

ARKANSAS AT A GLANCE:

Arkansas taxes a greater number of services than most Southern states. But other components of its tax system are ripe for modernization. It should consider broadening income tax brackets and enacting a refundable state Earned Income Tax Credit.

Has the state...	YES	NO	More Work Needed
1. Broadened sales tax base?		<input checked="" type="checkbox"/>	🕒
2. Modernized sales taxes?	✓		
3. Raised cigarette tax to US average?		<input checked="" type="checkbox"/>	🕒
4. Enacted Earned Income Tax Credit?		<input checked="" type="checkbox"/>	🕒
5. Modernized income tax bracket?		<input checked="" type="checkbox"/>	🕒
6. Dealt with hidden income tax increases?	✓		🕒
7. Rethought senior tax preferences?		<input checked="" type="checkbox"/>	🕒
8. Eliminated corporate loopholes?	✓		🕒
9. Linked property taxes and ability to pay?		<input checked="" type="checkbox"/>	🕒
10. Strengthened accountability?	✓		🕒
11. Conducted a performance review?		<input checked="" type="checkbox"/>	🕒

A better Arkansas...

Idea 1: Broaden the sales tax base. Arkansas should review sales tax exemptions to eliminate those that don't meet contemporary economic needs. Arkansas is one of the few Southern states without a sales tax holiday.

Idea 2: Modernize sales taxes for the new economy. Arkansas is one of the few Southern states to tax more services than the national average. In 2004, it taxed 72 out of 168 possible services.

Idea 3: Raise cigarette taxes to promote public health.

Arkansas should raise its 59-cent-per pack cigarette tax to the national average of \$0.92 per pack to reduce smoking and promote public health. Research shows that doing so likely would cause 7,100 current adult smokers to quit. Long-term health savings from both adult and youth smoking declines would be \$271 million.

Idea 4: Enact a state Earned Income Tax Credit. Arkansas should enact a refundable earned income tax credit to help to bring working families' incomes above poverty. Some 272,269 Arkansas taxpayers in 2003 claimed the federal earned income tax credit for a total of \$520,673,980. A refundable state EITC would cost an estimated \$51 million if set at 10 percent of the federal credit.

Idea 5: Modernize state income brackets. Arkansas should modernize its income tax structure by broadening brackets and considering the creation of a new top rate to provide progressive balance. The state's top tax bracket is 7 percent for income \$29,200 and above for single filers.

Idea 6: Account for inflation. Deal with hidden income tax increases. Arkansas should enact additional strategies to adjust taxes for inflation to promote long-term *fairness* and reduce back-door inflationary tax hikes. It currently indexes part of its income tax system, its tax brackets and a tax credit.

Idea 7: Rethink senior tax preferences. Arkansas should redesign tax codes to provide fair relief to seniors based on *ability-to-pay* instead of age alone. The state, which will grow to having an estimated senior population of 20.3 percent in 2030, currently provides seniors with a full exemption for Social Security income and a private pension income exemption.

Idea 8: Eliminate corporate tax loopholes. While Arkansas does not require combined reporting, it does restrict the use of the passive investment company (or Delaware-holding company) loophole. In addition, Arkansas is one of the few Southern states to enact a throwback rule.

Idea 9: Connect property taxes and *ability-to-pay*. If Arkansas insists on property tax reform, it should use a property tax circuit breaker to shield residents from excessive taxation and connect property taxes with *ability-to-pay*. The state had the second lowest per capita property taxes in the nation in 2002.

Idea 10: Strengthen accountability. Arkansas has a tax expenditure report, but it is limited to sales. Arkansas should work to incorporate all tax expenditures into an annual report that includes cost projections and is readily available to lawmakers and the public.

Idea 11: Review the performance of government. Arkansas should conduct a comprehensive performance review to boost government efficiency, save money and improve customer service. Arkansas performed a performance review of its health spending in the last five years, but has not done a statewide performance review.