Exhibit F

ARKANSAS ADVOCATES FOR CHILDREN & FAMILIES

Founded in 1977

September 29, 2016

The Honorable Joe Jett
Arkansas House of Representatives, District 56
572 CR 101
Success, AR 72470

Dear Representative Jett,

At the September 20th joint meeting of the Senate and House Revenue and Tax Committees, several economists and professors offered recommendations to improve Arkansas's tax policy and economic future. We appreciate their comments and agree with a number of their recommendations for changes. In this letter we outline where we agree, and where we think more context is needed to make smart tax policy changes.

We agree with the following recommendations:

- A state Earned Income Tax Credit (EITC) would help promote equity in our tax structure and reward work. President Reagan called EITCs "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." A state EITC would be a powerful new anti-poverty and tax fairness tool in Arkansas, a tool that has proven to be incredibly successful in other states. The EITC should be modeled after the highly successful federal version so that the full impact can be realized by all working families.
- Arkansas should expand their sales tax base to include more services (like lawn care and spa services). Arkansas would also benefit from fully utilizing our existing authority to tax internet sales. However, this new revenue should not be used to pay for tax cuts, particularly the most common kind: ones that benefit the wealthy.
- Special interest groups should not be allowed to manipulate the tax code to their advantage. These unnecessary special exemptions should be eliminated from the tax code.
- The zero percent capital gains tax on income over $10 million is certainly questionable. Lowering capital gains taxes is flawed for two reasons: One, there a consensus among economists that lowered capital gains taxes do not lead to economic growth. And two, a large portion of the "savings" Arkansans receive from reduced capital gains taxes are actually lost because they can no longer deduct those taxes from their federal returns. For example in New Mexico, 18 percent of the capital gains tax cuts were taken right back out of taxpayer pockets because of reduced federal deductions. A nearly one-fifth loss right off the bat is not a good investment.

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These recommendations were lacking important context:

- Triggers are not a good way to enact tax cuts. If a tax cut is a bad idea now, it won't become a good idea if you put it off for a couple of years. Furthermore, "locking in" tax cuts so that future tax revenues will necessarily go down is fiscally irresponsible. Triggers remove the ability for legislators to have the type of robust debate needed to navigate the nuances of budget decisions. Triggers put our budget on autopilot, even if it is headed for a brick wall.
- The Tax Foundation's rankings are problematic, in part because they include a jumble of over 100 features that are weighted subjectively. The claim that good business climate rankings are the result of tax cuts is simply not backed up by the majority of economic research.
- We disagree that we should aim to match our neighboring states' tax structures. Other states, such as Texas, Louisiana, and Oklahoma, have advantages in terms of tax bases that allow them to have lower income taxes. Most notably, energy taxes that in normal times generate significant revenue, but can cause major budget problems when energy prices are down.
- What we know for sure about the Arkansas tax code is that it is harder on the people making the lowest wages. Those in the bottom 20 percent in Arkansas pay a state and local tax rate that is twice as high as those at the very top (as a share of their income). We also know that marginal differences in state income tax structure don't influence where people choose to live. For example, almost as many people moved to Arizona as Texas between 1993 and 2011, even though Texas doesn't have an income tax and nearby Arizona does. Over half of the people who choose to change states do so because of jobs or family; climate is also a major indicator. The bottom line is that people are more likely to move to states with better jobs, not states with lower taxes.
- Revenue neutral tax cuts that lower personal income taxes will simply ***shift*** a greater share of the overall tax burden to lower income families without improving the economy. In addition to the regressive nature of sales taxes, it is important to note that Arkansas already has one of the highest sales and excise tax burdens in the country. A shift would only add to that. We should also note that Arkansas has some of the lowest property taxes in the country. State constitutional restrictions prevent property taxes from playing a bigger role statewide, so the shifts would likely go to a sales or consumption tax. Maine and Ohio offer some great examples of how a tax shift from income tax to sales tax can cripple state budgets and overburden the lowest-income workers. All without the promised economic boons from tax cuts.

  Governor LePage of Maine passed the largest income tax cut in the state's history in 2011. To fill the budget gap, the legislature shifted costs to local communities, who were forced to increase property taxes to keep basic services afloat. The result was a tax shift that increased the tax burden for low- and middle-income families who were just beginning to climb out of the recession. The price of reducing income taxes for the wealthiest in Maine has been cuts to K-12 education funding. They have also had very slow job growth (1.4 percent compared to 7.3 percent for the nation in 2012).

  Like Maine, Ohio is paying for its tax cuts by shifting the burden to lower income families through sales tax increases. The 10 percent cut to income taxes across the board in 2013 was followed by desperately underfunded public transit, as well as lagging college aid and children's services. Supporters of the cuts claimed it would help economic growth, but Ohio has still had job growth lower than the national average since the first round of these major tax cuts began in 2005.

  Kansas, Oklahoma, Louisiana and other states have all experimented with expensive tax cuts which have led to major budget crises. If we follow their lead we will face the same unfortunate budget disasters, whether we make cuts all at once or bit-by-bit.
- Tax complexity is in exemptions, not tax brackets. The brackets in our income tax system are not what is complicated. It takes a few key strokes on the calculator to figure an income tax bracket - no accountant is stumped on those calculations and no accountant would save any time figuring returns if we removed some brackets. What complicates tax codes are the almost endless

exemptions afforded to special interest groups, which, as we said before, we can agree are too abundant.
- Being a business friendly, "competitive" state is more than how our taxes are structured. Businesses care about schools, an educated workforce, public safety, infrastructure, highways, and a functioning healthcare system – all things that cannot be sustained without a healthy source of tax revenue.

Economic theory can and should guide tax policy decisions, but not without considering the real world needs of the people who pay those taxes. Overall economic growth is not a satisfactory goal if a quarter of our children remain in poverty and we cannot afford to maintain our highways and schools. Furthermore, the true path to economic growth is not cutting taxes for those who need it least; it is investing in a competitive workforce, building an attractive infrastructure, and making our communities desirable places to live.

We look forward to the continued dialogue. If you have any questions about this letter or any policy issues, please feel free to contact AACF Executive Director Rich Huddleston at 501-343-3429 or Tamika Edwards, our Director of Governmental Affairs, at 501-650-4169. You may also reach us by email at Rhuddleston@aradvocates.org or Tedwards@aradvocates.org.

Sincerely,

Rich Huddleston   Tamika Edwards

Rich Huddleston
Executive Director

Tamika S. Edwards
Director of Governmental Affairs

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The Honorable Jake Files
Arkansas Senate, District 8
300 Free Ferry Landing
Fort Smith, AR 72903

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