

# MIKE ROSS TAX CUT PLAN FOR ARKANSAS

Lower, Fairer Taxes for Working Families, Small Businesses & Manufacturers





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## INTRODUCTION

When Mike Ross first announced his candidacy for governor, he said that he would put jobs first by strengthening education, cutting taxes for working families and focusing on economic development across this state. This tax plan is just one – but very important – part of Mike Ross’ job creation plan and his positive vision focused on the future of Arkansas.

The state of Arkansas provides many essential services that benefit every Arkansas family, such as education, Medicaid, and public safety. These investments, funded by our tax system, provide children with opportunities to succeed, care for our seniors and families, and protect our homes and businesses – helping our state to ensure a higher quality of life with stronger communities and good-paying jobs.

To support these essential state services, our state’s income tax must be part of a fair and reasonable tax structure that rewards work and encourages job creation. This plan moves our state closer to that goal.

Mike Ross’ tax cut plan for Arkansas includes modernizing the state’s income tax code and eliminating the sales and use tax on partial replacements and repairs of manufacturing machinery and equipment – both which will, when fully implemented, bring fairness to the tax code, cut taxes for working families and job creators, and spur job creation throughout the state. The plan will also be implemented in a fiscally responsible way that maintains the state’s balanced budget and protects essential state services.





## INCOME TAXES

### INTRODUCTION



Our current income tax code is unfair and morally wrong because it disproportionately punishes lower- and middle-class families and small businesses in Arkansas.

Arkansas's current personal income tax system consists of six brackets and a top rate of 7 percent, which ranks 13th highest among states levying an individual income tax. It is also among the most regressive income tax codes in the country as the top tax bracket starts at \$34,000 – meaning a single mom in Arkansas making \$34,000 pays the same top income tax rate as a family making \$340,000 a year.

2012 Tax Brackets				
From	To	Tax Rate	Taxpayers	Percent in Bracket
\$0	\$4,099	1.0%	106,091	9%
\$4,100	\$8,199	2.5%	88,636	8%
\$8,200	\$12,199	3.5%	98,254	8%
\$12,200	\$20,399	4.5%	193,623	16%
\$20,400	\$33,999	6.0%	261,191	22%
\$34,000	and over	7.0%	445,613	37%

How did our tax code become so unfair? Well, the fundamental structure of our state's income tax code hasn't changed since 1971. Back then, the national median household income was just under \$8,000 – today, it's around five times that at \$40,000.

In fact, in 1971, very few Arkansans were in the top tax bracket. Now, more than one in three Arkansans is taxed at the highest possible rate. And, almost 60 percent of all taxpayers are in the top two brackets.

Simply put: our current income tax code unfairly punishes lower and middle-class Arkansas families and it must be changed.

Making matters worse, the cost of living has dramatically increased since 1971. Back then, gasoline was only 36 cents a gallon. Today, it's more than 8 times that at around \$3 a gallon.

It's important that income tax brackets move with time, otherwise, they become unfair. If brackets remain constant while inflation and the cost of living go up, then the tax burden goes up and working families' purchasing power and take-home pay go down. And, that is exactly what has happened here in Arkansas.

The result: higher costs, higher taxes and less money in families' pockets. And, when families have less money to spend, our overall economy suffers.



Twenty-five years after the 1971 income tax brackets were created, the state finally recognized that in order to maintain a fair tax code, our brackets must change with inflation so working families aren't punished.

As a result, Act 328 of 1997 began tying future brackets to inflation with a 3 percent cap on indexing, but failed to make the changes retroactive.

If we make Act 328 retroactive for that 25-year period – if we can go back and tie inflation to the original 1971 brackets – then we can bring fairness to the tax code and cut taxes for working families and small businesses in Arkansas.

In terms of job creation, Arkansas – at 7 percent – has one of the highest income tax rates in the region for households earning \$40,000 a year. If we wish to remain competitive with our neighboring states, if we want a fairer tax code for middle class families and if we want to put more of people's own hard-earned money back into their pockets to strengthen our economy, then we must modernize the state's income tax and cut income taxes.



*“When a single mom in Arkansas making \$34,000 a year pays the same top income tax rate as someone making \$340,000 a year, there is something unfair and morally wrong about our tax code. As governor, I will cut taxes for working families and small businesses and I will gradually phase in my tax cut plan as the state can afford to do so, just as Governor Beebe has proven can be done by eliminating the sales tax on groceries. It's past time to bring fairness to the tax code and let working families and small businesses keep more of their hard-earned money.”*

## **PROPOSAL**

***Gradually modernize the state's income tax code in a way that creates lower, fairer taxes for working families and small businesses in Arkansas.***

- Systematically implement a new income tax code structured on making Act 328 of 1997 retroactive for the 25 years that the brackets were not adjusted for inflation. The new plan essentially calculates what the state's tax brackets would be today if the state had tied its 1971 income tax bracket structure to inflation with a 3 percent cap on indexing.
- The result is a top tax bracket that starts at \$75,100 – instead of \$34,000 – meaning only about 14 percent of Arkansans would be taxed at the highest possible rate (instead of 37 percent today).



- Today, only 25 percent of taxpayers are in the lowest three brackets – this tax cut plan changes that to 55 percent of taxpayers in the lowest three brackets. Moreover, the current income tax code taxes almost 60 percent of working Arkansans in the top two highest tax brackets – this tax cut plan reduces that number to 28 percent of working Arkansans taxed in the top two brackets.
- When fully implemented, the end result would be lower, fairer taxes for nearly every single working Arkansas family and many small businesses. AND, NO ONES' INCOME TAX WILL GO UP A SINGLE PENNY. (Act 1459 of 2013, when fully implemented, will lower each tax bracket by 1/10 of a percent. The proposed new tax brackets maintain these changes.)

Proposed New Tax Brackets (Indexed from 1971 with 3% cap)				
From	To	Tax Rate	Taxpayers	Percent in Bracket
\$0	\$8,999	0.9%	238,955	19%
\$9,000	\$17,999	2.4%	242,122	20%
\$18,000	\$26,999	3.4%	192,684	16%
\$27,000	\$44,999	4.4%	212,160	17%
\$45,000	\$75,099	5.9%	173,489	14%
\$75,100	and over	6.9%	175,357	14%
		Total	1,234,767	100%
<i>Revenue Impact: \$574.5 million</i>				
<i>Revenue Impact of Gov. Beebe's Elimination of the Grocery Tax (for comparison purposes): \$1.085 billion in total revenue (\$829.3 in general revenue)</i>				

- When fully implemented, this income tax cut plan will give up to \$465 back to families making \$30,000 a year; \$665 for families making \$40,000; \$880 for families making \$50,000; and up to \$1,148 for families making \$75,000 and up.

Income	Ross Plan Savings
\$30,000	\$465
\$40,000	\$665
\$50,000	\$880
\$75,000 and up	\$1,148



## **IMPLEMENTATION**



This income tax plan will be systematically implemented as the state experiences revenue growth so we can maintain our state's balanced budget and protect important state services, like education, Medicaid and public safety – just as Governor Mike Beebe has proven can be done by eliminating the sales tax on groceries.

When fully implemented, this tax cut plan will result in a reduction of general revenue for the state of Arkansas of about \$574.5 million, according to official Department of Finance & Administration estimates – almost half the cost of Governor Beebe's 2006 proposal to eliminate the sales tax on groceries.

Governor Beebe's leadership demonstrates that we can cut taxes for working families and small businesses in a gradual and responsible way, while also maintaining the state's balanced budget and protecting vital state services.



## MANUFACTURING SALES & USE TAX

### INTRODUCTION



Manufacturing is a major part of our state’s economy, making up 14 percent of our state’s total output. In fact, there are more than 150,000 manufacturing jobs here in Arkansas.

Currently, all manufacturers, from large factories to small businesses, pay a sales and use tax of 6.5 percent on partial replacements and repairs of machinery and equipment used in manufacturing, but new locations and expansions are exempt. Recent legislation will reduce that rate from 6.5 percent to 4.875 percent in FY2015.

Most states already completely exempt this type of sales and use tax, while other states use a reduced rate. The state of Arkansas taxes partial replacements and repairs of manufacturing machinery and equipment at the full tax rate of 6.5 percent.

According to Randy Zook, CEO of the Arkansas Chamber of Commerce, “Arkansas is uncompetitive with surrounding states and states in the Southeast region on this issue. Upgrades, repairs and refurbishing of machinery and equipment used directly in manufacturing should be exempt from sales and use tax.”

Mr. Zook also cites the *Arkansas Business and Economic Development Incentives Study*, which classifies Arkansas as the single “worst” of the 12 states in the Southeast Region on the taxation of industrial materials used in manufacturing.



Our key manufacturing competitors – like Alabama, Mississippi and North Carolina – are beginning to phase out this unfair and uncompetitive tax, and it is time Arkansas does too.

When big manufacturers across the country face hardship during an economic downturn and they are forced to close facilities, they often look to the most out-of-date, antiquated or dilapidated facilities first. Why close a manufacturing plant in which you have recently invested millions in modernizing it? If manufacturers have updated existing facilities in Arkansas, they will be much less likely to close those same facilities when tough decisions need to be made. By eliminating this unfair and uncompetitive tax, we are encouraging manufacturers to modernize and grow here in Arkansas, helping to save critical jobs in this state and grow new ones.

The elimination of this tax is also a matter of fairness. New manufacturers and expansions are already exempt from the sales and use tax on manufacturing machinery and equipment, so why are we punishing businesses that are already putting people to work here in Arkansas? It is an inequity in the tax code that must be fixed now.



*“As I’ve toured manufacturing plants big and small across the state, I’ve heard it over and over again: why should we punish those job creators in our state who want to modernize, grow and put more people to work?”*

A handwritten signature in black ink that reads "Mike Ross".

## **PROPOSAL**

***Gradually phase out the state’s sales and use tax on partial replacements and repairs of manufacturing machinery and equipment.***

- Phasing out the state’s sales and use tax on partial replacements and repairs of manufacturing machinery and equipment will encourage our current manufacturers – large and small – to upgrade their facilities so they can modernize, remain competitive and continue to grow and hire more workers.
- It will also make Arkansas more competitive with our surrounding states that don’t tax this type of investment.
- It will make the state’s tax structure fairer for businesses – large and small – already in the state and will help save jobs important to many families and grow new ones.
- It will encourage Arkansas manufacturers to modernize and invest in their facilities, helping to save critical jobs during future economic downturns.

## **IMPLEMENTATION**

The current tax rate is 6.5 percent, but the state legislature has already reduced that rate to 4.875 percent effective FY2015. The lowest to which this rate can be lowered is 0.625 percent because of a 1/8 cent conservation tax passed by voters.

Phasing out the sales and use tax on partial replacements and repairs of manufacturing machinery and equipment will result in a reduction of general revenue for the state of Arkansas of about \$38.25 million, according to official Department of Finance & Administration estimates.

This tax cut will be gradually phased in as growth in state revenue allows, and in a fiscally responsible way that maintains our state’s balanced budget and protects essential state services.



## CONCLUSION

*“I believe we can bring fairness to the tax code and cut taxes for working families, small businesses and job creators like manufacturers, and we can do it in a gradual, fiscally responsible way as the state can afford it – while also protecting vital state services. Unlike my opponents, I will not bankrupt this state to win an election or make a campaign promise I cannot keep.”*

A handwritten signature in black ink, appearing to read "Mike Ross".

Lower, fairer taxes for working families and small businesses in Arkansas is key to creating good-paying jobs and giving every Arkansan the opportunity to get ahead.

This tax cut plan will create more good-paying jobs and help save the ones we already have; it will help our small businesses grow; it will encourage more investments in manufacturing jobs; it will help keep the next generation right here in Arkansas working at good jobs and raising their families here; and it will put more of people's hard-earned money back into their pockets.

As a proven fiscal conservative, Mike Ross will gradually implement these tax cuts as the state can afford to do so. His top priority will always be to maintain our state's balanced budget while funding essential state services like education, Medicaid and public safety.

To learn more about why Mike Ross is running for governor or to read his plans in other policy areas, please visit [www.MikeRoss.com](http://www.MikeRoss.com). You can also follow the campaign on social media at [Facebook.com/MikeRossUpdates](https://Facebook.com/MikeRossUpdates) or at [Twitter.com/MikeRossUpdates](https://Twitter.com/MikeRossUpdates).

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