

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
DECEMBER 5, 2017

The Tax Reform and Relief Legislative Task Force met Tuesday, December 5, 2017, at 9:00 a.m., in Room A-MAC, Little Rock, Arkansas.

Task Force members present: Senators Jim Hendren, chair, Jonathan Dismang, Joyce Elliott, Missy Irvin, Larry Teague, and David Wallace; Representatives Lane Jean, chair, Frances Cavanaugh, Jim Dotson, Kenneth B. Ferguson, Joe Jett, and Bob Johnson.

Other legislators present: Senators Jimmy Hickey, Jr., Blake Johnson, Jason Rapert, and Bill Sample, Representatives Bob Ballinger, Charles Blake, Ken Bragg, Charlie Collins, Andy Davis, Jana Della Rosa, Charlotte Douglas, Trevor Drown, David Fielding, Charlene Fite, Lanny Fite, Vivian Flowers, Jeremy Gillam, Michael John Gray, Ken Henderson, Monte Hodges, Steve Hollowell, Douglas House, Roger Lynch, John Maddox, Mark McElroy, Ron McNair, Reginald Murdock, Rebecca Petty, Aaron Pilkington, Marcus Richmond, Johnny Rye, Brandt Smith, Nelda Speaks, Les Warren, Danny Watson, Jeff Williams, and Carlton Wing.

Senator Hendren called the meeting to order.

Consideration to Approve Minutes from the November 7 and 8, 2017, Meetings [Exhibits C1, C2]

Senator Elliott made a motion to approve minutes from the November 7 and 8, 2017, Tax Reform and Relief Legislative Task Force meetings; with a second by Representative Dotson, the minutes were approved.

Discussion on Tax Reform Efforts in Other States

North Carolina House of Representatives [Exhibit D-1]

Speaker of the House Tim Moore; Representatives Bill Brawley, Senior Chair – Finance Committee; John Bell, House Majority Leader; Member – Appropriations Committee; John Szoka, Chair – Finance Committee; and Mr. Joe Coletti, Senior Fellow – John Locke Foundation, were introduced to give a PowerPoint presentation summarizing North Carolina's tax reform efforts.

Speaker Moore suggested several ideas the task force may consider to achieve a successful tax reform policy such as: measuring economic success not by how successful an industry or revenue stream is doing, stick to a time frame rather than a single overhaul, do not lower taxes to raise spending, create a tax system simple to understand, and apply uniform lower rates for personal and corporate income taxes.

Representative Bell gave a brief overview of North Carolina's tax structure and stated that policy makers designated reserves to increase funding streams to fund road improvements, agriculture, healthcare, state employee retirement, unemployment benefits, expand pre-k programs and increase pre-k slots.

Representative Bell explained how their Historic program revitalized the state's business district, increased job growth, and advanced quality of life.

Representative Szoka spoke on North Carolina's tax reform goals as outlined in Exhibit D1. He said the state created a pro-growth economic tax model by instituting a consumption based sales tax on goods and services and reduced income tax dependency. He explained that North Carolina applied revenue triggers to corporate income taxes because of inconsistent business growth and not meeting revenue forecasts. He

pointed out that tax reform cannot work if the state's authorized budget does not exceed population growth and inflation. Representative Szoka said labor is taxed on repair, maintenance and installation services (RMI).

Mr. Coletti answered questions regarding how North Carolina calculated its income tax brackets and rates for individuals filing single and married. He said policy makers increased state revenue 8% by using temporary sales tax increases that had an expiration date. Mr. Coletti suggested the task force consider lowering the tax rate and increase the standard income tax deductions.

Representative Brawley explained how policy makers in North Carolina use a consensus revenue report, also called a long sheet, to analyze the state's budget, expenditures, and tax policy. The long sheet is also used to calculate a budget and project anticipated revenues six years in advance. Representative Brawley explained that using the forecast helped policy makers foresee an increase in capital gains tax collections and were able to set it aside until the time came to pay it back the following year.

Indiana State Senate and Indiana House of Representatives

Senator Brandt Hershman, Majority Leader; Chair – Tax and Policy; Member – Appropriations Committee and Representative Todd Huston, Member – Ways and Means Committee, were introduced. Senator Hershman explained that Indiana has a flat income tax rate of 3.23%, sales tax rate of 7%, corporate tax rate of 4.9%, and property taxes capped at 1% for residential home owners, 2% for farms and rental property, and 3% for general businesses. Senator Hershman said cities and counties in the state assess income taxes - not local sales taxes. He said businesses from Illinois moved to Indiana because of lower corporate taxes and regulations. Senator Hershman said a consistent and stable tax structure is critical for businesses. He suggested the task force inquire of small businesses on how the state's tax structure has affected their financial growth.

State of Oklahoma [Exhibit D-4]

Mr. Clark Jolly, Tax Commissioner, was introduced and provided a presentation about the history of Oklahoma's tax changes, alterations in the state's Income and Gross Production taxes and how it impacted the tax base. Mr. Jolly said apportionments cost Oklahoma billions in shortfalls and policy makers did not foresee the negative impact that tax triggers and uncontrolled spending would have on Oklahoma's economy. He advised the task force to make tax cuts incremental and never implement apportionments. Mr. Jolly feels triggers are not needed if funds are readily available, or if able to decrease spending or anticipate revenue growth for the next year.

Kansas House of Representatives

Representative Steven Johnson, Chair – Taxation Committee; Chair – Assessment and Taxation Special Committee, was introduced to speak on Kansas' legislative process and challenges to balance property, sales and income tax distributions. Representative Johnson said the state approved a tax exemption for pass-through business income, increased sales taxes, and cut tax revenues by 10% to offset tax cuts. He said overestimating revenue projections and failure to cut budget spending added to the state's deficits.

The meeting adjourned at 3:30 p.m.