

DYNAMIC ANALYSIS OF PROPOSED TAX CHANGES

PRESENTATION TO THE TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

Why We Are Here

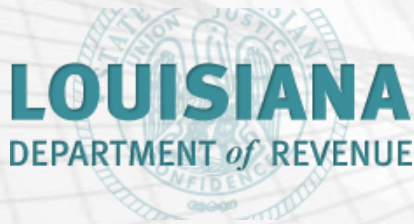


- A range of tax reform proposals are under consideration in Arkansas
- Arkansas Bureau of Legislative Research contracted with REMI to perform dynamic scoring analysis
- REMI used its Tax-PI model to estimate fiscal, economic, and demographic impacts over time
- **TODAY:** REMI presents results to Tax Reform and Relief Legislative Task Force

Who We Are



- Founded in 1980, REMI (Regional Economic Models, Inc.) is the industry standard in regional economic, demographic, and fiscal modelling
 - ▣ Provides PI+, TranSight, and Tax-PI software; technical analysis
 - ▣ Serves federal, state, and regional government agencies, leading non-profit and trade organizations, universities and consulting firms



what does **REMI** say? sm

Who I Am



- Peter Evangelakis, Ph.D., Senior Economist, REMI
 - ▣ University of Chicago: M.A. and Ph.D. in Economics
 - ▣ Swarthmore College: B.A., Economics, Mathematics (High Honors)
 - ▣ Support REMI clients all over the U.S. working on a wide range of economic and fiscal policy analysis
 - ▣ Testified in front of Wyoming Legislature Joint Revenue Committee regarding the link between fiscal and economic diversification efforts

Why Dynamic Scoring



- Standard analysis, known as “static scoring”:
 - Captures direct fiscal and economic impacts
- Dynamic scoring:
 - Accounts for the behavior of businesses and consumers in response to policy changes
 - Estimates the total effects resulting in these changes in behavior
 - Businesses relocate and consumers shift spending in response to policy changes
 - These reactions can have ripple effect with total output and employment

Examples of Dynamic Scoring



- Dynamic analysis grounded in the realities of an interconnected economy
 - ▣ Big River Steel Project: Arkansas Bureau of Legislative Research contracted with REMI to analyze its economic and fiscal impacts
 - ▣ Amazon HQ 2.0: Illinois Department of Revenue used REMI model to evaluate the effects of bringing Amazon to Chicago [Aug. 21 webinar]
 - ▣ Wyoming Legislature Revenue Committee: REMI evaluated the state's options for diversifying its tax base using dynamic analysis
- CBO and Dynamic Scoring: CBO's cost estimates traditionally do not include dynamic analysis; in 2015, Congress adopted a resolution calling for CBO to use dynamic scoring in certain circumstances

The Tax-PI Model



Tax-PI is the only commercially available dynamic macroeconomic and fiscal impact analysis tool.

Tax-PI allows users to understand the deep linkages and relationship between a budget and its economic foundation.

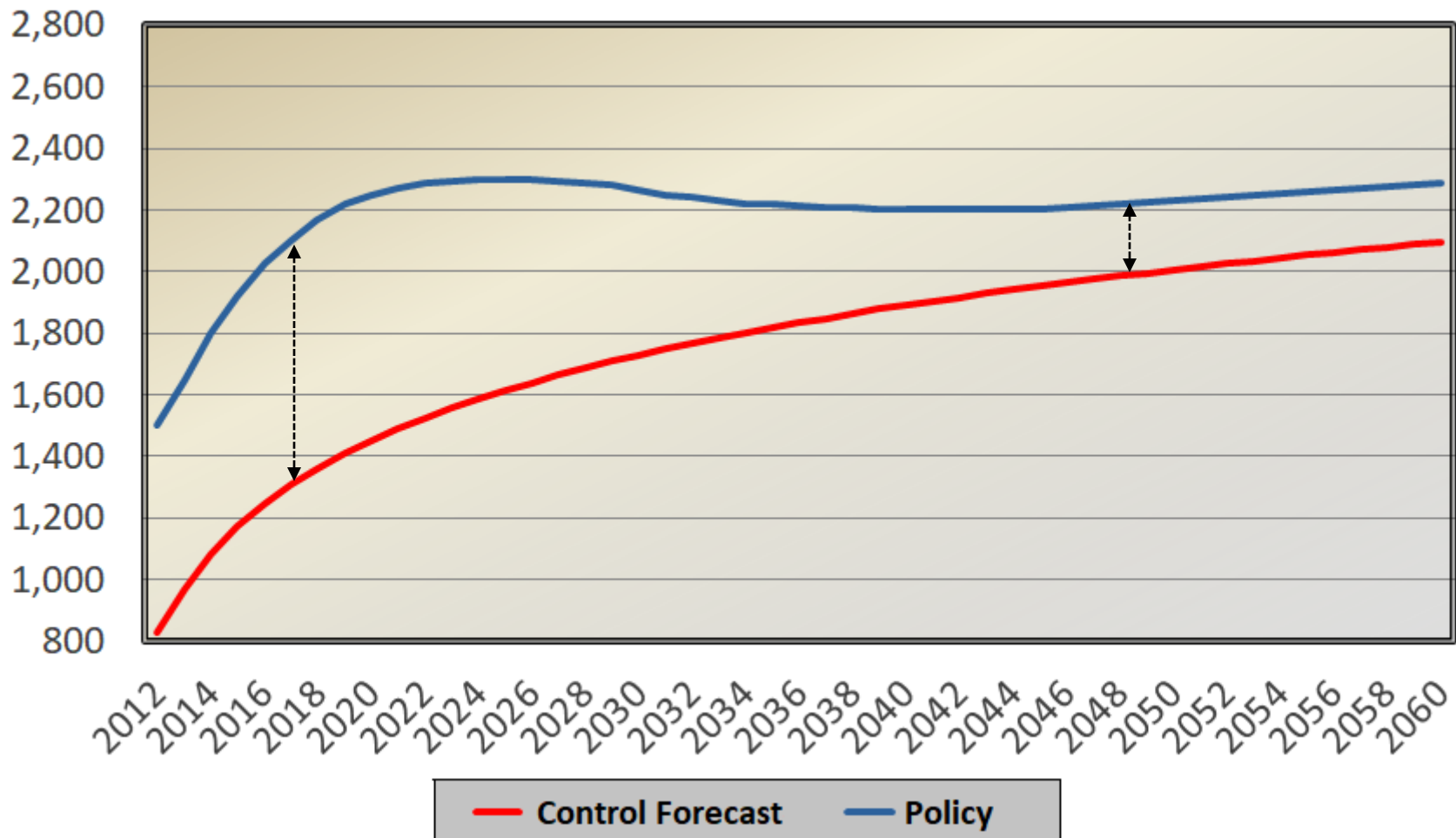
Tax-PI is uniquely customizable to your state's budget:

User-defined revenue and expenditure categories

Automatic budget-balancer: demand- or revenue-driven

Accommodates state's economic, demographic, fiscal projections

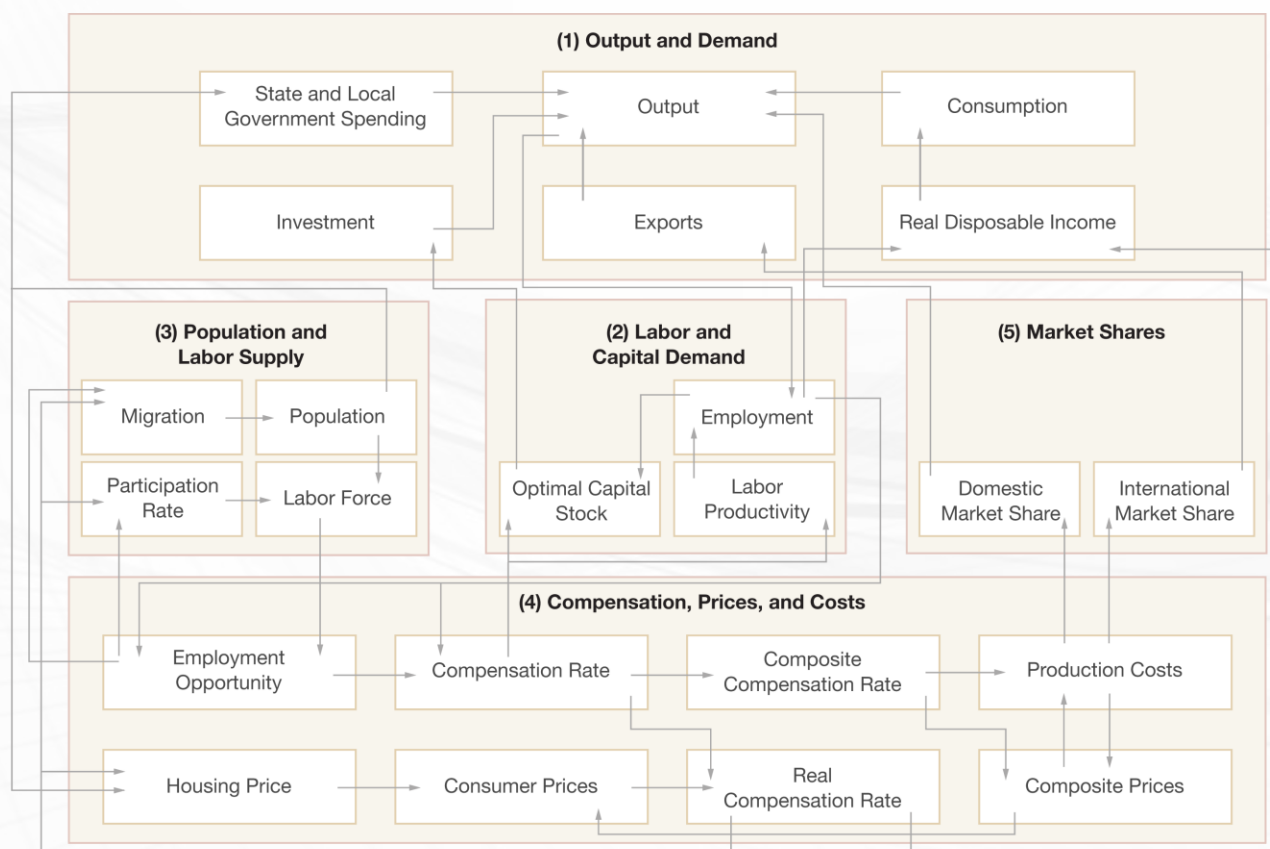
Model Framework



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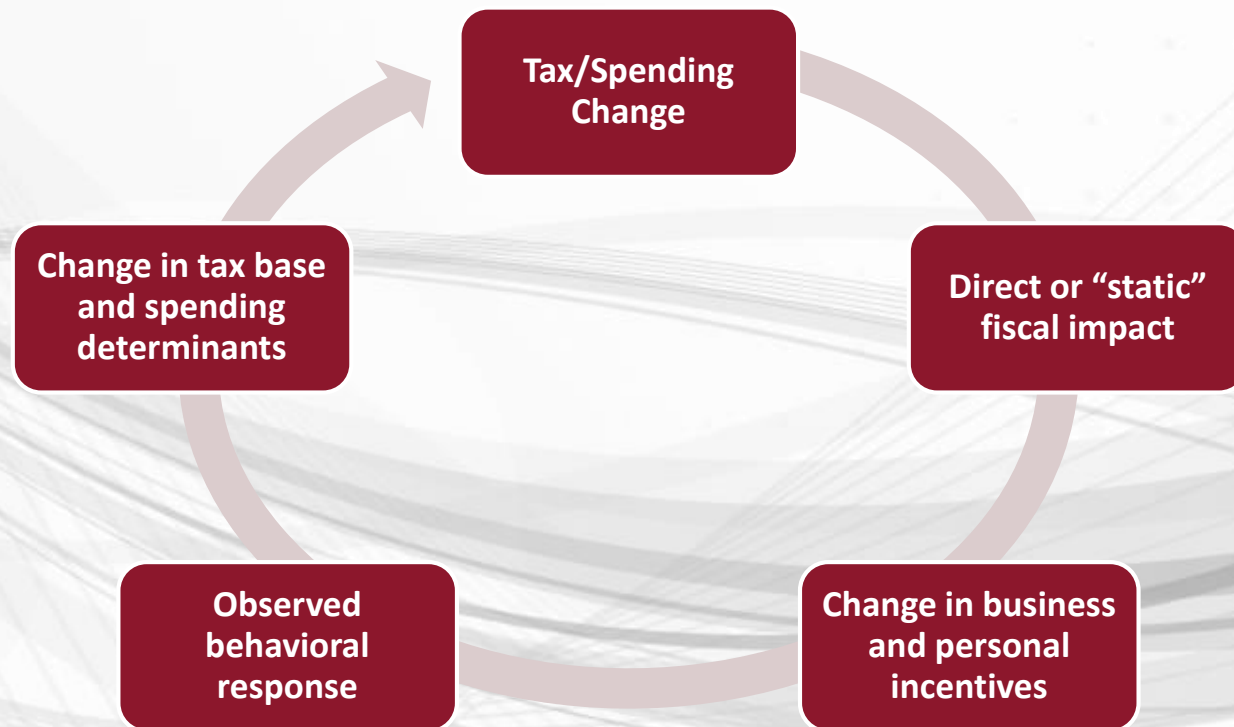
Model Structure

REMI Model Linkages (Excluding Economic Geography Linkages)



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Dynamic Fiscal Analysis



"Conventional analysis of proposed legislation...does not incorporate effects on the economy...trying to account for such effects may increase the likelihood of producing an accurate answer."

Keith Hall, Director, Congressional Budget Office

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Agenda



REMI evaluated the following 8 proposals over 2019-2023:

- Change the personal income tax structure
 - Governor's Proposal
 - Option A
 - Option B with EITC
- Change the corporate income tax structure
 - Reduce top corporate income tax rate to 6%
 - Implement Single Sales Factor
 - Repeal Throwback Rule
 - Repeal Franchise Tax
- Repeal Inventory Tax

Governor's Proposal Overview



- The Governor's Proposal would reduce the top marginal rate for individuals from six and nine-tenths percent (6.9%) to six percent (6%)
- The total static fiscal impact of the Governor's Proposal would be a reduction in Arkansas state income tax revenue of \$180,000,000
- Dynamic analysis of proposal accounts for feedback from changing consumer and business activity; demonstrates total economic and fiscal effects of plan

Evaluating Tax Changes



- REMI used three approaches:
 - ▣ Assessing changes in business production costs
 - ▣ Assessing changes to disposable personal income
 - ▣ Blended approach taking both production costs and disposable personal income into consideration
- Lower taxes translate into lower cost of business; estimating production cost effects takes this into consideration
 - ▣ Major Arkansas-based companies compete for workers with companies in states with lower or no income taxes
 - ▣ Employers offer higher salaries to compensate for higher taxes, which increases production costs
 - ▣ Tax cuts attract in-migration due to the higher after-tax compensation

Evaluating Governor's Proposal



Scenarios Reflecting Range of Outcomes from REMI Tax-PI Dynamic Fiscal Analysis

- 1) Both direct personal income tax and business cost decreases with no reduction in general state government expenditures
- 2) Both direct personal income tax and business cost decreases with equal reduction in general state government expenditures
- 3) Business cost decrease with no direct reduction in general state government expenditures
- 4) Business cost decrease with equal direct reduction in general state government expenditures
- 5) Direct personal income tax decrease with no direct reduction in general state government expenditures
- 6) Direct personal income tax decrease with equal direct reduction in general state government expenditures

Governor's Option Scenario 1

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
\$12,600 - \$20,999	Nominal Millions	\$0.04	\$0.05	\$0.06	\$0.06	\$0.06	\$0.05
\$21,000 - \$35,099	Nominal Millions	\$0.14	\$0.19	\$0.22	\$0.24	\$0.25	\$0.21
\$35,100 - \$80,000	Nominal Millions	\$0.46	\$0.62	\$0.72	\$0.77	\$0.79	\$0.67
\$80,000+	Nominal Millions	\$1.04	\$1.40	\$1.63	\$1.75	\$1.79	\$1.52

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Governor's Option Scenario 1

Direct Personal Income Tax Decrease & Private Production Cost Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,070	1,920	2,587	3,072	3,401	2,410
Total Employment	Individuals	1,432	1,696	1,770	1,717	1,615	1,646
Government Employment	Individuals	87	142	175	192	198	159
Private Non-Farm Employment	Individuals	1,345	1,554	1,595	1,525	1,417	1,487
Gross State Product (Value-Added)	Nominal Millions	\$102.6	\$125.4	\$135.4	\$136.5	\$133.1	\$126.6
Output (Industry Sales)	Nominal Millions	\$170.7	\$208.5	\$224.4	\$225.3	\$219.0	\$209.6
Disposable Personal Income	Nominal Millions	\$231.0	\$255.6	\$271.1	\$279.6	\$282.6	\$264.0
Government Revenue	Nominal Millions	-\$172.0	-\$170.6	-\$169.6	-\$169.1	-\$168.8	-\$170.0
Government Expenditure	Nominal Millions	\$2.0	\$3.8	\$5.2	\$6.3	\$7.0	\$4.9
NET REVENUE (Gov Rev, less Gov Exp)	Nominal Millions	-\$174.1	-\$174.4	-\$174.8	-\$175.4	-\$175.9	-\$174.9

Governor's Option Scenario 1 Analysis



- Blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source:
 - Annual **increase** in Arkansas' population rises from **1,070** in 2019 to **3,401** in 2023, with a 5-year average annual **increase** of **2,410**
 - Largely driven by higher after-tax compensation rates and employment opportunities, both of which raise the level of economic in-migration
 - Total employment **rises** by an average of **1,646**, of which **90.3%** comes from private non-farm sectors and **9.7%** comes from the government sector.
 - Additionally, Gross State Product (GSP) and total output (which accounts for both GSP as well as the value of intermediate inputs) **increase** by an average of **\$126.6 million** and **\$209.6 million**, respectively.
 - This increase in economic activity is driven mainly by three key factors: (1) the influx of new population; (2) the increase in disposable personal income generated by lower personal income taxes; and (3) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **\$264.0 million**
 - The static impact of the tax cut is a **\$180.0 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$170.0 million**. This means that **5.6%** of the static revenue loss is recovered

Governor's Option Scenario 2

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$12,600 - \$20,999	Nominal Millions	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.04
\$21,000 - \$35,099	Nominal Millions	-\$0.14	-\$0.14	-\$0.15	-\$0.16	-\$0.16	-\$0.15
\$35,100 - \$80,000	Nominal Millions	-\$0.46	-\$0.46	-\$0.48	-\$0.50	-\$0.53	-\$0.49
\$80,000+	Nominal Millions	-\$1.04	-\$1.05	-\$1.09	-\$1.14	-\$1.20	-\$1.11

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Governor's Option Scenario 2

Direct Personal Income Tax Decrease & Private Non-Farm Production
Cost Decrease with Direct State Expenditure Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-58	-89	-115	-147	-182	-118
Total Employment	Individuals	-1,681	-1,494	-1,405	-1,353	-1,322	-1,451
Government Employment	Individuals	-1,363	-1,329	-1,295	-1,257	-1,222	-1,293
Private Non-Farm Employment	Individuals	-318	-165	-110	-96	-100	-158
Gross State Product (Value-Added)	Nominal Millions	-\$109.2	-\$98.5	-\$94.9	-\$94.1	-\$94.7	-\$98.3
Output (Industry Sales)	Nominal Millions	-\$186.3	-\$166.7	-\$158.8	-\$156.0	-\$155.4	-\$164.6
Disposable Personal Income	Nominal Millions	\$93.3	\$92.8	\$90.1	\$86.8	\$83.2	\$89.2
Government Revenue	Nominal Millions	-\$179.9	-\$179.8	-\$179.9	-\$180.1	-\$180.3	-\$180.0
Government Expenditure	Nominal Millions	-\$181.1	-\$181.9	-\$182.6	-\$183.2	-\$183.7	-\$182.5
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	\$1.2	\$2.1	\$2.7	\$3.1	\$3.4	\$2.5

Governor's Option Scenario 2 Analysis



- The second scenario also follows the blended approach. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut:
 - ▣ The annual **decrease** in Arkansas' population rises from **58** in 2019 to **182** in 2023, with a 5-year average annual **decrease** of **118**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration
 - ▣ Total employment **falls** by an average of **1,451**, of which **10.9%** comes from private non-farm sectors and **89.1%** comes from the government sector
 - ▣ Additionally, Gross State Product (GSP) and total output **decrease** by an average of **\$98.3 million** and **\$164.6 million**, respectively
 - This decrease in economic activity is driven mainly by two key factors: (1) the decrease in population; and (2) the decrease in government expenditures. Disposable personal income **increases** by an average of **\$89.2 million**
 - ▣ The static impact of the tax cut is a **\$180.0 million loss** in state revenue per year, and the change in economic activity does not materially affect the size of this loss. Thus, the total revenue **loss** averages **\$180.0 million**.
 - This means that **0.0%** of the static revenue loss is recovered

Governor's Option Scenario 3

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
\$12,600 - \$20,999	Nominal Millions	\$0.03	\$0.05	\$0.06	\$0.08	\$0.09	\$0.06
\$21,000 - \$35,099	Nominal Millions	\$0.12	\$0.19	\$0.25	\$0.29	\$0.33	\$0.23
\$35,100 - \$80,000	Nominal Millions	\$0.39	\$0.61	\$0.79	\$0.94	\$1.05	\$0.75
\$80,000+	Nominal Millions	\$0.87	\$1.38	\$1.80	\$2.13	\$2.38	\$1.71

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Governor's Option Scenario 3

Direct Private Non-Farm Production Cost Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	727	1,456	2,145	2,755	3,266	2,070
Total Employment	Individuals	1,364	1,919	2,279	2,480	2,580	2,124
Government Employment	Individuals	66	123	169	202	226	157
Private Non-Farm Employment	Individuals	1,298	1,796	2,111	2,278	2,353	1,967
Gross State Product (Value-Added)	Nominal Millions	\$91.2	\$134.8	\$166.9	\$189.6	\$205.1	\$157.5
Output (Industry Sales)	Nominal Millions	\$158.0	\$234.6	\$290.7	\$330.0	\$356.8	\$274.0
Disposable Personal Income	Nominal Millions	\$58.0	\$91.8	\$119.8	\$142.4	\$159.4	\$114.3
Government Revenue	Nominal Millions	-\$175.5	-\$173.5	-\$171.8	-\$170.5	-\$169.4	-\$172.2
Government Expenditure	Nominal Millions	\$1.5	\$3.1	\$4.7	\$6.2	\$7.6	\$4.6
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$177.0	-\$176.6	-\$176.6	-\$176.7	-\$177.0	-\$176.8

Governor's Option Scenario 3 Analysis



- The third scenario treats 100% of the personal income tax cut as a decrease in business costs:
 - The annual **increase** in Arkansas' population rises from **727** in 2019 to **3,266** in 2023, with a 5-year average annual **increase** of **2,070**. This is largely driven by higher employment opportunities, which raises the level of economic in-migration.
 - Total employment **rises** by an average of **2,124**, of which **92.6%** comes from private non-farm sectors and **7.4%** comes from the government sector. Additionally, Gross State Product (GSP) and total output increase by an average of **\$157.5 million** and **\$274.0 million**, respectively.
 - This **increase** in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **\$114.3 million**.
 - The static impact of the tax cut is a **\$180.0 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$172.2 million**
 - This means that **4.4%** of the static revenue loss is recovered.

Governor's Option Scenario 4

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$12,600 - \$20,999	Nominal Millions	-\$0.04	-\$0.04	-\$0.03	-\$0.03	-\$0.02	-\$0.03
\$21,000 - \$35,099	Nominal Millions	-\$0.17	-\$0.15	-\$0.13	-\$0.10	-\$0.08	-\$0.13
\$35,100 - \$80,000	Nominal Millions	-\$0.53	-\$0.47	-\$0.41	-\$0.34	-\$0.27	-\$0.40
\$80,000+	Nominal Millions	-\$1.21	-\$1.08	-\$0.93	-\$0.76	-\$0.61	-\$0.92

what does **REMI** say? sm

Governor's Option Scenario 4

Direct Private Non-Farm Production Cost Decrease with Direct State Expenditure Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-402	-555	-559	-467	-321	-461
Total Employment	Individuals	-1,751	-1,272	-898	-592	-359	-975
Government Employment	Individuals	-1,384	-1,348	-1,302	-1,246	-1,194	-1,295
Private Non-Farm Employment	Individuals	-367	76	404	654	834	320
Gross State Product (Value-Added)	Nominal Millions	-\$120.6	-\$89.3	-\$63.5	-\$41.1	-\$22.8	-\$67.5
Output (Industry Sales)	Nominal Millions	-\$199.1	-\$140.7	-\$92.8	-\$51.6	-\$17.8	-\$100.4
Disposable Personal Income	Nominal Millions	-\$79.7	-\$71.1	-\$61.3	-\$50.5	-\$40.2	-\$60.6
Government Revenue	Nominal Millions	-\$183.4	-\$182.7	-\$182.1	-\$181.5	-\$180.9	-\$182.1
Government Expenditure	Nominal Millions	-\$181.6	-\$182.6	-\$183.0	-\$183.2	-\$183.1	-\$182.7
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$1.7	-\$0.2	\$0.9	\$1.7	\$2.3	\$0.6

Governor's Option Scenario 4 Analysis



- The fourth scenario also treats 100% of the personal income tax cut as a decrease in business costs. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut:
 - The annual **decrease** in Arkansas' population falls from **402** in 2019 to **321** in 2023, with a 5-year average annual **decrease** of **461**.
 - This is largely driven by lower employment opportunities, which lowers the level of economic immigration.
 - Employment in the private non-farm sectors **increases** annually over the next 5 years by an average of **320** jobs while government sector employment **declines** by an average of **1,295** jobs, creating an average total employment **decline** of **975** jobs.
 - Additionally, Gross State Product (GSP) and Total Output decline by an average of **\$67.5 million** and **\$100.4 million**, respectively
 - This decline in economic activity is driven mainly by two key factors: (1) the decline in population; and (2) a decrease in disposable personal income caused by a decline in government employment. Disposable personal income **decreases** by an average of **\$60.6 million**
 - The static impact of the tax cut is a **\$180.0 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue loss averages **\$182.1 million**
 - This means that the static revenue loss is **increased** by another **1.2%**

Governor's Option Scenario 5

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
\$12,600 - \$20,999	Nominal Millions	\$0.04	\$0.05	\$0.06	\$0.06	\$0.06	\$0.05
\$21,000 - \$35,099	Nominal Millions	\$0.15	\$0.19	\$0.22	\$0.23	\$0.24	\$0.21
\$35,100 - \$80,000	Nominal Millions	\$0.47	\$0.62	\$0.71	\$0.75	\$0.76	\$0.66
\$80,000+	Nominal Millions	\$1.06	\$1.40	\$1.61	\$1.70	\$1.72	\$1.50

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Governor's Option Scenario 5

Direct Personal Income Tax Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,108	1,972	2,637	3,107	3,417	2,448
Total Employment	Individuals	1,440	1,671	1,713	1,631	1,507	1,593
Government Employment	Individuals	89	144	176	190	195	159
Private Non-Farm Employment	Individuals	1,351	1,527	1,537	1,441	1,313	1,434
Gross State Product (Value-Added)	Nominal Millions	\$103.8	\$124.4	\$131.9	\$130.5	\$125.0	\$123.1
Output (Industry Sales)	Nominal Millions	\$172.1	\$205.6	\$217.0	\$213.6	\$203.5	\$202.4
Disposable Personal Income	Nominal Millions	\$250.4	\$273.9	\$288.0	\$294.9	\$296.4	\$280.7
Government Revenue	Nominal Millions	-\$171.6	-\$170.3	-\$169.4	-\$169.0	-\$168.8	-\$169.8
Government Expenditure	Nominal Millions	\$2.1	\$3.8	\$5.2	\$6.3	\$7.0	\$4.9
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$173.7	-\$174.1	-\$174.6	-\$175.2	-\$175.7	-\$174.7

Governor's Option Scenario 5 Analysis



- The fifth scenario treats 100% of the personal income tax cut as a direct decrease in personal income taxes
 - The annual **increase** in Arkansas' population rises from **1,108** in 2019 to **3,417** in 2023, with a 5-year average annual **increase** of **2,448**
 - This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.
 - Total employment **rises** by an average of **1,593**, of which **90.0%** comes from private non-farm sectors and **10.0%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total output increase by an average of **\$123.1 million** and **\$202.4 million**, respectively
 - This increase in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the increase in disposable personal income generated by lower personal income taxes. Specifically, disposable personal income **increases** by an average of **\$280.7 million**.
 - The static impact of the tax cut is a **\$180.0 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$169.8 million**
 - This means that **5.7%** of the static revenue loss is recovered.

Governor's Option Scenario 6

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$12,600 - \$20,999	Nominal Millions	-\$0.04	-\$0.04	-\$0.04	-\$0.04	-\$0.05	-\$0.04
\$21,000 - \$35,099	Nominal Millions	-\$0.14	-\$0.14	-\$0.15	-\$0.16	-\$0.17	-\$0.15
\$35,100 - \$80,000	Nominal Millions	-\$0.45	-\$0.46	-\$0.49	-\$0.52	-\$0.56	-\$0.50
\$80,000+	Nominal Millions	-\$1.03	-\$1.05	-\$1.11	-\$1.19	-\$1.27	-\$1.13

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Governor's Option Scenario 6

Direct Personal Income Tax Decrease with Direct State Expenditure Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-20	-37	-65	-111	-167	-80
Total Employment	Individuals	-1,673	-1,518	-1,462	-1,438	-1,430	-1,504
Government Employment	Individuals	-1,361	-1,327	-1,295	-1,258	-1,225	-1,293
Private Non-Farm Employment	Individuals	-312	-192	-168	-180	-204	-211
Gross State Product (Value-Added)	Nominal Millions	-\$107.9	-\$99.6	-\$98.4	-\$100.1	-\$102.7	-\$101.7
Output (Industry Sales)	Nominal Millions	-\$184.8	-\$169.6	-\$166.2	-\$167.7	-\$170.8	-\$171.8
Disposable Personal Income	Nominal Millions	\$112.7	\$111.1	\$107.0	\$102.2	\$97.0	\$106.0
Government Revenue	Nominal Millions	-\$179.5	-\$179.5	-\$179.7	-\$179.9	-\$180.2	-\$179.8
Government Expenditure	Nominal Millions	-\$181.0	-\$181.8	-\$182.5	-\$183.2	-\$183.7	-\$182.5
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	\$1.5	\$2.4	\$2.9	\$3.2	\$3.6	\$2.7

Governor's Option Scenario 6 Analysis



- The sixth scenario also treats 100% of the personal income tax cut as a direct decrease in personal income taxes. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut:
 - The annual **decline** in Arkansas' population **rises** from **20** in 2019 to **167** in 2023, with a 5-year average annual **decrease** of **80**. This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.
 - Total employment **decreases** by an average of **1,504**, of which **14.0%** comes from private non-farm sectors and **86.0%** comes from the government sector. Additionally, Gross State Product (GSP) and total output **decrease** by an average of **\$101.7 million** and **\$171.8 million**, respectively.
 - This **decrease** in economic activity is driven mainly by the **decrease** in in-state consumption that comes from two key factors: (1) the decrease in population; and (2) a portion of consumers' increased after-tax income being spent on out-of-state goods and services. Specifically, disposable personal income will **increase** by an average of **\$106 million**.
 - The static impact of the tax cut is a **\$180.0 million loss** in state revenue per year, but the increase in economic activity created by the increase in consumer after-tax personal income generates an average increase in annual revenue of **\$244,000**. Thus, the total revenue decrease under dynamic scoring averages approximately **-\$179.8 million**
 - This means that **0.1%** of the static revenue loss is recovered.

Option A Overview



- Option A:
 - ▣ Reduce number of individual income tax tables from 3 to 1
 - ▣ Lower the top marginal rate for individuals from 6.9% to 6.5%
- Option A would reduce Arkansas' state income tax revenue by \$276,437,336, based on a static impact analysis
 - ▣ The static estimate does not include the total macroeconomic effects of how consumers and business respond to the policy change

Option A	
Individual Income Tax Bracket	Tax Rate
\$0-\$4,299	0.0%
\$4,300-\$8,399	2.0%
\$8,400-\$12,599	3.0%
\$12,600-\$20,999	3.4%
\$21,000-\$35,099	5.0%
\$35,100-\$80,000	6.0%
\$80,000+	6.5%

Option A Analysis



- As with the Governor's Proposal, REMI used three approaches to evaluation Option A:
 - ▣ Assessing changes in business production costs
 - ▣ Assessing changes to disposable personal income
 - ▣ Blended approach taking both production costs and disposable personal income into consideration

Option A Scenarios



Scenarios Reflecting Range of Outcomes from REMI Tax-PI Dynamic Fiscal Analysis

1. Both direct personal income tax and business cost decreases with no reduction in general state government expenditures
2. Both direct personal income tax and business cost decreases with equal reduction in general state government expenditures
3. Business cost decrease with no direct reduction in general state government expenditures
4. Business cost decrease with equal direct reduction in general state government expenditures
5. Direct personal income tax decrease with no direct reduction in general state government expenditures
6. Direct personal income tax decrease with equal direct reduction in general state government expenditures

Option A Scenario 1

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
\$12,600 - \$20,999	Nominal Millions	\$0.06	\$0.08	\$0.09	\$0.10	\$0.10	\$0.08
\$21,000 - \$35,099	Nominal Millions	\$0.22	\$0.29	\$0.34	\$0.37	\$0.38	\$0.32
\$35,100 - \$80,000	Nominal Millions	\$0.70	\$0.95	\$1.10	\$1.18	\$1.21	\$1.03
\$80,000+	Nominal Millions	\$1.60	\$2.15	\$2.50	\$2.68	\$2.74	\$2.33

what does **REMI** say? sm

Option A Scenario 1

S1 - Direct Personal Income Tax Decrease & Private Non-Farm Production Cost Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,642	2,948	3,973	4,717	5,223	3,700
Total Employment	Individuals	2,200	2,604	2,719	2,637	2,480	2,528
Government Employment	Individuals	134	218	269	294	304	244
Private Non-Farm Employment	Individuals	2,066	2,386	2,449	2,342	2,177	2,284
Gross State Product (Value-Added)	Nominal Millions	\$157.5	\$192.6	\$207.9	\$209.6	\$204.4	\$194.4
Output (Industry Sales)	Nominal Millions	\$262.1	\$320.2	\$344.6	\$346.1	\$336.3	\$321.9
Disposable Personal Income	Nominal Millions	\$354.7	\$392.5	\$416.4	\$429.3	\$434.0	\$405.4
Government Revenue	Nominal Millions	-\$264.2	-\$262.0	-\$260.5	-\$259.7	-\$259.3	-\$261.1
Government Expenditure	Nominal Millions	\$3.1	\$5.8	\$8.0	\$9.6	\$10.8	\$7.5
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$267.3	-\$267.8	-\$268.5	-\$269.3	-\$270.1	-\$268.6

Option A Scenario 1 Analysis



- The first scenario follows the blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source:
 - The annual **increase** in Arkansas' population rises from **1,642** in 2019 to **5,223** in 2023, with a 5-year average annual **increase** of **3,700**
 - This is largely driven by higher after-tax compensation rates and employment opportunities, both of which raise the level of economic in-migration
 - Total employment **rises** by an average of **2,528**, of which **90.3%** comes from private non-farm sectors and **9.7%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total output **increase** by an average of **\$194.4 million** and **\$321.9 million**, respectively
 - This increase in economic activity is driven mainly by three key factors: (1) the influx of new population; (2) the increase in disposable personal income generated by lower personal income taxes; and (3) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **\$405.4 million**.
 - The static impact of the tax cut is a **\$276.4 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$261.1 million**
 - This means that **5.5%** of the static revenue loss is recovered

Option A Scenario 2

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01
\$12,600 - \$20,999	Nominal Millions	-\$0.06	-\$0.06	-\$0.06	-\$0.06	-\$0.07	-\$0.06
\$21,000 - \$35,099	Nominal Millions	-\$0.22	-\$0.22	-\$0.23	-\$0.24	-\$0.25	-\$0.23
\$35,100 - \$80,000	Nominal Millions	-\$0.71	-\$0.71	-\$0.74	-\$0.77	-\$0.81	-\$0.75
\$80,000+	Nominal Millions	-\$1.60	-\$1.62	-\$1.68	-\$1.76	-\$1.84	-\$1.70

what does **REMI** say? sm

Option A Scenario 2

Direct Personal Income Tax Decrease & Private Non-Farm Production Cost
Decrease with Direct State Expenditure Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-89	-137	-177	-227	-281	-182
Total Employment	Individuals	-2,582	-2,294	-2,158	-2,078	-2,030	-2,228
Government Employment	Individuals	-2,093	-2,041	-1,990	-1,930	-1,877	-1,986
Private Non-Farm Employment	Individuals	-488	-253	-169	-148	-153	-242
Gross State Product (Value-Added)	Nominal Millions	-\$167.7	-\$151.3	-\$145.7	-\$144.5	-\$145.4	-\$150.9
Output (Industry Sales)	Nominal Millions	-\$286.0	-\$255.9	-\$243.9	-\$239.6	-\$238.6	-\$252.8
Disposable Personal Income	Nominal Millions	\$143.3	\$142.5	\$138.4	\$133.3	\$127.8	\$137.1
Government Revenue	Nominal Millions	-\$276.3	-\$276.2	-\$276.3	-\$276.6	-\$276.8	-\$276.4
Government Expenditure	Nominal Millions	-\$278.1	-\$279.4	-\$280.4	-\$281.3	-\$282.1	-\$280.3
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	\$1.8	\$3.2	\$4.1	\$4.8	\$5.3	\$3.8

Option A Scenario 2 Analysis



- The second scenario also follows the blended approach. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.
 - The annual **decrease** in Arkansas' population rises from **89** in 2019 to **281** in 2023, with a 5-year average annual **decrease** of **182**.
 - This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.
 - Total employment **falls** by an average of **2,228**, of which **10.9%** comes from private non-farm sectors and **89.1%** comes from the government sector.
 - Additionally, Gross State Product (GSP) and total output **decrease** by an average of **\$150.9 million** and **\$252.8 million**, respectively
 - This decrease in economic activity is driven mainly by two key factors: (1) the decrease in population; and (2) the decrease in government expenditures. Disposable personal income **increases** by an average of **\$137.1 million**.
 - The static impact of the tax cut is a **\$276.4 loss** in state revenue per year, and the change in economic activity does not materially affect the size of this loss. Thus, the total revenue **loss** averages **\$276.4 million**
 - This means that **0.0%** of the static revenue loss is recovered

Option A Scenario 3

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
\$12,600 - \$20,999	Nominal Millions	\$0.05	\$0.08	\$0.10	\$0.12	\$0.13	\$0.09
\$21,000 - \$35,099	Nominal Millions	\$0.18	\$0.29	\$0.38	\$0.45	\$0.50	\$0.36
\$35,100 - \$80,000	Nominal Millions	\$0.59	\$0.93	\$1.22	\$1.44	\$1.61	\$1.16
\$80,000+	Nominal Millions	\$1.34	\$2.12	\$2.76	\$3.28	\$3.66	\$2.63

what does **REMI** say? sm

Option A Scenario 3

Direct Private Non-Farm Production Cost Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,117	2,237	3,297	4,235	5,022	3,181
Total Employment	Individuals	2,096	2,949	3,505	3,814	3,969	3,267
Government Employment	Individuals	102	189	260	311	348	242
Private Non-Farm Employment	Individuals	1,994	2,760	3,245	3,503	3,621	3,025
Gross State Product (Value-Added)	Nominal Millions	\$140.1	\$207.1	\$256.6	\$291.7	\$315.7	\$242.3
Output (Industry Sales)	Nominal Millions	\$242.7	\$360.6	\$446.9	\$507.6	\$549.0	\$421.4
Disposable Personal Income	Nominal Millions	\$89.1	\$141.0	\$184.2	\$219.0	\$245.1	\$175.7
Government Revenue	Nominal Millions	-\$269.5	-\$266.5	-\$263.9	-\$261.8	-\$260.2	-\$264.4
Government Expenditure	Nominal Millions	\$2.3	\$4.8	\$7.3	\$9.6	\$11.6	\$7.1
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$271.8	-\$271.3	-\$271.2	-\$271.4	-\$271.8	-\$271.5

Option A Scenario 3 Analysis



- The third scenario treats 100% of the personal income tax cut as a decrease in business costs.
 - The annual **increase** in Arkansas' population rises from **1,117** in 2019 to **5,022** in 2023, with a 5-year average annual **increase** of **3,181**. This is largely driven by higher employment opportunities, which raises the level of economic in-migration.
 - Total employment **rises** by an average of **3,267**, of which **92.6%** comes from private non-farm sectors and **7.4%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total output increase by an average of **\$242.3 million** and **\$421.4 million**, respectively
 - This **increase** in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **\$175.7 million**.
 - The static impact of the tax cut is a **\$276.4 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$264.4 million**
 - This means that **4.3%** of the static revenue loss is recovered

Option A Scenario 4

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	-\$0.01	-\$0.01	\$0.00	\$0.00	\$0.00	\$0.00
\$12,600 - \$20,999	Nominal Millions	-\$0.07	-\$0.06	-\$0.05	-\$0.04	-\$0.03	-\$0.05
\$21,000 - \$35,099	Nominal Millions	-\$0.26	-\$0.23	-\$0.20	-\$0.16	-\$0.13	-\$0.19
\$35,100 - \$80,000	Nominal Millions	-\$0.82	-\$0.73	-\$0.63	-\$0.51	-\$0.41	-\$0.62
\$80,000+	Nominal Millions	-\$1.86	-\$1.65	-\$1.42	-\$1.17	-\$0.93	-\$1.41

what does **REMI** say? sm

Option A Scenario 4

Direct Private Non-Farm Production Cost Decrease with Direct State Expenditure Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-617	-852	-858	-714	-489	-706
Total Employment	Individuals	-2,689	-1,953	-1,377	-905	-547	-1,494
Government Employment	Individuals	-2,125	-2,070	-2,000	-1,914	-1,833	-1,988
Private Non-Farm Employment	Individuals	-563	117	622	1,009	1,286	494
Gross State Product (Value-Added)	Nominal Millions	-\$185.3	-\$137.1	-\$97.3	-\$62.8	-\$34.5	-\$103.4
Output (Industry Sales)	Nominal Millions	-\$305.8	-\$216.1	-\$142.2	-\$78.6	-\$26.6	-\$153.8
Disposable Personal Income	Nominal Millions	-\$122.5	-\$109.2	-\$94.1	-\$77.3	-\$61.4	-\$92.9
Government Revenue	Nominal Millions	-\$281.6	-\$280.6	-\$279.7	-\$278.7	-\$277.7	-\$279.7
Government Expenditure	Nominal Millions	-\$278.9	-\$280.4	-\$281.1	-\$281.3	-\$281.3	-\$280.6
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$2.7	-\$0.3	\$1.4	\$2.7	\$3.5	\$0.9

Option A Scenario 4 Analysis



- The fourth scenario also treats 100% of the personal income tax cut as a decrease in business costs. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.
 - The annual **decrease** in Arkansas' population falls from **617** in 2019 to **489** in 2023, with a 5-year average annual **decrease** of **706**
 - This is largely driven by lower employment opportunities, which lowers the level of economic immigration.
 - Employment in the private non-farm sectors **increases** annually over the next 5 years by an average of **494** jobs while government sector employment **declines** by an average of **1,988** jobs, creating an average total employment **decline** of **1,494** jobs.
 - Additionally, Gross State Product (GSP) and Total Output decline by an average of **\$103.4 million** and **\$153.8 million**, respectively
 - This decline in economic activity is driven mainly by two key factors: (1) the decline in population; and (2) a decrease in disposable personal income caused by a decline in government employment. Disposable personal income **decreases** by an average of **\$92.9 million**.
 - The static impact of the tax cut is a **\$276.4 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss

Option A Scenario 5

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
\$12,600 - \$20,999	Nominal Millions	\$0.06	\$0.08	\$0.09	\$0.09	\$0.09	\$0.08
\$21,000 - \$35,099	Nominal Millions	\$0.22	\$0.30	\$0.34	\$0.36	\$0.36	\$0.32
\$35,100 - \$80,000	Nominal Millions	\$0.72	\$0.95	\$1.09	\$1.15	\$1.16	\$1.01
\$80,000+	Nominal Millions	\$1.62	\$2.16	\$2.47	\$2.62	\$2.64	\$2.30

what does **REMI** say? sm

Option A Scenario 5

Direct Personal Income Tax Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,700	3,027	4,048	4,771	5,246	3,758
Total Employment	Individuals	2,212	2,566	2,631	2,505	2,314	2,446
Government Employment	Individuals	137	222	270	292	299	244
Private Non-Farm Employment	Individuals	2,074	2,344	2,360	2,213	2,016	2,201
Gross State Product (Value-Added)	Nominal Millions	\$159.5	\$191.0	\$202.5	\$200.4	\$191.9	\$189.1
Output (Industry Sales)	Nominal Millions	\$264.3	\$315.7	\$333.2	\$328.0	\$312.5	\$310.7
Disposable Personal Income	Nominal Millions	\$384.5	\$420.6	\$442.3	\$452.9	\$455.1	\$431.1
Government Revenue	Nominal Millions	-\$263.6	-\$261.5	-\$260.2	-\$259.5	-\$259.2	-\$260.8
Government Expenditure	Nominal Millions	\$3.2	\$5.9	\$8.0	\$9.6	\$10.7	\$7.5
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$266.8	-\$267.4	-\$268.2	-\$269.1	-\$269.9	-\$268.3

Option A Scenario 5 Analysis



- The fifth scenario treats 100% of the personal income tax cut as a direct decrease in personal income taxes:
 - The annual **increase** in Arkansas' population rises from **1,700** in 2019 to **5,246** in 2023, with a 5-year average annual **increase** of **3,758**
 - This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.
 - Total employment **rises** by an average of **2,446**, of which **90.0%** comes from private non-farm sectors and **10.0%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total increase by an average of **\$189.1 million** and **\$310.7 million**, respectively
 - This increase in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the increase in disposable personal income generated by lower personal income taxes. Specifically, disposable personal income **increases** by an average of **\$431.1 million**.
 - The static impact of the tax cut is a **\$276.4 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$260.8 million**
 - This means that **5.6%** of the static revenue loss is recovered

Option A Scenario 6

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01	-\$0.01
\$12,600 - \$20,999	Nominal Millions	-\$0.06	-\$0.06	-\$0.06	-\$0.06	-\$0.07	-\$0.06
\$21,000 - \$35,099	Nominal Millions	-\$0.22	-\$0.22	-\$0.23	-\$0.25	-\$0.27	-\$0.24
\$35,100 - \$80,000	Nominal Millions	-\$0.69	-\$0.71	-\$0.75	-\$0.80	-\$0.86	-\$0.76
\$80,000+	Nominal Millions	-\$1.58	-\$1.61	-\$1.71	-\$1.82	-\$1.94	-\$1.73

what does **REMI** say? sm

Option A Scenario 6

Direct Personal Income Tax Decrease with Direct State Expenditure Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-31	-57	-101	-172	-257	-124
Total Employment	Individuals	-2,570	-2,332	-2,246	-2,209	-2,195	-2,310
Government Employment	Individuals	-2,090	-2,037	-1,988	-1,932	-1,882	-1,986
Private Non-Farm Employment	Individuals	-480	-294	-257	-277	-314	-324
Gross State Product (Value-Added)	Nominal Millions	-\$165.7	-\$152.9	-\$151.1	-\$153.7	-\$157.8	-\$156.2
Output (Industry Sales)	Nominal Millions	-\$283.8	-\$260.4	-\$255.3	-\$257.5	-\$262.3	-\$263.9
Disposable Personal Income	Nominal Millions	\$173.1	\$170.6	\$164.4	\$156.9	\$149.0	\$162.8
Government Revenue	Nominal Millions	-\$275.7	-\$275.7	-\$275.9	-\$276.3	-\$276.7	-\$276.1
Government Expenditure	Nominal Millions	-\$278.0	-\$279.3	-\$280.3	-\$281.3	-\$282.2	-\$280.2
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	\$2.3	\$3.6	\$4.4	\$5.0	\$5.5	\$4.2

Option A Scenario 6 Analysis



- The sixth scenario also treats 100% of the personal income tax cut as a direct decrease in personal income taxes. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut.
 - The annual decline in Arkansas' population rises from 31 in 2019 to 257 in 2023, with a 5-year average annual decrease of 124
 - This is largely driven by higher after-tax compensation rates increase economic in-migration
 - Total employment decreases by an average of 2,310, of which 14.0% comes from private non-farm sectors and 86.0% comes from the government sector
 - Additionally, Gross State Product (GSP) and total output decrease by an average of \$156.2 million and \$263.9 million, respectively
 - This decrease in economic activity is driven mainly by the decrease in in-state consumption that comes from two key factors: (1) the decrease in population; and (2) a portion of consumers' increased after-tax income being spent on out-of-state goods and services. Specifically, disposable personal income will increase by an average of \$162.8 million
 - The static impact of the tax cut is a \$276.4 million loss in state revenue per year, but the increase in economic activity created by the increase in consumer after-tax personal income generates an average increase in annual revenue of \$300,000. Thus, the total revenue decrease under dynamic scoring averages approximately -\$276.1 million
 - This means that 0.1% of the static revenue loss is recovered

Option B Overview



- Option B would:
 - ▣ Reduce the number of individual income tax tables from 3 to 1
 - ▣ Lower the top marginal rate for individuals from 6.9% to 6.5%
- Option B would reduce Arkansas state income tax revenue by \$125,766,677, based on a state impact analysis
- Analyzed in combination with refundable EITC worth \$80 million

Option B	
Individual Income Tax Bracket	Tax Rate
\$0-\$4,299	0.9%
\$4,300-\$8,399	2.4%
\$8,400-\$12,599	3.4%
\$12,600-\$20,999	4.4%
\$21,000-\$35,099	5.0%
\$35,100-\$80,000	6.0%
\$80,000+	6.5%

Option B Analysis



- As with the previous options, REMI used three approaches to evaluation Option B:
 - ▣ Assessing changes in business production costs
 - ▣ Assessing changes to disposable personal income
 - ▣ Blended approach taking both production costs and disposable personal income into consideration

Option B Scenarios



Scenarios Reflecting Range of Outcomes from REMI Tax-PI Dynamic Fiscal Analysis

1. Both direct personal income tax and business cost decreases with no reduction in general state government expenditures
2. Both direct personal income tax and business cost decreases with equal reduction in general state government expenditures
3. Business cost decrease with no direct reduction in general state government expenditures
4. Business cost decrease with equal direct reduction in general state government expenditures
5. Direct personal income tax decrease with no direct reduction in general state government expenditures
6. Direct personal income tax decrease with equal direct reduction in general state government expenditures

Option B Scenario 1

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
\$12,600 - \$20,999	Nominal Millions	\$0.04	\$0.06	\$0.07	\$0.07	\$0.07	\$0.06
\$21,000 - \$35,099	Nominal Millions	\$0.16	\$0.22	\$0.26	\$0.27	\$0.28	\$0.24
\$35,100 - \$80,000	Nominal Millions	\$0.52	\$0.71	\$0.82	\$0.88	\$0.90	\$0.77
\$80,000+	Nominal Millions	\$1.19	\$1.60	\$1.86	\$2.00	\$2.04	\$1.74

what does **REMI** say? sm

Option B Scenario 1

Direct Personal Income Tax Decrease & Private Non-Farm Production Cost Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,222	2,195	2,958	3,511	3,888	2,755
Total Employment	Individuals	1,637	1,939	2,024	1,963	1,846	1,882
Government Employment	Individuals	100	163	201	219	226	182
Private Non-Farm Employment	Individuals	1,538	1,776	1,823	1,743	1,620	1,700
Gross State Product (Value-Added)	Nominal Millions	\$117.3	\$143.4	\$154.8	\$156.0	\$152.1	\$144.7
Output (Industry Sales)	Nominal Millions	\$195.1	\$238.3	\$256.5	\$257.6	\$250.3	\$239.6
Disposable Personal Income	Nominal Millions	\$264.1	\$292.1	\$309.9	\$319.6	\$323.0	\$301.7
Government Revenue	Nominal Millions	-\$197.1	-\$195.5	-\$194.4	-\$193.8	-\$193.5	-\$194.9
Government Expenditure	Nominal Millions	\$2.3	\$4.3	\$5.9	\$7.1	\$8.0	\$5.6
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$199.5	-\$199.8	-\$200.3	-\$201.0	-\$201.5	-\$200.4

Option B Scenario 1 Analysis



- The first scenario follows the blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source:
 - The annual **increase** in Arkansas' population rises from **1,222** in 2019 to **3,888** in 2023, with a 5-year average annual **increase** of **2,755**
 - This is largely driven by higher after-tax compensation rates and employment opportunities, both of which raise the level of economic in-migration.
 - Total employment **rises** by an average of **1,882**, of which **90.3%** comes from private non-farm sectors and **9.7%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total output **increase** by an average of **\$144.7 million** and **\$239.6 million**, respectively
 - This increase in economic activity is driven mainly by three key factors: (1) the influx of new population; (2) the increase in disposable personal income generated by lower personal income taxes; and (3) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **\$301.7 million**.
 - The static impact of the tax cut is a **\$205.8 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$194.9 million**
 - This means that **5.3%** of the static revenue loss is recovered

Option B Scenario 2

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$12,600 - \$20,999	Nominal Millions	-\$0.04	-\$0.04	-\$0.05	-\$0.05	-\$0.05	-\$0.05
\$21,000 - \$35,099	Nominal Millions	-\$0.16	-\$0.16	-\$0.17	-\$0.18	-\$0.19	-\$0.17
\$35,100 - \$80,000	Nominal Millions	-\$0.53	-\$0.53	-\$0.55	-\$0.58	-\$0.60	-\$0.56
\$80,000+	Nominal Millions	-\$1.19	-\$1.20	-\$1.25	-\$1.31	-\$1.37	-\$1.27

what does **REMI** say? sm

Option B Scenario 2

Direct Personal Income Tax Decrease & Private Non-Farm Production
Cost Decrease with Direct State Expenditure Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-66	-102	-132	-168	-209	-135
Total Employment	Individuals	-1,922	-1,707	-1,607	-1,547	-1,511	-1,659
Government Employment	Individuals	-1,558	-1,519	-1,481	-1,437	-1,397	-1,478
Private Non-Farm Employment	Individuals	-363	-188	-126	-110	-114	-180
Gross State Product (Value-Added)	Nominal Millions	-\$124.8	-\$112.7	-\$108.4	-\$107.6	-\$108.2	-\$112.3
Output (Industry Sales)	Nominal Millions	-\$212.9	-\$190.5	-\$181.5	-\$178.3	-\$177.6	-\$188.2
Disposable Personal Income	Nominal Millions	\$106.7	\$106.1	\$103.0	\$99.2	\$95.1	\$102.0
Government Revenue	Nominal Millions	-\$206.1	-\$206.0	-\$206.2	-\$206.4	-\$206.5	-\$206.2
Government Expenditure	Nominal Millions	-\$207.0	-\$208.0	-\$208.7	-\$209.4	-\$210.0	-\$208.6
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	\$0.9	\$1.9	\$2.6	\$3.0	\$3.4	\$2.4

Option B Scenario 2 Analysis



- The second scenario also follows the blended approach, accounting for both a direct personal income tax decrease and lower business costs, where the mix between the two is based on a ratio of state earnings by source. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut:
 - The annual **decrease** in Arkansas' population rises from **66** in 2019 to **209** in 2023, with a 5-year average annual **decrease** of **135**
 - This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.
 - Total employment **falls** by an average of **1,659**, of which **10.9%** comes from private non-farm sectors and **89.1%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total output **decrease** by an average of **\$112.3 million** and **\$188.2 million**, respectively.
 - This decrease in economic activity is driven mainly by two key factors: (1) the decrease in population; and (2) the decrease in government expenditures. Disposable personal income **increases** by an average of **\$102.0 million**.
 - The static impact of the tax cut is a **\$205.8 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue **loss** averages **\$206.2 million**
 - This means that the static revenue loss is **increased** by another **0.2%**.

Option B Scenario 3

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
\$12,600 - \$20,999	Nominal Millions	\$0.04	\$0.06	\$0.07	\$0.09	\$0.10	\$0.07
\$21,000 - \$35,099	Nominal Millions	\$0.14	\$0.22	\$0.28	\$0.33	\$0.37	\$0.27
\$35,100 - \$80,000	Nominal Millions	\$0.44	\$0.69	\$0.90	\$1.07	\$1.20	\$0.86
\$80,000+	Nominal Millions	\$1.00	\$1.58	\$2.05	\$2.44	\$2.72	\$1.96

what does **REMI** say? sm

Option B Scenario 3

Direct Private Non-Farm Production Cost Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	831	1,664	2,453	3,151	3,736	2,367
Total Employment	Individuals	1,559	2,194	2,607	2,837	2,952	2,430
Government Employment	Individuals	76	141	193	231	259	180
Private Non-Farm Employment	Individuals	1,483	2,053	2,414	2,606	2,693	2,250
Gross State Product (Value-Added)	Nominal Millions	\$104.3	\$154.1	\$190.9	\$217.0	\$234.8	\$180.2
Output (Industry Sales)	Nominal Millions	\$180.6	\$268.3	\$332.5	\$377.6	\$408.4	\$313.5
Disposable Personal Income	Nominal Millions	\$66.3	\$104.9	\$137.0	\$162.9	\$182.4	\$130.7
Government Revenue	Nominal Millions	-\$201.1	-\$198.8	-\$196.9	-\$195.4	-\$194.2	-\$197.3
Government Expenditure	Nominal Millions	\$1.7	\$3.6	\$5.4	\$7.1	\$8.7	\$5.3
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$202.8	-\$202.4	-\$202.3	-\$202.5	-\$202.8	-\$202.6

Option B Scenario 3 Analysis



- The third scenario treats 100% of the personal income tax cut as a decrease in business costs:
 - The annual **increase** in Arkansas' population rises from **831** in 2019 to **3,736** in 2023, with a 5-year average annual **increase** of **2,367**
 - This is largely driven by higher employment opportunities, which raises the level of economic immigration.
 - Total employment **rises** by an average of **2,430**, of which **92.6%** comes from private non-farm sectors and **7.4%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total output increase by an average of **\$180.2 million** and **\$313.5 million**, respectively
 - This **increase** in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **\$130.7 million**.
 - The static impact of the tax cut is a **\$205.8 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$197.3 million**
 - This means that **4.1%** of the static revenue loss is recovered

Option B Scenario 4

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$12,600 - \$20,999	Nominal Millions	-\$0.05	-\$0.04	-\$0.04	-\$0.03	-\$0.03	-\$0.04
\$21,000 - \$35,099	Nominal Millions	-\$0.19	-\$0.17	-\$0.15	-\$0.12	-\$0.09	-\$0.14
\$35,100 - \$80,000	Nominal Millions	-\$0.61	-\$0.54	-\$0.47	-\$0.38	-\$0.30	-\$0.46
\$80,000+	Nominal Millions	-\$1.38	-\$1.23	-\$1.06	-\$0.87	-\$0.69	-\$1.05

what does **REMI** say? sm

Option B Scenario 4

Direct Private Non-Farm Production Cost Decrease with Direct State Expenditure Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-459	-634	-639	-532	-365	-526
Total Employment	Individuals	-2,002	-1,454	-1,026	-675	-408	-1,113
Government Employment	Individuals	-1,582	-1,541	-1,489	-1,424	-1,364	-1,480
Private Non-Farm Employment	Individuals	-420	87	463	750	957	367
Gross State Product (Value-Added)	Nominal Millions	-\$137.9	-\$102.1	-\$72.5	-\$46.8	-\$25.7	-\$77.0
Output (Industry Sales)	Nominal Millions	-\$227.6	-\$160.9	-\$105.9	-\$58.6	-\$19.9	-\$114.6
Disposable Personal Income	Nominal Millions	-\$91.2	-\$81.3	-\$70.1	-\$57.6	-\$45.7	-\$69.2
Government Revenue	Nominal Millions	-\$210.1	-\$209.4	-\$208.7	-\$207.9	-\$207.2	-\$208.7
Government Expenditure	Nominal Millions	-\$207.6	-\$208.7	-\$209.2	-\$209.4	-\$209.4	-\$208.9
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$2.5	-\$0.7	\$0.6	\$1.5	\$2.1	\$0.2

Option B Scenario 4 Analysis



- The fourth scenario also treats 100% of the personal income tax cut as a decrease in business costs. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut:
 - The annual **decrease** in Arkansas' population falls from **459** in 2019 to **365** in 2023, with a 5-year average annual **decrease** of **526**. This is largely driven by lower employment opportunities, which lowers the level of economic in-migration.
 - Employment in the private non-farm sectors **increases** annually over the next 5 years by an average of **367** jobs while government sector employment **declines** by an average of **1,480** jobs, creating an average total employment **decline** of **1,113** jobs
 - Additionally, Gross State Product (GSP) and Total Output decline by an average of **\$77.0 million** and **\$114.6 million**, respectively
 - This decline in economic activity is driven mainly by two key factors: (1) the decline in population; and (2) a decrease in disposable personal income caused by a decline in government employment. Disposable personal income **decreases** by an average of **\$69.2 million**.
 - The static impact of the tax cut is a **\$205.8 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue loss averages **\$208.7 million**
 - This means that the static revenue loss is **increased** by another **1.4%**

Option B Scenario 5

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
\$12,600 - \$20,999	Nominal Millions	\$0.04	\$0.06	\$0.07	\$0.07	\$0.07	\$0.06
\$21,000 - \$35,099	Nominal Millions	\$0.17	\$0.22	\$0.25	\$0.27	\$0.27	\$0.24
\$35,100 - \$80,000	Nominal Millions	\$0.53	\$0.71	\$0.81	\$0.86	\$0.87	\$0.75
\$80,000+	Nominal Millions	\$1.21	\$1.60	\$1.84	\$1.95	\$1.97	\$1.71

what does **REMI** say? sm

Option B Scenario 5

Direct Personal Income Tax Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	1,266	2,254	3,014	3,552	3,905	2,798
Total Employment	Individuals	1,646	1,910	1,958	1,865	1,723	1,820
Government Employment	Individuals	102	165	201	218	222	182
Private Non-Farm Employment	Individuals	1,544	1,745	1,757	1,647	1,500	1,639
Gross State Product (Value-Added)	Nominal Millions	\$118.7	\$142.2	\$150.7	\$149.2	\$142.9	\$140.7
Output (Industry Sales)	Nominal Millions	\$196.7	\$235.0	\$248.0	\$244.2	\$232.7	\$231.3
Disposable Personal Income	Nominal Millions	\$286.2	\$313.1	\$329.3	\$337.1	\$338.8	\$320.9
Government Revenue	Nominal Millions	-\$196.7	-\$195.1	-\$194.1	-\$193.6	-\$193.4	-\$194.6
Government Expenditure	Nominal Millions	\$2.4	\$4.4	\$6.0	\$7.1	\$8.0	\$5.6
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$199.1	-\$199.5	-\$200.1	-\$200.8	-\$201.4	-\$200.2

Option B Scenario 5



- The fifth scenario treats 100% of the personal income tax cut as a direct decrease in personal income taxes.
 - The annual **increase** in Arkansas' population rises from **1,266** in 2019 to **3,905** in 2023, with a 5-year average annual **increase** of **2,798**
 - This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.
 - Total employment **rises** by an average of **1,820**, of which **90.1%** comes from private non-farm sectors and **9.9%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total output **increase** by an average of **\$140.7 million** and **\$231.3 million**, respectively
 - This increase in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the increase in disposable personal income generated by lower personal income taxes. Specifically, disposable personal income **increases** by an average of **\$320.9 million**.
 - The static impact of the tax cut is a **\$205.8 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$194.6 million**
 - This means that **5.4%** of the static revenue loss is recovered

Option 5 Scenario 6

Dynamic Personal Income Tax Revenue Impact by Income Bracket



Income Bracket	Units	2019	2020	2021	2022	2023	Average
\$0 - \$4,299	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$4,300 - \$8,399	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$8,400 - \$12,599	Nominal Millions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
\$12,600 - \$20,999	Nominal Millions	-\$0.04	-\$0.04	-\$0.05	-\$0.05	-\$0.05	-\$0.05
\$21,000 - \$35,099	Nominal Millions	-\$0.16	-\$0.16	-\$0.17	-\$0.19	-\$0.20	-\$0.18
\$35,100 - \$80,000	Nominal Millions	-\$0.52	-\$0.53	-\$0.56	-\$0.60	-\$0.64	-\$0.57
\$80,000+	Nominal Millions	-\$1.17	-\$1.20	-\$1.27	-\$1.36	-\$1.45	-\$1.29

what does **REMI** say? sm

Option B Scenario 6

Direct Personal Income Tax Decrease with Direct State Expenditure Decrease



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-23	-42	-75	-128	-191	-92
Total Employment	Individuals	-1,913	-1,736	-1,672	-1,644	-1,634	-1,720
Government Employment	Individuals	-1,556	-1,516	-1,480	-1,438	-1,401	-1,478
Private Non-Farm Employment	Individuals	-357	-219	-191	-206	-234	-242
Gross State Product (Value-Added)	Nominal Millions	-\$123.4	-\$113.8	-\$112.5	-\$114.4	-\$117.4	-\$116.3
Output (Industry Sales)	Nominal Millions	-\$211.3	-\$193.8	-\$190.0	-\$191.7	-\$195.2	-\$196.4
Disposable Personal Income	Nominal Millions	\$128.8	\$127.0	\$122.4	\$116.8	\$110.9	\$121.2
Government Revenue	Nominal Millions	-\$205.7	-\$205.7	-\$205.9	-\$206.2	-\$206.5	-\$206.0
Government Expenditure	Nominal Millions	-\$206.9	-\$207.9	-\$208.7	-\$209.4	-\$210.0	-\$208.6
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	\$1.3	\$2.2	\$2.8	\$3.2	\$3.6	\$2.6

Option B Scenario 6 Analysis



- The sixth scenario also treats 100% of the personal income tax cut as a direct decrease in personal income taxes. In addition, this scenario accounts for a cut in general state government expenditures equal to the size of the personal income tax cut:
 - The annual **decline** in Arkansas' population rises from **23** in 2019 to **191** in 2023, with a 5-year average annual decrease of **92**
 - This is largely driven by higher after-tax compensation rates raising the level of economic in-migration.
 - Total employment **decreases** by an average of **1,720**, of which **14.1%** comes from private non-farm sectors and **85.9%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total output **decrease** by an average of **\$116.3 million** and **\$196.4 million**, respectively
 - This decrease in economic activity is driven mainly by the decrease in in-state consumption that comes from two key factors: (1) the decrease in population; and (2) a portion of consumers' increased after-tax income being spent on out-of-state goods and services. Specifically, disposable personal income will **increase** by an average of **\$121.2 million**.
 - The static impact of the tax cut is a **\$205.8 million loss** in state revenue per year, and the decrease in economic activity generates an additional loss. Thus, the total revenue **loss** averages **\$206.0 million**
 - This means that the static revenue **loss** is increased by another **0.1%**.

Corporate Income Tax Rate Overview



- The proposal under consideration reduces the top marginal corporate income tax rate for individuals from 6.5% to 6%
- The total static fiscal impact of the proposal is a reduction in Arkansas state corporate income tax revenue of \$32,000,000

Corporate Income Tax Rate Scenario

Corporate Income Revenue and Production Costs Decrease by \$32M



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	101	198	289	368	436	279
Total Employment	Individuals	233	324	382	413	429	356
Government Employment	Individuals	10	19	25	30	34	24
Private Non-Farm Employment	Individuals	223	305	357	383	396	333
Gross State Product (Value-Added)	Nominal Millions	\$15.6	\$22.8	\$28.0	\$31.7	\$34.3	\$26.5
Output (Industry Sales)	Nominal Millions	\$27.1	\$39.8	\$49.0	\$55.4	\$60.0	\$46.3
Disposable Personal Income	Nominal Millions	\$8.9	\$13.8	\$17.7	\$20.8	\$23.3	\$16.9
Government Revenue	Nominal Millions	-\$31.3	-\$31.0	-\$30.8	-\$30.6	-\$30.4	-\$30.8
Government Expenditure	Nominal Millions	\$0.2	\$0.4	\$0.6	\$0.8	\$1.0	\$0.6

Corporate Income Tax Rate Analysis



□ Key results:

- The annual **increase** in Arkansas' population rises from **101** in 2019 to **436** in 2023, with a 5-year average annual **increase** of **279**. This is largely driven by higher employment opportunities, which raises the level of economic in-migration.
- Total employment **rises** by an average of **356**, of which **93.5%** comes from private non-farm sectors and **6.5%** comes from the government sector.
 - Additionally, Gross State Product (GSP) and total output **increase** by an average of **\$26.5 million** and **\$46.3 million**, respectively.
 - This increase in economic activity is driven mainly by two key factors: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **\$16.9 million**.
- The static impact of the tax cut is a **\$32.0 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$30.8 million**. This means that **3.8%** of the static revenue **loss** is recovered.

Single Sales Factor Overview



- Proposal would amend Arkansas corporate income tax base by implementing a Single Sales Factor
 - SSF apportionment system only considers % of sales that occur in-state to determine each corporation's % of net income that is taxable in the state
 - Existing system also factors in the corporation's percentages of payroll and property that exist in Arkansas
 - Currently, the sales factor has double the weight of each of the payroll and property factors

Single Sales Factor Scenario

SSF Enactment; Revenue and Production Costs Increase by \$9M



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-34	-67	-98	-125	-147	-94
Total Employment	Individuals	-62	-86	-101	-109	-112	-94
Government Employment	Individuals	-3	-6	-8	-10	-11	-8
Private Non-Farm Employment	Individuals	-58	-80	-93	-99	-101	-86
Gross State Product (Value-Added)	Nominal Millions	-\$4.8	-\$7.0	-\$8.6	-\$9.7	-\$10.5	-\$8.1
Output (Industry Sales)	Nominal Millions	-\$8.1	-\$11.9	-\$14.6	-\$16.5	-\$17.7	-\$13.8
Disposable Personal Income	Nominal Millions	-\$2.8	-\$4.4	-\$5.7	-\$6.7	-\$7.4	-\$5.4
Government Revenue	Nominal Millions	\$8.8	\$8.7	\$8.6	\$8.5	\$8.5	\$8.6
Government Expenditure	Nominal Millions	-\$0.1	-\$0.1	-\$0.2	-\$0.3	-\$0.3	-\$0.2
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	\$8.8	\$8.8	\$8.8	\$8.8	\$8.8	\$8.8

SSF Analysis



□ Key results

- Annual **decrease** in Arkansas' population rises from **34** in 2019 to **147** in 2023, with a 5-year average annual **decrease** of **94**
 - Largely driven by lower employment opportunities, which reduces economic in-migration
- Total employment **falls** by an average of **94**, of which **91.5%** comes from private non-farm sectors and **8.5%** comes from the government sector.
- Gross State Product (GSP) and total output **decrease** by an average of **\$8.1 million** and **\$13.8 million**, respectively.
 - Loss of new population; and the increase in business costs which makes Arkansas industries less competitive with imports. Disposable personal income **decreases** by an average of **\$5.4 million**
- Static impact of the tax cut is a **\$9.0 million gain** in state revenue per year, but decrease in economic activity results total revenue **gain** averages **\$8.6 million**. This means that **4.4%** of the static revenue gain is lost

Throwback Rule Repeal Overview



- Proposal would repeal the state's Throwback Rule, in which Arkansas business' out-of-state sales that are not taxed by any other jurisdiction are "thrown back" to be taxed by Arkansas
- Total static fiscal impact of the proposal is a reduction in Arkansas state corporate income tax revenue of \$25,000,000

Throwback Rule Repeal Scenario

Corporate Income Revenue and Production Costs Decrease by \$25M



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	37	76	114	149	181	111
Total Employment	Individuals	88	132	163	182	194	152
Government Employment	Individuals	4	8	12	15	17	11
Private Non-Farm Employment	Individuals	83	124	152	168	177	141
Gross State Product (Value-Added)	Nominal Millions	\$7.4	\$11.8	\$15.3	\$18.0	\$20.0	\$14.5
Output (Industry Sales)	Nominal Millions	\$14.3	\$23.2	\$30.3	\$35.7	\$39.9	\$28.7
Disposable Personal Income	Nominal Millions	\$3.8	\$6.3	\$8.4	\$10.2	\$11.6	\$8.0
Government Revenue	Nominal Millions	-\$24.7	-\$24.6	-\$24.4	-\$24.3	-\$24.2	-\$24.5
Government Expenditure	Nominal Millions	\$0.1	\$0.2	\$0.3	\$0.3	\$0.4	\$0.3
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$24.8	-\$24.7	-\$24.7	-\$24.7	-\$24.7	-\$24.7

Throwback Rule Repeal Analysis



□ Key results:

- Annual **decrease** in Arkansas' population rises from **34** in 2019 to **147** in 2023, with a 5-year average annual **decrease** of **94**. Largely driven by lower employment opportunities, which reduces economic in-migration
- Total employment **falls** by an average of **94**, of which **91.5%** comes from private non-farm sectors and **8.5%** comes from the government sector.
- Gross State Product (GSP) and total output **decrease** by an average of **\$8.1 million** and **\$13.8 million**, respectively.
 - Loss of new population; and the increase in business costs which makes Arkansas industries less competitive with imports. Disposable personal income **decreases** by an average of **\$5.4 million**
- Static impact of the tax cut is a **\$25.0 million loss** in state revenue per year, but the increase in economic activity partially offsets the loss. Thus, the total revenue **loss** averages **\$24.5 million**. This means that **2.0%** of the static revenue loss is recovered

Franchise Tax Overview



- Proposal would repeal Arkansas franchise tax
 - The total static fiscal impact of the proposal is a reduction in Arkansas state tax revenue of \$29,000,000
 - Currently, all franchise tax revenue over \$8 million is put into a special revenue fund that is earmarked for K-12 education
 - Thus, repeal is analyzed in combination with a decrease in general state government expenditures of \$21,000,000 to model scenario in which the lost education funding is made up elsewhere in state budget

Franchise Tax Scenario

Franchise Tax Repeal: Revenue and Production Costs Decrease by \$29M



Results	Units	2019	2020	2021	2022	2023	Average
Population	Individuals	-60	-90	-101	-101	-92	-89
Total Employment	Individuals	-230	-181	-142	-109	-85	-149
Government Employment	Individuals	-162	-158	-153	-146	-140	-152
Private Non-Farm Employment	Individuals	-68	-23	11	37	55	2
Gross State Product (Value-Added)	Nominal Millions	-\$13.5	-\$9.2	-\$5.6	-\$2.5	\$0.0	-\$6.1
Output (Industry Sales)	Nominal Millions	-\$22.5	-\$14.6	-\$8.0	-\$2.4	\$2.2	-\$9.1
Disposable Personal Income	Nominal Millions	-\$10.0	-\$9.2	-\$8.3	-\$7.2	-\$6.2	-\$8.2
Government Revenue	Nominal Millions	-\$29.4	-\$29.4	-\$29.3	-\$29.2	-\$29.2	-\$29.3
Government Expenditure	Nominal Millions	-\$21.2	-\$21.4	-\$21.4	-\$21.5	-\$21.5	-\$21.4
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	-\$8.2	-\$8.0	-\$7.9	-\$7.7	-\$7.7	-\$7.9

Franchise Tax Analysis



□ Key results:

- Annual **decrease** in Arkansas' population rises from **60** in 2019 to **92** in 2023, with a 5-year average annual **decrease** of **89**
 - Largely driven by lower employment opportunities, which lowers the level of economic in-migration.
- Total employment **falls** by an average of **149**, though the decline is concentrated in government sector; private non-farm employment sees small average increase
- Additionally, Gross State Product (GSP) and total output **decrease** by an average of **\$6.1 million** and **\$9.1 million**, respectively.
 - Loss of new population
 - Decline in general state government expenditures.
 - Disposable personal income **decreases** by an average of **\$8.2 million**.
- Static impact of tax cut is a **\$29.0 million loss** in state revenue per year, and decrease in economic activity generates an additional loss. Thus, the total revenue **loss** averages **\$29.3 million**. This means that the static revenue **loss** is increased by another **1.0%**.
- Largely as a result of decrease in population and GDP, state government expenditures **decrease** by an average of **\$400,000** over and above the **\$21.0 million decrease** in expenditures corresponding to loss of K-12 funding, for a total **decrease** of **\$21.4 million**

*what does **REMI** say? sm*

Inventory Tax Overview



- This proposal would repeal the Arkansas inventory tax
 - ▣ There is no direct static fiscal impact of the proposal on the state budget; the inventory tax falls under local property taxes
 - ▣ \$70,000,000 decrease in local taxes could result in K-12 education funding discrepancies between counties that state government may need to equalize

Repeal Inventory Tax Scenario

Inventory Tax Repeal: Production Costs Decrease by \$70M



Results	Units	2019	2020	2021	2022	2023
Population	Individuals	183	360	526	670	789
Total Employment	Individuals	314	442	525	570	591
Government Employment	Individuals	18	33	45	54	61
Private Non-Farm Employment	Individuals	296	409	480	515	530
Gross State Product (Value-Added)	Nominal Millions	\$26.2	\$39.6	\$49.7	\$57.1	\$62.5
Output (Industry Sales)	Nominal Millions	\$48.2	\$73.7	\$93.1	\$107.5	\$118.0
Disposable Personal Income	Nominal Millions	\$14.6	\$23.2	\$30.3	\$36.0	\$40.3
Government Revenue	Nominal Millions	\$1.9	\$2.5	\$2.9	\$3.2	\$3.5
Government Expenditure	Nominal Millions	\$0.4	\$0.7	\$1.1	\$1.5	\$1.8
<u>NET REVENUE</u> (Gov Rev, less Gov Exp)	Nominal Millions	\$1.6	\$1.7	\$1.8	\$1.8	\$1.8

Repeal Inventory Tax Scenario



- Key Results:
 - Annual **increase** in state population rises from **183** in 2019 to **789** in 2023, with a 5-year average annual **increase** of **506**
 - Higher employment opportunities increases economic in-migration.
 - Total employment **rises** by an average of **488**, of which **91.4%** comes from private non-farm sectors and **8.6%** comes from the government sector
 - Additionally, Gross State Product (GSP) and total output **increase** by an average of **\$47.0 million** and **\$88.1 million**, respectively.
 - This increase in economic activity is driven mainly: (1) the influx of new population; and (2) the decrease in business costs which makes Arkansas industries more competitive with imports. Disposable personal income **increases** by an average of **\$28.9 million**.
 - Static impact of the tax cut is **\$0.0 million** in state revenue per year, but the increase in economic activity generates a gain in state revenue. Thus, the total state revenue **gain** averages **\$2.8 million**



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