

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1016

Bill Subtitle: TO CREATE THE INFLATION REDUCTION ACT OF 2023.

Basic Change :

Sponsors: Rep. Ray and Sen. J. Dismang

HB1016 creates the Inflation Reduction Act of 2023 to repeal the cap on annual inflation adjustments to the individual income tax tables and standard deduction. Under §§ 26-51-201 and -430, the Department of Finance and Administration (DFA) annually adjusts both the individual income tax tables and the standard deduction based on increases in the Consumer Price Index (CPI) for All Urban Consumers. However, the inflation adjustment in any single year cannot exceed 3%.

Under HB1016, the 3% cap is repealed, and the annual inflation adjustment would be based on the CPI for the West South Central Division of the South Region instead of the CPI for All Urban Consumers.

HB1016 is effective for tax years beginning on or after January 1, 2023.

Revenue Impact :

FY2023 – Up to \$32.6 million General Revenue Reduction.

FY2024 – Up to \$65 million General Revenue Reduction.

[Revenue impact is based upon 8.508% CPI for the West South Central Division of the South Region for the annual period ending August 31, 2022. If the CPI rate is less than 8.508% for the annual period ending August 31, 2023, the revenue impact would be less. No revenue impacted is anticipated for FY2025 due to anticipated slowing CPI increases.]

Taxpayer Impact :

A taxpayer will benefit from the reduced tax liability because of the additional potential increase in the standard deduction and adjustments to the individual income tax tables during periods of inflation that exceed the current 3% cap under Arkansas law.

Resources Required :

Computer programs, tax forms, and instructions will need to be updated.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Department employees will need to be educated as well as the tax community.

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Other Comments :

None.

Legal Analysis :

None.