EXHIBIT B

MINUTES
SENATE AND HOUSE INTERIM COMMITTEES
ON REVENUE AND TAXATION

The Senate and House Interim Committees on Revenue and Taxation met on Tuesday, September 20, 2016, at 12:30 p.m., in Committee Room 171, Little Rock, Arkansas.

Committee members in attendance were Senators Bart Hester, Jimmy Hickey, Jr., Jason Rapert, Representatives Joe Jett, *House Chair*, Charlie Collins, Andy Davis, Jim Dotson, Les Eaves, Lanny Fite, Kenneth B. Ferguson, Vivian Flowers, Justin Gonzales, Kim Hendren, Micah Neal, Nelda Speaks, and Clarke Tucker.

Other members in attendance were Senator Gary Stubblefield, Representatives Charles Armstrong, Bob Ballinger, Bruce Cozart, Michael John Gray, Douglas House, Mathew Pitsch, Sue Scott, and James Sorvillo.

Representative Jett opened the meeting.

Adoption of Minutes [Exhibit B]

The minutes from the February 8, 2016 meeting were approved by acclamation.

Introduction and Welcome

Philip D. Oliver, Professor of Law, Bowen School of Law, University of Arkansas at Little Rock, spoke about the Federal Tax Reform Act of 1986 and about ways to raise revenue by broadening the tax base while lowering the tax rate on a revenue neutral basis. He spoke about tax policies related to: taxing certain economic income and restricting special rules, lowering tax rates on business, personal, and capital gains income, offering business incentive tax credits, reconsidering partial exemptions, and allowing exemptions to sunset every six years.

Fundamentals of Taxation [Exhibit D1, D2]

Mr. Jeremy Horpedahl, Assistant Professor of Economics, Arkansas Center for Research in Economics, University of Central Arkansas (UCA), presented four principles that can be applied when designing a tax policy:

1. Tax rates should be set low to generate the required revenue.
2. Taxes should be broad-based.
3. Tax bases should be defined appropriately.
4. Tax instruments should be chosen to minimize harm.

Mr. Horpedahl said his primary concern is to keep the tax burden off of income taxes because it discourages economic activity. Data shows Arkansas receives about 30% of its revenue from income taxes as compared to competitor states, which only receive about 18%. He feels one way to lower the income tax rate is to broaden the sales tax base.

Mr. Jacob Bundrick, Policy Analyst, Arkansas Center for Research in Economics, UCA, outlined how tax expenditures are an obstacle to tax reform. Mr. Bundrick said tax exemptions are frequently used to encourage certain types of economic activities such as home mortgage interest deductions. When taxpayers use their resources to lobby for special tax provisions; they are using their time, money, human capital, and other resources for activities that add no value to the economy. Also, by providing special tax provisions to select taxpayers the state is forgoing tax revenue that it would have otherwise collected. Arkansas would be better off if it created a simple, transparent, and fair tax system that interferes as little as possible with economic-based decision making, while at the same time lowering tax rates.

Interstate Tax Competition [Exhibit E]

Ms. Nicole M. Kaeding, Economist, The Tax Foundation, gave an overview of how Arkansas' individual, corporate, and sales tax rates compare nationally. Ms. Kaeding outlined four categories her organization uses when evaluating a state's tax code:

1. Tax Rates: Includes actual income tax rates and the sales tax rates.
2. Tax Collections: Includes the amount of revenue generated by the tax rates.
3. Tax Burdens: The percentage of personal income that pays state and local taxes.
4. Tax Structure: Generating the state's revenue collection.

Ms. Kaeding said Arkansas' tax rates are among the highest nationally compared to other states within its region. Arkansas' tax burden ranks higher than neighboring states, and in FY2012, Arkansas' state and local tax burden was 10.1%, the 17th highest in the nation. Ms. Kaeding stated that compared with other states, Arkansas ranked 38th in the state business tax climate index. Arkansas' corporate income tax structure ranks as the 24th highest, and its combined state-local sales tax rate of 9.3%, is the third highest in the county.

Legislative and Constitutional Reforms

Mr. Dan Greenberg, President, Advance Arkansas Institute, presented three tax policy changes to enhance the state's economic growth:

1. Remove tax privileges and implement a time delay mechanism.
2. Procedural changes to the legislative sunrise/sunset rules.
3. Implement revenue-neutral changes in the Arkansas tax code.

Mr. Greenberg said the best way to help Arkansas's economy grow is through tax reform. If America's experience with the Federal Tax Reform Act of 1986 is any guide, such rate relief would not only lighten the tax burden on Arkansas families and businesses, but also create capital investment and new jobs in the state.

The meeting adjourned at 2:50 p.m.