\$3,306,651
12,000.00	12,999.00	24,953	\$4,279,069
13,000.00	13,999.00	25,785	\$4,941,489
14,000.00	14,999.00	25,346	\$5,545,782
15,000.00	15,999.00	24,922	\$6,084,435
16,000.00	16,999.00	24,749	\$7,085,973
17,000.00	17,999.00	24,326	\$7,698,007
18,000.00	18,999.00	23,727	\$8,592,155
19,000.00	19,999.00	22,605	\$9,651,040
20,000.00	20,999.00	22,428	\$11,258,102
21,000.00	21,999.00	21,873	\$12,070,381
22,000.00	22,999.00	21,133	\$13,061,657
23,000.00	23,999.00	20,721	\$14,163,288
24,000.00	24,999.00	19,937	\$14,823,548
25,000.00	25,999.00	19,430	\$15,915,874
26,000.00	26,999.00	18,673	\$16,404,815
27,000.00	27,999.00	18,048	\$17,185,343
28,000.00	28,999.00	17,523	\$17,843,203
29,000.00	29,999.00	16,617	\$18,020,297
30,000.00	30,999.00	16,747	\$19,399,328
31,000.00	31,999.00	15,856	\$18,945,192
32,000.00	32,999.00	15,061	\$18,904,155
33,000.00	33,999.00	14,812	\$19,675,378
34,000.00	34,999.00	14,564	\$20,154,437
35,000.00	35,999.00	13,745	\$20,036,658
36,000.00	36,999.00	13,680	\$20,682,960
37,000.00	37,999.00	12,752	\$20,066,050
38,000.00	38,999.00	12,370	\$20,467,546
39,000.00	39,999.00	11,870	\$20,260,654

40,000.00	40,999.00	11,469	\$20,231,023
41,000.00	41,999.00	11,036	\$20,593,548
42,000.00	42,999.00	10,604	\$20,290,964
43,000.00	43,999.00	10,108	\$20,124,357
44,000.00	44,999.00	9,843	\$20,399,639
45,000.00	45,999.00	9,495	\$20,119,023
46,000.00	46,999.00	9,289	\$20,393,410
47,000.00	47,999.00	8,905	\$20,148,626
48,000.00	48,999.00	8,617	\$20,012,648
49,000.00	49,999.00	8,229	\$19,813,352
50,000.00	54,999.00	36,198	\$91,910,100
55,000.00	59,999.00	29,782	\$84,645,344
60,000.00	64,999.00	24,075	\$74,828,044
65,000.00	69,999.00	20,126	\$68,178,746
70,000.00	74,999.00	16,610	\$61,286,920
75,000.00	79,999.00	13,985	\$54,896,411
80,000.00	84,999.00	11,445	\$48,097,363
85,000.00	89,999.00	9,681	\$43,236,848
90,000.00	94,999.00	7,996	\$37,348,204
95,000.00	99,999.00	6,834	\$33,609,376
100,000.00	149,999.00	34,535	\$211,195,799
150,000.00	199,999.00	12,725	\$109,160,819
200,000.00	249,999.00	6,301	\$67,598,836
250,000.00	499,999.00	10,677	\$160,765,505
500,000.00	999,999,999.00	8,679	\$294,590,180
<b>Totals</b>		<b>1,165,289</b>	<b>\$2,077,288,176</b>