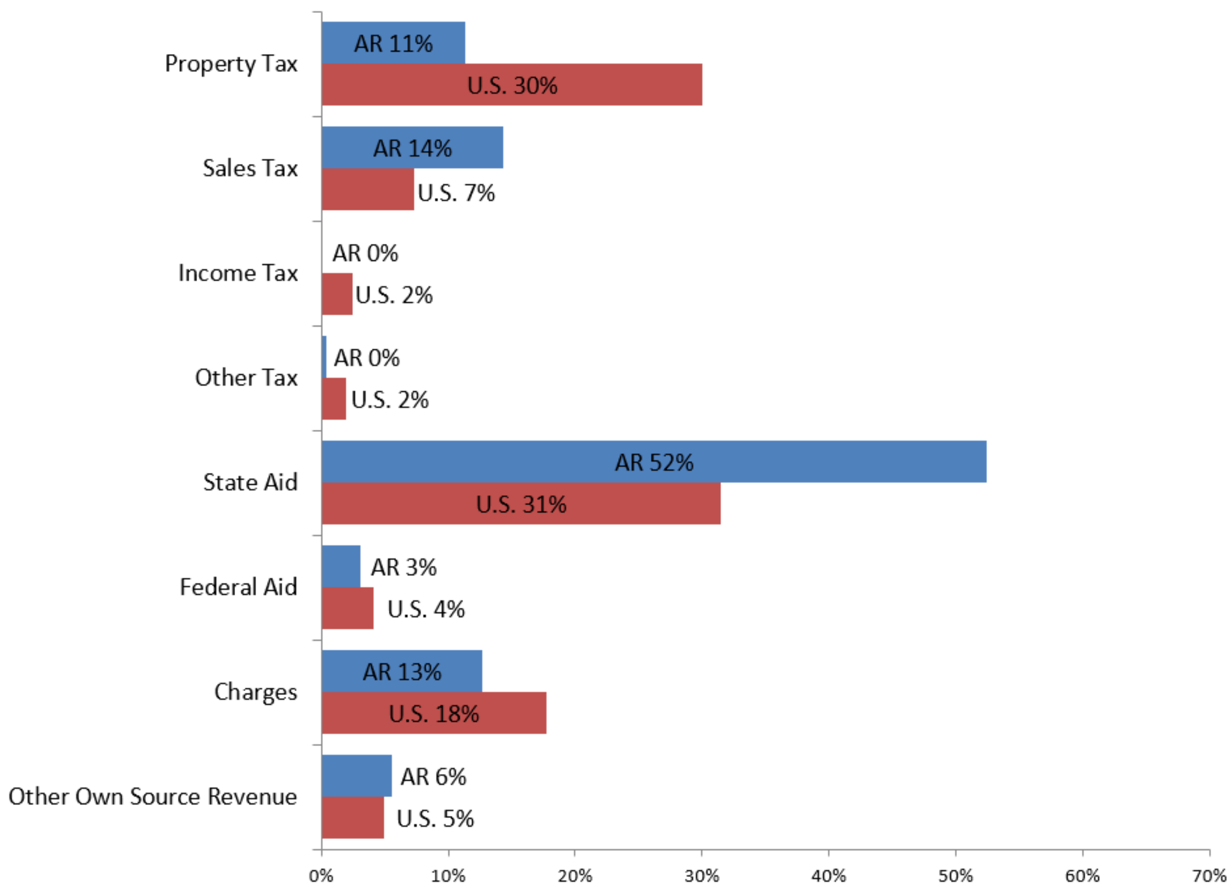
Arkansas

Highlights

Arkansas is one of the least property-tax-reliant states in the country. One reason for this low reliance is the increased state aid for schools that has resulted from decades of school funding litigation. State aid is a much greater contributor to local general revenue in Arkansas than for the average state (figure AR-1).

Another reason for the state's low reliance on the property tax is that most of its cities and counties levy sales taxes. Arkansas is heavily dependent on the sales tax; the average combined state and local sales rate was 9.4 percent in 2019. Only Louisiana and Tennessee had higher average combined sales tax rates (Cammenga 2019).

Figure AR-1
Sources of Local General Revenue, Arkansas and U.S., 2017



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

The property tax burden in Arkansas, by any measure, is among the lowest in the nation (table AR-1).

Table AR-1
Selected Arkansas Property Tax Statistics, 2017[1]

	Arkansas	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$741	$1,618	*49*
Property tax percentage of personal income	1.8%	3.1%	*49*
Total property tax as percentage of state-local revenue	8.7%	16.2%	*49*
Median owner-occupied home value[2]	$123,300	$222,041	*49*
Median real estate taxes paid for owner-occupied home[2]	$776	$2,412	*49*
Effective tax rate, median owner-occupied home[3]	0.6%	1.1%	*42*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2014-2018.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Assessments are conducted at the county level (table AR-2). All real property (such as land, buildings, homes, and barns) that is not tax-exempt is assessed at 20 percent of true market value, and all personal property (such as cars, boats, and livestock) that is not tax-exempt is assessed at 20 percent of usual selling price at the time of assessment (UAEX Public Policy Center 2014). Arkansas is one of 14 states to tax business inventory as personal property (Kaeding 2016). Each county must reappraise all real property every three or five years, with the interval depending on growth in property values between reappraisals.

Limits on Property Taxation

According to Arkansas Code, there is a limit on the number of mills that can be levied by cities and counties. Cities can levy up to 20 mills of property tax (5 mills for general government, 5 mills for bonded indebtedness, 8 mills for library, and 1 mill each for police and fire pensions). Counties can levy up to 21 mills of property tax (5 mills for general government, 5 mills for bonded indebtedness, 8 mills for library, and 3 mills for roads).

There is no limit on the number of mills that can be levied by school districts. However, there is a minimum: school districts must levy a minimum 25 mill tax on real and personal property (Amendment 74).

All millage levies, with the exception of the city general fund and the county general and road funds, must be approved by voters (UAEX Public Policy Center 2014).

The state's property tax levy cap requires local governments to roll back property tax rates if the value of taxable property increases more than 10 percent following a revaluation. The rates must be adjusted to ensure the levy does not grow by more than 10 percent over the previous year (Significant Features of the Property Tax).

Property Tax Relief and Incentives

Amendment 79 (1997) of the Arkansas Constitution provides for property tax relief by limiting the increase in assessed value for property tax purposes as a result of countywide reappraisal and granting a homestead tax credit. The provisions of Amendment 79 may be considered a type of assessment limit.

An increase in the assessed value of a homestead is limited to 5 percent for the year following a reappraisal. If the reappraisal results in an increase of more than 5 percent, assessments in subsequent years will be increased by 5 percent per year until the initial reappraisal assessment is reached. For other real property, assessment increases are capped at 10 percent per year and increased in the same fashion as homesteads.

Amendment 79 also freezes the assessed value of a homestead owned by a disabled person or a person 65 years of age or older. Finally, the state of Arkansas allows for an annual state credit up to $350 against the property tax on a homestead. This homestead tax credit may not exceed the total property tax on the property (UAEX Public Policy Center 2014).

Arkansas does not have many property tax incentives for economic development, but it does use tax increment finance (TIF) and payments in lieu of property taxes (PILOTs) when local governments issue industrial facilities bonds to attract industry that is building on government-owned property.

Table AR-2
Arkansas Property Tax Features, 2018

Feature	Arkansas	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	Yes	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	Yes	19
Circuit breaker property tax relief program	No	34

Sources: Significant Features of the Property Tax

Key Property Tax History

The school finance system in Arkansas was first challenged in state court in the 1983 case, *Dupree v. Alma School District No. 30*. The plaintiff's basic contention, that revenue for school districts is determined in large part by local property wealth leading to great disparities in funds available for education to school districts throughout the state, was similar to arguments put forth in state school finance lawsuits across the country around the same time. The Arkansas State Supreme Court found that the school finance formula in Arkansas violated both the Education Clause and the Equal Protection Clause of the Arkansas Constitution. In response to the 1983 State Supreme Court decision, the state revised its funding statutes by passing Act 34 of 1983, known as "The School Finance Act of 1984." This formula provided Minimum Foundation Program aid to districts funded by a one-cent sales tax passed by the Arkansas General Assembly.

In 1992, there was again dissatisfaction with the school funding system; the school district of Lake View (Phillips County) first brought its case (*Lake View v. Huckabee*) against the State of Arkansas, claiming that the funding system for its public schools violated the state's constitution because it was inequitable and inadequate. In the 1994 *Lake View* decision, a lower-court judge found the school funding system unconstitutionally inequitable. In response, the Arkansas legislature took a number of actions, including increasing school aid and requiring that each school district levy at least 25 mills on the property tax (Choate 2015).

Despite these legislative responses, the Lake View school district filed several additional complaints and the state filed numerous appeals. In 2004, the legislature passed tax increases for additional funding for the schools. The state sales tax rate of 5.125 percent was increased to 6.0 percent, some services were subjected to taxation for the first time, and the corporate franchise tax was increased. These increases represented a larger state commitment of roughly $450 million, or 24 percent in a single year (Ritter

2005). After the conclusion of the special session in June 2004, the Supreme Court signaled its satisfaction by removing itself from a direct supervisory role.

During the 2005 session, lawmakers devoted additional resources to school facilities and teacher health insurance but left the per-pupil foundation amount at $5,400. Because there was no cost-of-living increase to this amount, school leaders in 49 districts requested that the Supreme Court reopen the lawsuit. In a contentious vote in June 2005, the judges agreed to again consider whether the funding system was in constitutional compliance. The Supreme Court chose to reappoint the two "special masters," who concluded one year earlier that the state's response was constitutional, to look into the matter once again and advise the court by October 2005 (Ritter 2005).

The General Assembly responded to this ruling in 2006 by passing legislation that allocated additional funding to the schools. This response did indeed satisfy the court-appointed special masters, who filed a favorable interim report in 2007. This report was adopted by the Arkansas Supreme Court, which declared the public school funding system constitutional.

Since 2007, the value of local property has increased rapidly, and thus the fraction of total funding that is contributed by local property tax dollars has increased. In fact, in a few districts with relatively high local property wealth, the minimum levy of 25 mills now generates more than enough to satisfy the per-pupil foundation amount. In 2012, the Arkansas Supreme Court ruled in a 4-3 split decision that school districts in such a position can retain the local property tax revenue even if it exceeds funding levels required by law (Choate 2015).

Recent Developments

A 2016 evaluation of Arkansas's tax system recommended eliminating or phasing out the property tax on business inventory (Kaeding et al. 2016). By early 2017, more than three-fourths of Arkansas counties were accepting electronic property tax payments, including payments via mobile phone (Business Wire 2017).

In 2019, Arkansas increased the maximum homestead property tax credit from $350 to $375. The benefit increase was expected to cost the state $12.5 million per year.

Resources

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