

Arkansas Governor Signs Income Tax Cut Measures into Law

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Arkansas Governor Asa Hutchinson has signed two identical tax cut bills, which will gradually reduce the top individual and corporate income tax rates. The legislation also amends the income tax tables and brackets, increases the annual standard deduction for individuals by the cost-of-living adjustment, provides an income-based personal income tax credit, provides for income tax due under the Elective Pass-Through Entity Tax Act, updates the exclusions from gross income, and changes the name of the Long Term Reserve Fund to the Catastrophic Reserve Fund (reserve fund). (L. 2021, S1 (1st Extra. Sess.) (Act 2), effective 12/09/2021, and as noted below; L. 2021, H1001 (1st Extra. Sess.) (Act 1), effective 12/09/2021, and as noted.)

Corporate income tax. The top corporate income tax rate will be reduced from 5.9% to 5.3% for tax years beginning on or after January 1, 2023, and ending January 1, 2025, if the state doesn't have to transfer money from the reserve fund. The top rate is 5.7%, effective January 1, 2023, and, dependent upon whether the state must tap into the reserve fund, 5.5%, effective January 1, 2024, and 5.3%, effective January 1, 2025. If money is transferred from the reserve fund, the reduced rates for tax years 2024 and 2025 will not take effect. The legislation similarly reduces the top foreign corporation income tax rate for tax years beginning on or after January 1, 2023.

Individual income tax. The top individual income tax rate will be reduced from 5.9% to 4.9% by January 1, 2025, dependent upon whether the state must tap into the reserve fund. The top rate is 5.5%, effective January 1, 2022, and 5.3%, effective January 1, 2023. If on or after July 1, 2022, but before January 1, 2024, no funds are transferred from the reserve fund, the top rate will be reduced further to 5.1%, effective January 1, 2024, and 4.9%, effective January 1, 2025. If money is transferred from the reserve fund, the reduced rates for tax years 2024 and 2025 will not take effect. The legislation requires the Secretary of the Department of Finance and Administration to notify the public and the Bureau of Legislative Research about whether the 2024 and 2025 tax rate reductions take effect.

Income tax tables and brackets: The legislation restructures and consolidates the lower and middle-income tax tables into one standard income tax table so that there are only two income tax tables for tax years beginning on or after January 1, 2022. The income tax brackets are divided into smaller income ranges. The applicable income brackets are adjusted annually to

reflect changes to the consumer price index. For tax year 2022, individuals with net taxable income of more than \$84,501 but less than \$90,601 will reduce their income tax due by the appropriate bracket adjustment amount. The bracket adjustments for tax years 2023, 2024, and 2025 and following are adjusted annually to reflect changes to the consumer price index and the reduced income tax rates.

Standard deduction: Effective for tax years beginning on or after January 1, 2022, the Secretary of the Department of Finance and Administration will increase annually the standard deduction for individuals provided under **Ark. Code Ann. §26-51-430(b)** by the cost-of-living adjustment for the current calendar year, rounding the amount to the nearest \$10.

Personal tax credit: Effective for tax years beginning on or after January 1, 2022, a nonrefundable income tax credit is provided for individual taxpayers with net incomes up to \$24,700 who timely file their income tax returns. Taxpayers with net incomes up to \$23,600 will receive a \$60 credit against their income tax due, with the credit reduced for every \$100 of additional net income. The table providing the applicable credit amount will be adjusted annually to reflect changes to the consumer price index.

Income tax due under the Elective Pass-Through Entity Tax Act: Currently, a tax of 5.9% is levied on the net taxable income of an affected business entity, including any applicable basis adjustments, to the extent that the income is reported to the secretary as business income derived from the affected business entity. Effective for tax years beginning on or after January 1, 2022, the legislation amends the tax so that the pass-through entity tax rate reflects the reductions in the income tax rate. The tax will be equal to the top marginal income-tax rate.

Exclusions from gross income. The definition of "gross income" does not include payments received under the Coronavirus Food Assistance Program 1 or Coronavirus Food Assistance Program 2, as it existed on January 19, 2021, or under any successor program or programs.

Long Term Reserve Fund name change: The bill renames the Long Term Reserve Fund to the Catastrophic Reserve Fund and updates references to the reserve fund throughout the Arkansas Code.

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