

DRAFT

**SENATE AND HOUSE INTERIM COMMITTEES ON REVENUE AND TAXATION**

**November 17, 2011, 10:00 a.m.**

**Room B, MAC, Little Rock, Arkansas**

**Meeting Minutes**

The Senate and House Interim Committees on Revenue and Taxation met on Thursday, November 17, 2011, at 10:00 a.m. in Committee Room B, MAC, Little Rock, Arkansas.

Committee members in attendance were Senators Linda Chesterfield, *Acting Senate Chair*, Jake Files, Bill Sample, Jerry Taylor, Eddie Joe Williams; Representatives Ed Garner, *Acting House Chair*, Nate Bell, Mark Biviano, John Burriss, Linda Collins-Smith, Justin Harris, Keith Ingram, Lane Jean, Allen Kerr, Homer Lenderman, Kelly Linck, Uvalde Lindsey, Stephen Meeks, and Mike Patterson.

Non-Voting members in attendance were Representatives Duncan Baird, Jon Eubanks, Mary P. Hickerson, Jim Nickels, David Sanders, and Matthew Shepherd.

Other invited guests were Representatives Tracy Pennartz, Buddy Lovell, Billy Gaskill, Lori Benedict, Tommy Baker, Andrea Lea, Jane English, James McLean, David Branscum, Jerry Brown, Jeremy Gillam, Terry Rice, Les Carnine, Darren Williams, and Senators Randy Laverty and Sue Madison.

Senator Chesterfield opened the meeting.

**Adoption of Minutes**

The minutes from the September 15, 2011, meeting were approved by acclamation.

**Report by the Arkansas State Chamber of Commerce**

Mr. Randy Zook, Executive Director, Arkansas State Chamber of Commerce, was recognized. Mr. Zook introduced Mr. Mike Parker, attorney, Associated Industries of Arkansas/State Chamber of Commerce, and Mr. Robert Cline, National Director, State and Local Tax Policy, Ernst & Young LLP. Mr. Cline's handout compared the state and local tax burdens on selected new business investments in Arkansas with seven competitive states that include Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas. Compared to the competitive states, Arkansas ranks 7.4% higher for services investments, 6.5% higher in manufacturing investments, and 6.5% above average in the overall effective tax rate (ETR).

**Consideration to Adopt Interim Study Proposal (ISP) 2011-183 by Senator Hendren** A STUDY CONCERNING THE FEASIBILITY OF EXCLUDING FROM THE SALES PRICE ON THE PURCHASE OF A MOTOR VEHICLE THE AMOUNT OF ANY REBATE FROM THE MANUFACTURER OR DEALER

Representative Garner made a motion to adopt ISP 2011-183. Representative Burris seconded the motion. Motion carried.

**Study of Interim Study Proposal 2011-090 by Representative Nickels** TO CREATE THE ARKANSAS SMALL BUSINESS TAX FAIRNESS ACT; TO REQUIRE COMBINED REPORTING FOR INCOME TAX PURPOSES; AND FOR OTHER PURPOSES

Representative Burris made a motion to adopt ISP 2011-090. Representative Patterson seconded the motion. Motion carried.

Representative Nickels was recognized. Representative Nickels introduced Mr. Charles Eaton, owner, Sherwood Tire Shop. Representative Nickels stated that a locally owned small business in the state shouldn't have to pay higher tax rates when larger retail competitors that use out of state combined reporting are exempt from paying Arkansas's high corporate income tax rate. Mr. Nickels stated if Arkansas adopted combined reporting and lowered the corporate tax rate of 6.5% to a flat tax of 6.1% for small and large businesses, the corporate income tax rate could remain revenue neutral. He said if Arkansas is considered a combined reporting state, it will affect state competitiveness with other combined reporting states and the tax rate would be much less than states with a traditional income tax.

Mr. Charles Eaton explained the unfairness of how he is not able to avoid paying Arkansas corporate income taxes on operating a small business while large businesses in Arkansas are able to avoid paying corporate income taxes. He is also unable to shift equipment purchases out of state like the large businesses do to avoid paying Arkansas sales tax.

Meeting adjourned at 11:45 p.m.

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INTERIM STUDY PROPOSAL 2011-121

State of Arkansas  
88th General Assembly  
Regular Session, 2011

# A Bill

SENATE BILL 885

By: Senators Rapert, G. Jeffress  
By: Representative Sanders

Filed with: Interim Senate Committee on Revenue and Taxation  
pursuant to A.C.A. §10-3-217.

## For An Act To Be Entitled

AN ACT TO PROVIDE ECONOMIC RELIEF TO CITIZENS OF THE  
STATE OF ARKANSAS IN ORDER TO ENSURE THAT ITS  
CITIZENS HAVE THE OPPORTUNITY TO SUCCEED BY AMENDING  
THE INCOME TAX ACT OF 1929 REGARDING THE INCOME TAX  
RATES FOR PERSONS LIVING IN CERTAIN COUNTIES; AND FOR  
OTHER PURPOSES.

### Subtitle

THE ARKANSAS ECONOMIC REHABILITATION,  
DEVELOPMENT, AND GROWTH ACT OF 2011.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. Intent.

The General Assembly finds that:

(1) Arkansas as a whole falls into the top ten (10) states with  
the highest poverty rates and is currently ranked second in the nation for  
persons living below the poverty level;

(2) The most critical levels of poverty are occurring in the  
Delta Region and the southeast corner of the state;

(3) A large percentage of persons living in the southeast corner  
of the state and along the southern end of the state are unemployed and  
living in poverty;

1 SECTION 3. Arkansas Code Title 26, Chapter 51, Subchapter 2 is amended  
2 to add a new section to read as follows:

3 26-51-208. Reduced income tax rates.

4 (a) Subsection (b) of this section establishes the tax rates imposed  
5 upon the entire net income of every resident, individual, trust, or estate  
6 located in a county in which:

7 (1) A net loss of ten percent (10%) of the population has  
8 occurred over the last ten-year census period as recorded in the most recent  
9 federal census;

10 (2) The poverty rate of the county as reported by the United  
11 States Department of Agriculture is at least fifty percent (50%) above the  
12 state average;

13 (3) The unemployment rate is equal to or in excess of one  
14 hundred thirty-five percent (135%) of the state's average unemployment rate  
15 for the preceding calendar year as specified by statewide annual labor force  
16 statistics compiled by the Department of Workforce Services; or

17 (4) The county currently qualifies as a "distressed county" as  
18 defined by the Economic Development Administration or the Delta Regional  
19 Authority.

20 (b)(1) The tax under this section shall be levied, collected, and paid  
21 annually upon the entire net income as defined and computed in this chapter  
22 at the following rates:

23 (A) On the first twenty-four thousand dollars (\$24,000) of  
24 net income, zero percent (0%);

25 (B) On net income of twenty-four thousand and one dollars  
26 (\$24,001) to fifty thousand dollars (\$50,000), five percent (5%);

27 (C) On net income of fifty thousand and one dollars  
28 (\$50,001) to seventy-five thousand dollars (\$75,000), five and one-half  
29 percent (5.5%); and

30 (D) On net income of seventy five thousand and one dollars  
31 (\$75,001) and above, six percent (6%).

32 (2) Subdivision (b)(1) of this section shall include tax rebates  
33 provided by this chapter.

34 (c) The status of the taxpayer under this section shall be established  
35 following each federal census and shall be effective for ten (10) years.

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1 SECTION 5. EFFECTIVE DATE. This act is effective beginning January 1,  
2 2012.

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4 Referred by the Arkansas Senate

5 Prepared by: MAG/VJF

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Senator Jason Rapert

SB885

Arkansas Economic  
Rehabilitation, Development  
and Growth Act

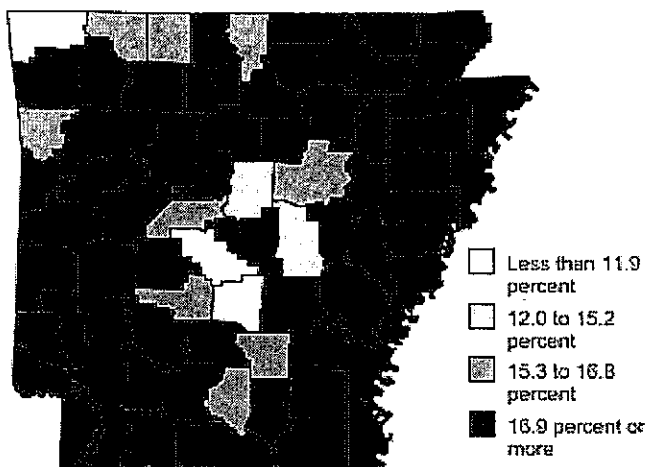
Major Issues Facing Arkansas

What are the realities?

## Economy

- Arkansas Ranks 39<sup>th</sup> in overall Business Tax Climate according to the Tax Foundation.
- Arkansas Ranks 47<sup>th</sup> in average weekly wage paid to workers according to the U.S. Bureau of Labor Statistics.
- Arkansas has the 3<sup>rd</sup> highest child poverty rate in the nation according to figures from the U.S. Census Bureau.

## 2010 County-Level Poverty Rates in Arkansas



**Arkansas – 40 Counties  
Distressed Counties by Delta Regional Authority**

Arkansas	Fulton	Monroe
Ashley	Grant	Ouachita
Baxter	Greene	Phillips
Bradley	Independence	Poinsett
Calhoun	Izard	Prairie
Chicot	Jackson	Randolph
Clay	Jefferson	Searcy
Cleveland	Lawrence	Sharp
Craighead	Lee	St. Francis
Crittenden	Lincoln	Stone
Cross	Lonoke	Van Buren
Dallas	Marion	White
Desha	Mississippi	Woodruff
Drew		

## Economic Solutions

- SB885 – Arkansas Economic Rehabilitation, Development and Growth Act of 2011.
- SB885 sent to interim study for lack of consideration in the 88<sup>th</sup> General Assembly.
- The bill would have provided tax relief for the poorest counties in Arkansas to create economic development and job growth.



## SB885 Key Elements

- Tax Relief To Occur in Counties in which:
  - A net loss of ten percent (10%) of the population has occurred over the last ten-year census period as recorded in the most recent federal census, OR

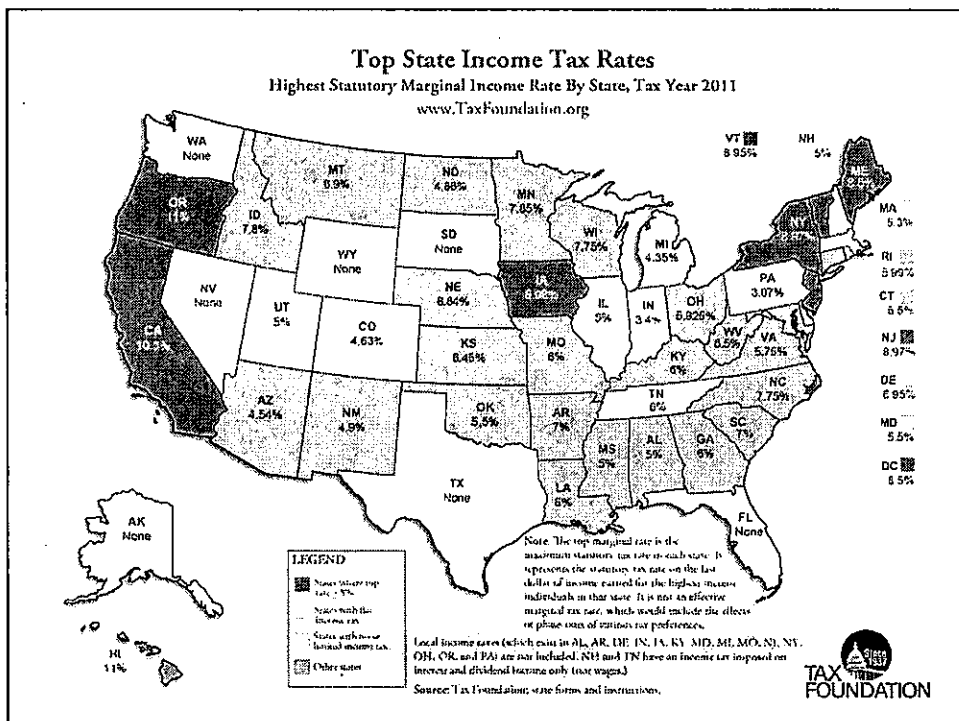
The poverty rate of the county as reported by the United States Department of Agriculture is at least fifty percent (50%) above the state average, OR

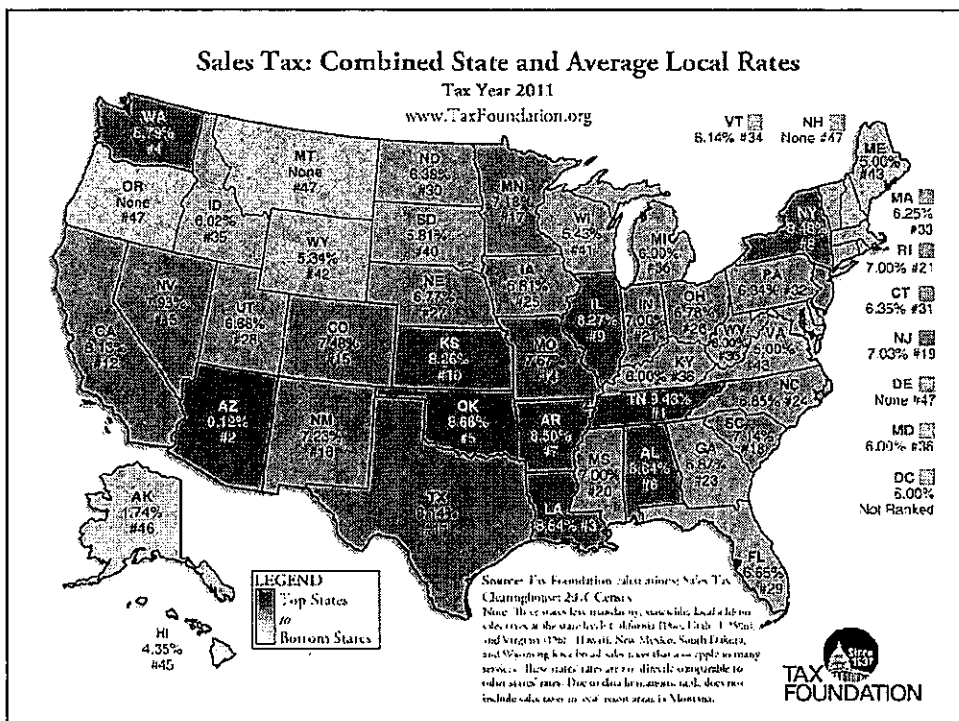
The unemployment rate is equal to or in excess of one hundred thirty-five percent (135%) of the state's average unemployment rate for the preceding calendar year as specified by statewide annual labor force statistics compiled by the Department of Workforce Services, OR

The county currently qualifies as a "distressed county" defined by the Economic Development Administration or the Delta Regional Authority.

# Individual Income Tax Relief

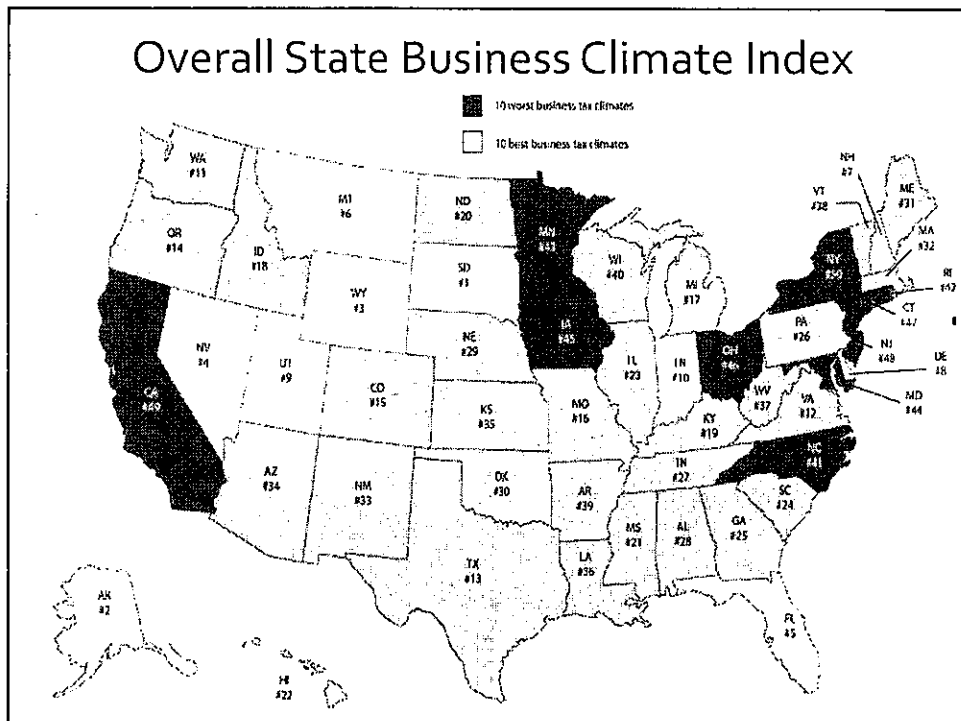
- On the first twenty-four thousand dollars (\$24,000) of net income, zero percent (0%)
- On net income of twenty-four thousand and one dollars 21 (\$24,001) to fifty thousand dollars (\$50,000), five percent (5%)
- On net income of fifty thousand and one dollars (\$50,001) to seventy-five thousand dollars (\$75,000), five and one-half percent (5.5%)
- On net income of seventy five thousand and one dollars (\$75,001) and above, six percent (6%).





## Corporate Income Tax Relief

- Counties that qualify under the provisions of SB885 would have the Corporate Income Tax Rate reduced to zero.
- The top 3 states for Business Tax Climate in the U.S. have ZERO INDIVIDUAL INCOME TAX, ZERO CORPORATE INCOME TAX and ZERO CAPITAL GAINS TAX. (1 South Dakota, 2 Alaska, 3 Wyoming)



## How can we grow and prosper?

In order for Arkansas to attract economic development and create jobs we must create the most attractive economic environment in the United States.

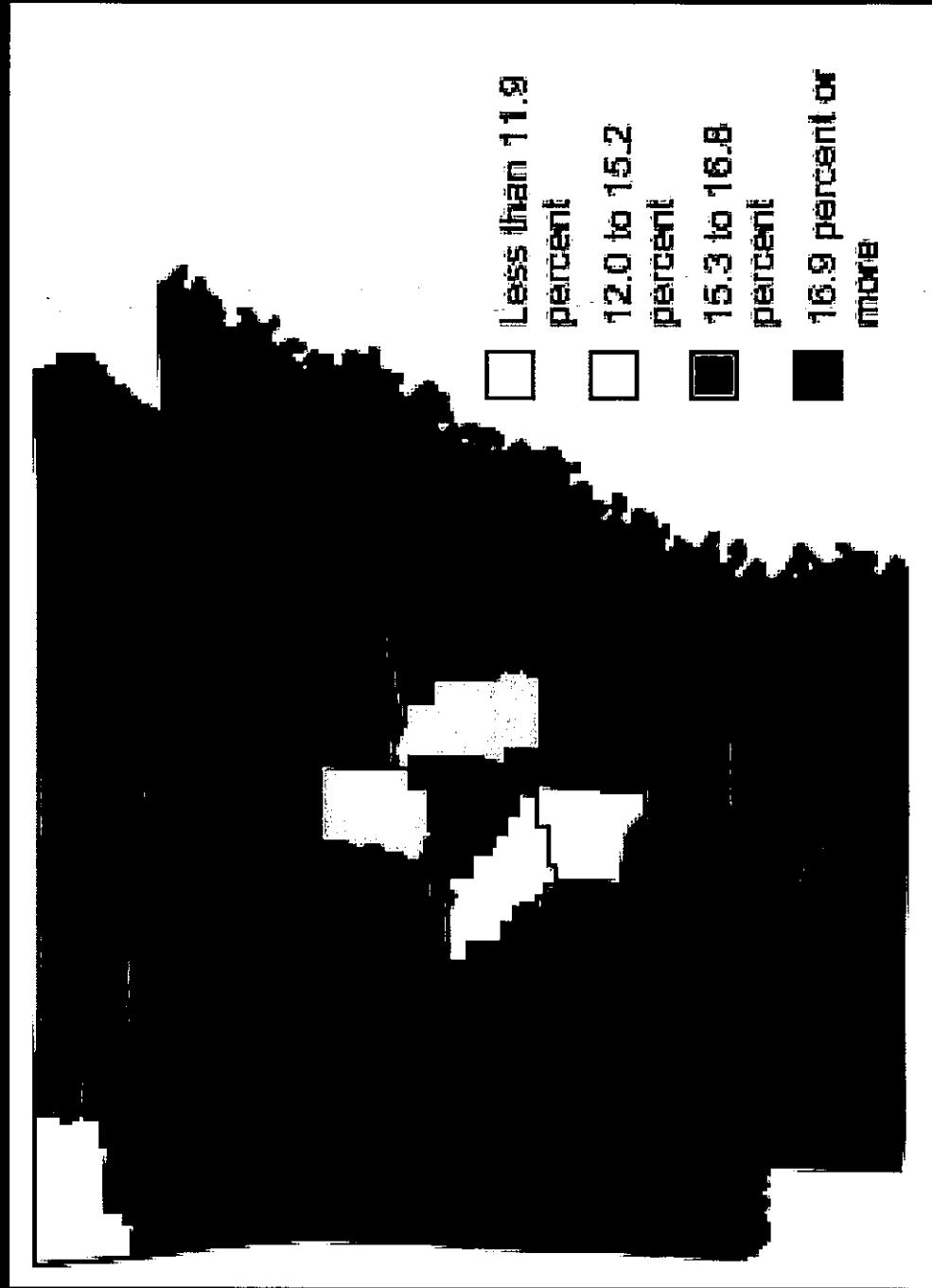
Arkansas has the worst Business Tax Climate ranking of any state on its borders and the worst in the entire Southern U.S. – 39th

If Arkansas will create the best economic environment that can be found in the U.S., or at least in our region, people will choose Arkansas for new development.

## Contact Information

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- Office: 501-336-0918
- Sen. Jason Rapert  
P.O. Box 10388  
Conway, AR 72034

# 2010 County-Level Poverty Rates in Arkansas

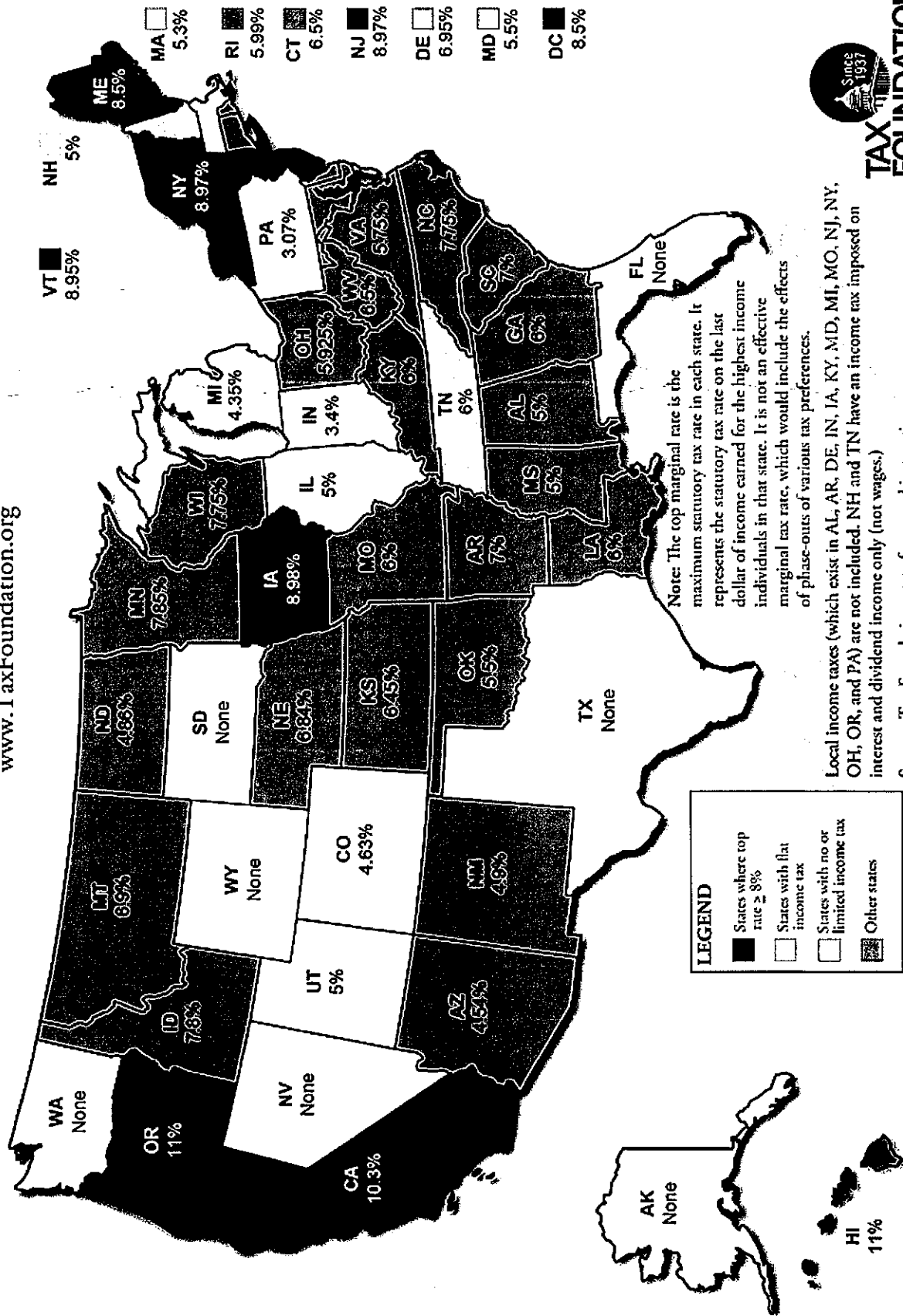




# Top State Income Tax Rates

Highest Statutory Marginal Income Rate By State, Tax Year 2011

www.TaxFoundation.org



Note: The top marginal rate is the maximum statutory tax rate in each state. It represents the statutory tax rate on the last dollar of income earned for the highest income individuals in that state. It is not an effective marginal tax rate, which would include the effects of phase-outs of various tax preferences.

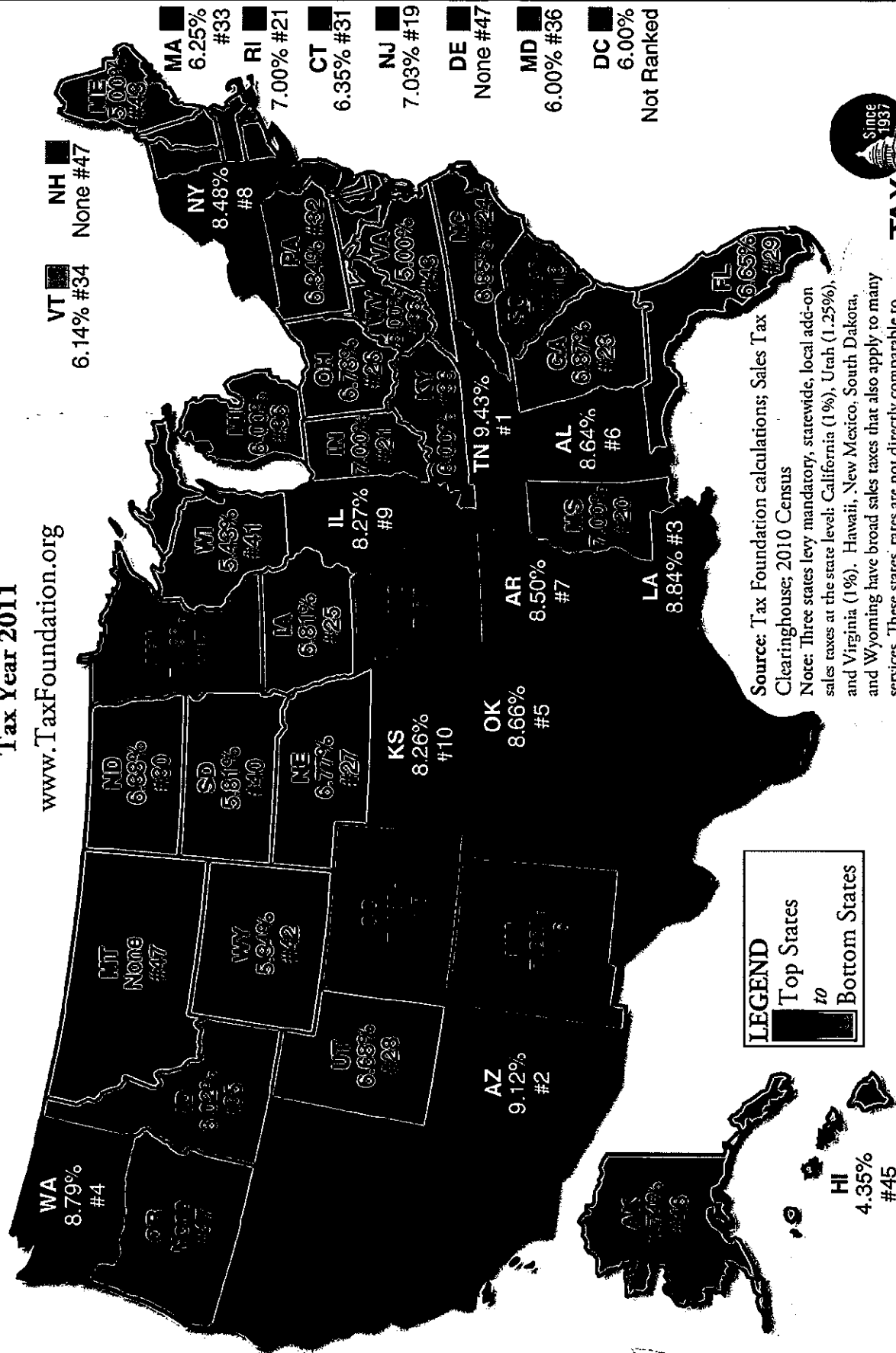
Local income taxes (which exist in AL, AR, DE, IN, IA, KY, MD, MI, MO, NJ, NY, OH, OR, and PA) are not included. NH and TN have an income tax imposed on interest and dividend income only (not wages).

Source: Tax Foundation; state forms and instructions.

# Sales Tax: Combined State and Average Local Rates

Tax Year 2011

www.TaxFoundation.org

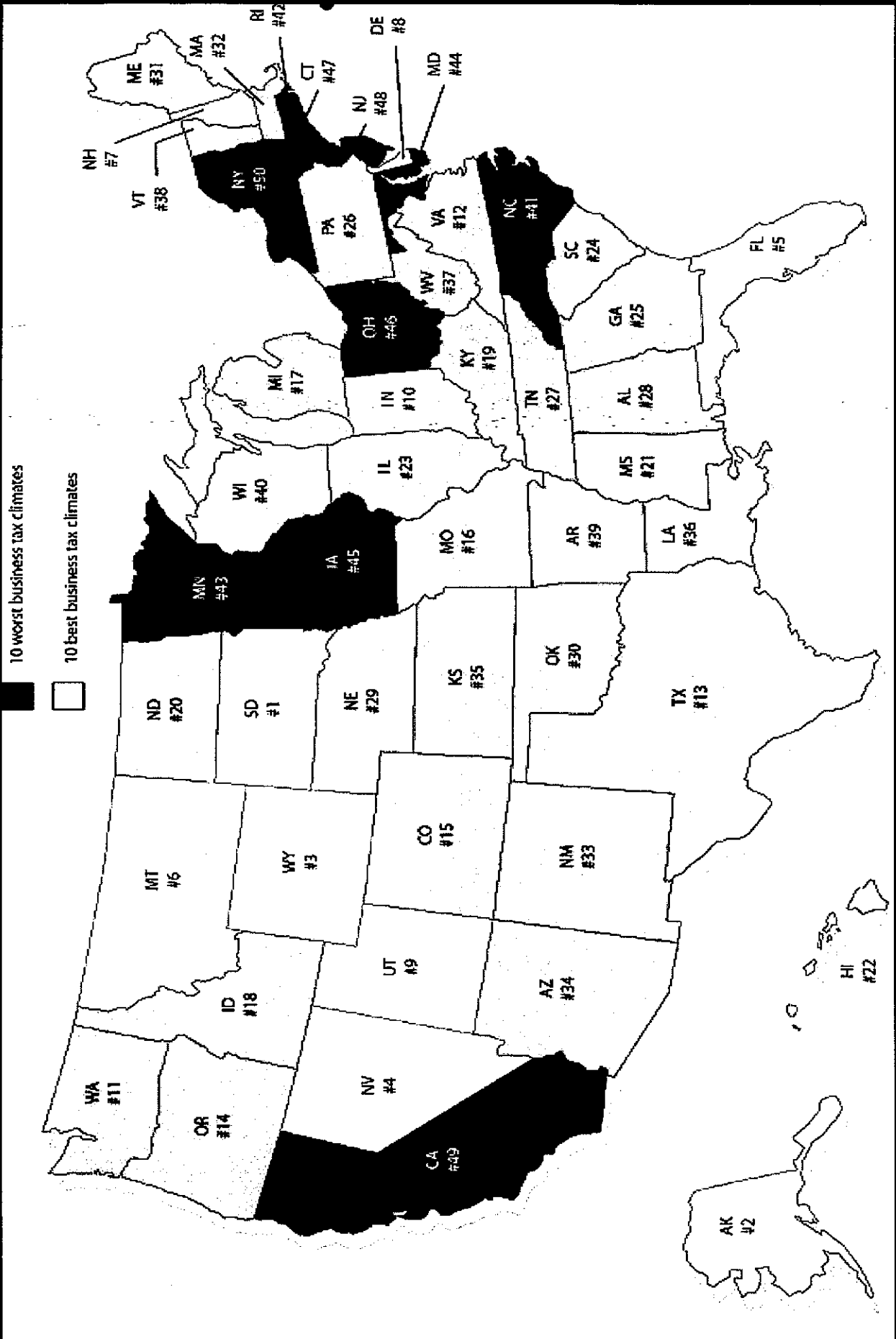


**LEGEND**  
 Top States  
 to  
 Bottom States

Source: Tax Foundation calculations; Sales Tax Clearinghouse; 2010 Census  
 Note: Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1%), Utah (1.25%), and Virginia (1%). Hawaii, New Mexico, South Dakota, and Wyoming have broad sales taxes that also apply to many other states' rates. Due to data limitations, table does not include sales taxes in local resort areas in Montana.



# Overall State Business Climate Index



State of Arkansas  
88th General Assembly  
Regular Session, 2011

# A Bill

SENATE BILL 885

By: Senators Rapert, G. Jeffress  
By: Representative Sanders

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(2) The most critical levels of poverty are occurring in the Delta Region and the southeast corner of the state;

(3) A large percentage of persons living in the southeast corner of the state and along the southern end of the state are unemployed and living in poverty;

1           (4) Persons living in poverty often times have to deal with a  
2 constant negative stigma attached to the area in which they live;

3           (5) The negative stigma causes businesses to be hesitant before  
4 investing in the area, causes families to migrate away from the area, and  
5 makes it an unattractive place to work for teachers and health care  
6 professionals;

7           (6) The negative stigma and poverty rates are increasing due to  
8 persons leaving the area as confirmed by the most recent census data;

9           (7) Persons working in these areas often do not earn enough  
10 money to provide for their families; and

11           (8) In order to help the citizens in these areas succeed, the  
12 state must work to encourage its residents to stay and to encourage  
13 businesses to continue to operate in these parts of Arkansas.

14  
15           SECTION 2 Arkansas Code § 26-51-201(a) concerning the imposition of  
16 income taxes, is amended to read as follows:

17           26-51-201. Individuals, trusts, and estates.

18           (a) A Except as provided in § 26-51-208, a tax is imposed upon, and  
19 with respect to, the entire income of every resident, individual, trust, or  
20 estate. The tax shall be levied, collected, and paid annually upon the entire  
21 net income as defined and computed in this chapter at the following rates,  
22 giving effect to the tax credits provided hereafter, in the manner set forth:

23           (1) On the first two thousand nine hundred ninety-nine dollars  
24 (\$2,999) of net income or any part thereof, one percent (1%);

25           (2) On the next three thousand dollars (\$3,000) of net income or  
26 any part thereof, two and one-half percent (2 1/2%);

27           (3) On the next three thousand dollars (\$3,000) of net income or  
28 any part thereof, three and one-half percent (3 1/2%);

29           (4) On the next six thousand dollars (\$6,000) of net income or  
30 any part thereof, four and one-half percent (4 1/2%);

31           (5) On the next ten thousand dollars (\$10,000) of net income or  
32 any part thereof, six percent (6%); and

33           (6) On net income of twenty-five thousand dollars (\$25,000) and  
34 above, seven percent (7%).

35

1 SECTION 3. Arkansas Code Title 26, Chapter 51, Subchapter 2 is amended  
2 to add a new section to read as follows:

3 26-51-208. Reduced income tax rates.

4 (a) Subsection (b) of this section establishes the tax rates imposed  
5 upon the entire net income of every resident, individual, trust, or estate  
6 located in a county in which:

7 (1) A net loss of ten percent (10%) of the population has  
8 occurred over the last ten-year census period as recorded in the most recent  
9 federal census;

10 (2) The poverty rate of the county as reported by the United  
11 States Department of Agriculture is at least fifty percent (50%) above the  
12 state average;

13 (3) The unemployment rate is equal to or in excess of one  
14 hundred thirty-five percent (135%) of the state's average unemployment rate  
15 for the preceding calendar year as specified by statewide annual labor force  
16 statistics compiled by the Department of Workforce Services; or

17 (4) The county currently qualifies as a "distressed county" as  
18 defined by the Economic Development Administration or the Delta Regional  
19 Authority.

20 (b)(1) The tax under this section shall be levied, collected, and paid  
21 annually upon the entire net income as defined and computed in this chapter  
22 at the following rates:

23 (A) On the first twenty-four thousand dollars (\$24,000) of  
24 net income, zero percent (0%);

25 (B) On net income of twenty-four thousand and one dollars  
26 (\$24,001) to fifty thousand dollars (\$50,000), five percent (5%);

27 (C) On net income of fifty thousand and one dollars  
28 (\$50,001) to seventy-five thousand dollars (\$75,000), five and one-half  
29 percent (5.5%); and

30 (D) On net income of seventy five thousand and one dollars  
31 (\$75,001) and above, six percent (6%).

32 (2) Subdivision (b)(1) of this section shall include tax rebates  
33 provided by this chapter.

34 (c) The status of the taxpayer under this section shall be established  
35 following each federal census and shall be effective for ten (10) years.

36

1 SECTION 4. Arkansas Code § 26-51-303(a)(9) and (10), concerning  
2 exemption from the Income Tax Act of 1929, § 26-51-101 et seq., are amended  
3 to read as follows:

4 (9) Corporations, trusts, and any community chest, fund, or  
5 foundation, organized and operated exclusively for religious, charitable,  
6 scientific, literary, or educational purposes, or for the prevention of  
7 cruelty to children or animals, no part of the net earnings of which inures  
8 to the benefit of any private shareholder or individual, no substantial part  
9 of the activities of which is carrying on propaganda or otherwise attempting  
10 to influence legislation, and which does not participate in, or intervene in,  
11 including the publishing or distributing of statements, any political  
12 campaign on behalf of or in opposition to any candidate for public office;  
13 and

14 (10) A political organization that does not have political  
15 organization taxable income for the tax year under 26 U.S.C. § 527, as in  
16 effect on January 1, 2009; and

17 (11)(A) A partnership, limited liability company, or corporation  
18 that that is located in a county in which:

19 (i) A net loss of ten percent (10%) of the  
20 population has occurred over the last ten-year census period as recorded in  
21 the most recent federal census;

22 (ii) The poverty rate of the county as reported by  
23 the United States Department of Agriculture is at least fifty percent (50%)  
24 above the state average;

25 (iii) The unemployment rate is equal to or in excess  
26 of one hundred thirty-five percent (135%) of the state's average unemployment  
27 rate for the preceding calendar year as specified by statewide annual labor  
28 force statistics compiled by the Department of Workforce Services; or

29 (iv) The county currently qualifies as a "distressed  
30 county" as defined by the Economic Development Administration or the Delta  
31 Regional Authority.

32 (B) A change in the population of the county shall not  
33 affect the exempt status of a partnership, limited liability company, or  
34 corporation in the future.

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1 SECTION 5. EFFECTIVE DATE. This act is effective beginning January 1,  
2 2012.

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4 Referred by the Arkansas Senate

5 Prepared by: MAG/VJF

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