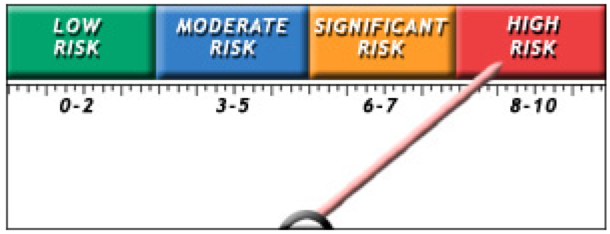
CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

ARKANSAS

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Arkansas is rated as having a high risk of a structural deficit based on its score of nine on the risk scale for structural deficits.



- In Arkansas, the percent of sales subject to sales tax declined by 10.1 percentage points from 1990-2003, exceeding the US median decline of 8.0 percentage points.

- Arkansas has significant loopholes in its corporate income tax.

- Arkansas could lose an estimated $230 to $360 million in revenue a year due to the growth of e-commerce. This loss is greater than the national average as a share of total revenue.

- Arkansas provides preferences to seniors in its property tax, regardless of their income level.

- The top bracket of Arkansas' income tax starts at a relatively low level making it a less progressive tax. An individual earning $30,000 in Arkansas pays income tax at the same rate as someone earning $300,000.

- During 1994-2000, Arkansas cut income taxes and reduced the capital gains tax rate, while increasing its sales tax and gasoline tax. Then during 2001-2004, Arkansas increased personal income taxes, corporate income taxes, the cigarette tax and the sales tax. However, the increase in the sales tax was far greater than the increase in the income taxes. This is problematic since income taxes provide stronger growth over the long term than sales and excise taxes.

- Arkansas has two limits that restrict the growth in revenue from property taxes: a property tax revenue limit and an assessment increase limit. It also has a supermajority requirement to increase tax rates. Taxes that were enacted after 1934 — such as sales and alcohol taxes — are exempt.

- Arkansas remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated $25 million per year.

- Two other national studies (Hovey 1998 and Boyd 2002) found that Arkansas has a structural gap.

- Lastly, although this paper did not categorize Arkansas as having unusually high spending needs, it does face some spending pressures from: the number of non-elderly disabled people and the number of students with special needs.