

Recent State Income Tax Rate Changes for Individuals and Corporations



Ashley Edwards
aedwards@mwlaw.com
(501) 688.8878

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Despite rising inflation and interest rates, some Arkansas individuals and corporations can look forward to relief when filing their state income tax returns for this year and next year. Such relief will come in the form of reduced state income tax rates and an individual income tax credit. In August Governor Hutchinson signed legislation that reduces top individual and corporate income tax rates and creates an inflationary relief income tax credit for individual taxpayers. Reductions in individual and corporate income tax rates were scheduled to take effect in 2025, but the state's large revenue surplus as of June 30, 2022, allows these rate reductions to be implemented 3 years early.

For Arkansas individuals, trusts and estates, the top income tax rate is reduced from 5.5% to 4.9% for tax years beginning on or in January 1, 2022. The bracket adjustment amounts for the top individual income tax bracket have also been reduced based on the reduced tax rates. Every Arkansas individual, trust or estate having net income greater than or equal to \$84,501 but less than \$89,100 are able to reduce the amount of income tax due. For individuals, trusts and estates with net income greater than \$84,501 but less than \$84,600, the amount of income tax due is reduced by \$460. The bracket adjustment amounts are reduced by \$10 for every \$100 increase in net income and are phased out for net income of \$89,101 and more.

In addition to reduced individual income tax rates, Arkansas individuals may be eligible to receive the inflationary relief income tax credit for the tax year beginning January 1, 2022. A resident individual taxpayer filing a state full-year resident income tax return, other than a joint return, with net income up to \$101,000 is allowed an individual income tax credit. The maximum credit amount is \$150 for individual Arkansas taxpayers with net income up to \$87,000. The maximum credit amount decreases by \$10 for every \$100 of net income over \$87,000 and is phased out for individual taxpayers with net income of \$101,001 or more.

For spouses that file separately on the same state income tax return, one credit against the tax on such return may be claimed by each spouse. For individual taxpayers filing a joint Arkansas full-year resident income tax return with net income up to \$202,000 are allowed an individual tax credit. The top credit amount for joint filers is \$300 for taxpayers with net income up to \$174,000. The \$300 credit decreases by \$20 for every \$200 of net income over \$174,000 and is phased out for joint filers with net income of \$202,001 or more. Spouses filing jointly on the same income tax return are only allowed one credit against their aggregate tax.

The legislation defines "resident" as natural persons and includes for purposes of determining tax liability under Arkansas law, any person domiciled in the State of Arkansas and any other person who maintains a permanent place of abode within Arkansas and spends in the aggregate more than six months of the taxable year within the state. The inflationary relief income tax credit cannot be claimed by a taxpayer for

any tax year other than the tax year beginning on January 1, 2022. Taxpayers filing a nonresident income tax return or a part-year resident income tax return are not eligible for the inflationary relief tax credit.

In addition to the income tax rate reduction for individuals, the legislation provides for the reduction of corporate income tax rates for tax years beginning on or after January 1, 2023. Corporate income tax rate is reduced from 5.9% to 5.3%. The corporate income tax rates apply to every corporation organized under the laws of the state. Therefore, corporations domiciled in states other than Arkansas but doing business in Arkansas are subject to the reduced corporate income tax rates.

The legislation also changes how Arkansas businesses claim deductions for depreciation and expensing of property. This change makes Arkansas law similar to depreciation schedules in section 179 of the federal tax laws. For tax years beginning on or after January 1, 2022, Arkansas businesses can claim deductions for the purchase of new or used equipment up to \$1 million in a single year. Prior to the legislation, the amount that could be deducted was limited to \$25,000 and deductions were required to be spread out over the life of the equipment.

Many Arkansas individuals and businesses are feeling the effects of rising inflation and interest rates. These recent state tax law changes return some of the state's excess revenue collections to some Arkansas taxpayers helping to minimize the effects many are experiencing.