



# Miscellaneous Revenue Sources

Arkansas Tax Reform and Relief Legislative Task Force

February 5, 2018

Arkansas Department of Finance and Administration

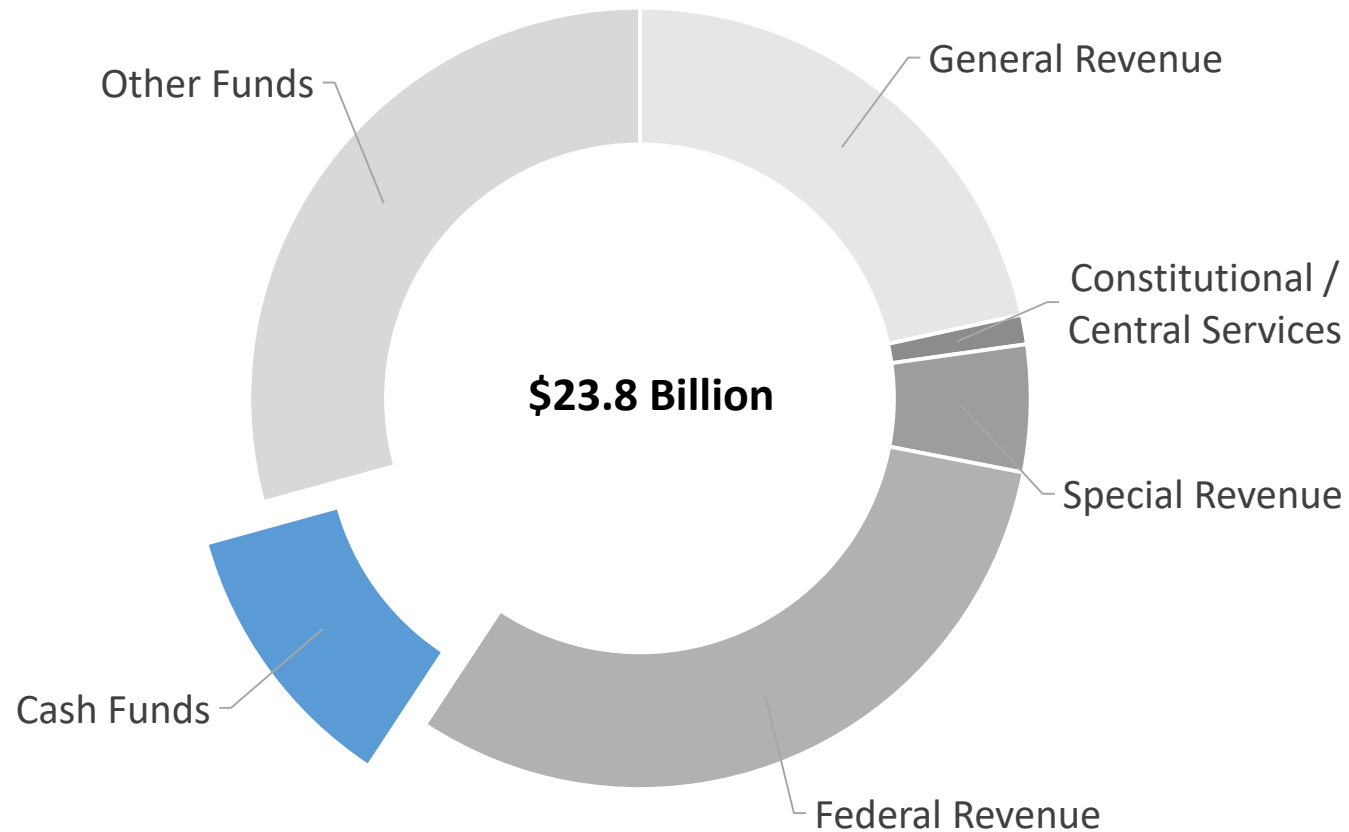


# Cash Fund Overview

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- Cash Fund Revenues are those funds received by the State which are not required by law to be deposited into the State Treasury.
- Cash funds may be generated from license fees, fines, or other sources payable to the agency, board or Institution of Higher Education.

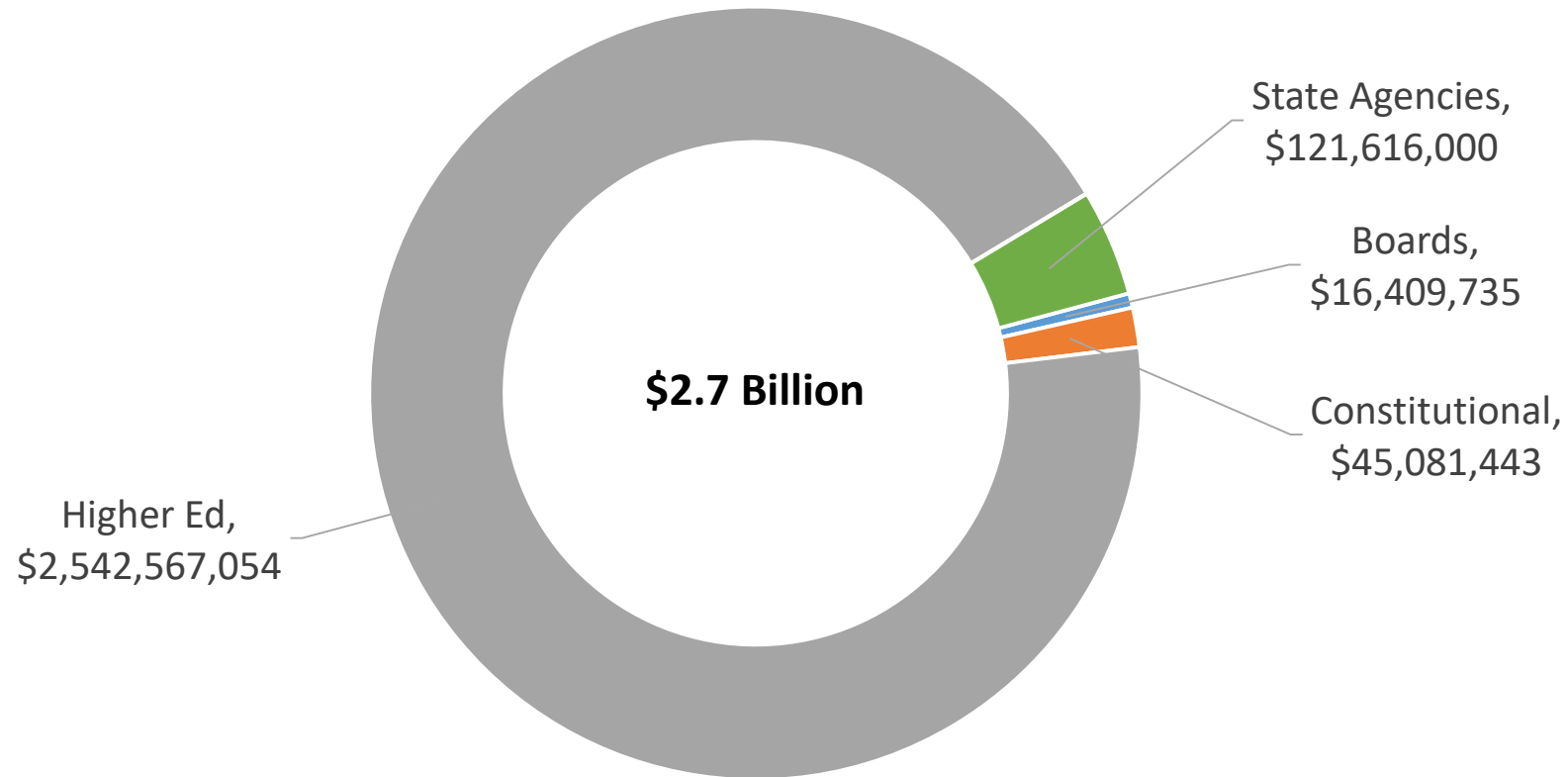
# Cash Fund Expenditures total around \$2.7B annually



Miscellaneous Revenue Sources  
Source: FY16 Actual Expenditures, Office of Budget

# Cash Fund Expenditures: Summary

Higher Education tuition, fees, medical services, and other funds make up over 90% of this amount.



# Cash Fund Expenditures: Higher Education

Cash fund sources and uses vary by institution, and may include federal and other funds.

Agency	General Revenue	Cash Funds	Other Funds	Total Operating Expenditures
University of Arkansas Medical Sciences Campus	\$ 89,862,249	\$ 1,089,401,621	\$ 20,830,572	\$ 1,200,676,937
University of Arkansas	191,316,317	565,124,675	29,245,245	785,686,237
Arkansas State University - Jonesboro	59,090,991	170,890,507	9,201,546	239,183,045
University of Central Arkansas	53,114,705	131,930,983	4,754,112	189,799,800
University of Arkansas at Little Rock	60,755,097	98,918,400	6,108,426	165,781,923
Arkansas Tech University	32,216,531	90,843,651	2,876,975	125,937,157
University of Arkansas at Fort Smith	20,594,615	54,445,030	3,290,158	78,329,803
Southern Arkansas University	15,584,976	41,553,589	1,306,508	58,445,073
Henderson State University	18,876,011	35,961,530	2,165,080	57,002,622
Pulaski Technical College	15,137,437	33,030,634	2,261,892	50,429,963

# Cash Fund Expenditures: State Agencies

Agency	General Revenue	Cash Funds	Other Funds	Total Operating Expenditures
Parks & Tourism Department	\$ 23,630,333	\$ 31,326,050	\$ 16,227,243	\$ 104,344,050
Correction Department	336,663,255	16,941,456	5,053,401	385,336,310
Development Finance Auth		15,934,301		15,934,301
Education - General Ed Div	16,162,434	14,882,762	5,709,983	574,926,633
DFA-Revenue Services		7,685,160	542,590,613	641,905,812
AETN - Commission	5,472,635	6,727,399	7,238	12,207,272
Natural Resources Comm	6,412,501	4,474,324	10,392,471	26,972,776
Veteran Affairs Department	2,526,139	2,563,095	1,597,651	22,464,876
War Memorial Stadium	836,582	2,419,723		3,256,305
Student Loan Authority		2,416,383		2,416,383

# Cash Fund Expenditures: Boards and Commissions

Agency	General Revenue	Cash Funds	Other Funds	Total Operating Expenditures
Medical Board		3,909,150		\$ 3,909,150
Pharmacy Board		1,648,077		\$ 1,648,077
Collection Agencies Board		1,622,129		\$ 1,622,129
Contractor's Licensing Board		1,540,526		\$ 1,540,526
Real Estate Commission		1,187,647		\$ 1,187,647
Accountancy Board		1,065,175		\$ 1,065,175
Professional Bail Bondsman Licensing Board		456,505		\$ 456,505
Dental Examiners Board		411,502		\$ 411,502
Appraiser Licensing and Certification Board		404,417		\$ 404,417
Towing and Recovery Board		257,324		\$ 257,324
Physical Therapy Board		179,508		\$ 179,508
Psychology Board		151,467		\$ 151,467

# Fund Balances, Revenues and Expenditures for Boards

FY16 figures based on data available in AASIS.

Agency	FY16 Fund Balance	Revenues	Expenditures	Revenues - Expenditures
Medical Board	\$ 4,760,784	\$ 4,265,785	\$ 3,909,150	\$ 356,635
Pharmacy Board	2,890,100	2,071,369	1,648,077	423,292
Collection Agencies Board	5,548,197	1,700,890	1,622,129	78,761
Contractor's Licensing Board	1,766,767	1,600,904	1,540,526	60,378
Real Estate Commission	1,969,607	1,266,900	1,187,647	79,253
Accountancy Board	1,586,916	1,095,082	1,065,175	29,907
Professional Bail Bondsman Licensing Board *	1,147,522	661,691	456,505	205,186
Dental Examiners Board	1,656,330	692,606	411,502	281,104
Appraiser Licensing and Certification Board	1,226,852	426,412	404,417	21,995
Towing and Recovery Board	329,611	276,495	257,324	19,171
Physical Therapy Board	934,268	235,899	179,508	56,391
Psychology Board	648,296	218,464	151,467	66,997



# Telephone & Telecommunications Charges

- Local 911 Funding – Political subdivisions may levy a per access line charge to defray the cost of 911 Centers
  - Up to 5%, or the amount levied as of January 1, 1997, for most subdivisions
  - Up to 12%, or the amount levied as of January 1, 2007, for subdivisions with a population less than 27,500 as of the 1990 census
- State 911 Funding – Mobile Phone, VOIP, and Nontraditional Telephone Services
  - Service charge of \$0.65 per month for each line or connection with a place of primary use in Arkansas.
  - Current rates in surrounding states: TX - 80¢; TN - \$1.16; MS - \$1.00; OK - 50¢; MO – 0; LA (\$1.25 in New Orleans; 85¢ in Baton Rouge.)
  - Collected by the service provider and directly remitted to the Arkansas Emergency Telephone Services Board.
  - According to the Arkansas Association of Counties, in 2016, **\$19,774,454** was collected by the Arkansas Emergency Telephone Services Board.

# Telephone & Telecommunications Charges, cont.

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- State 911 Funding – Prepaid Wireless E911 Charges
  - \$0.65 on each separate purchase of prepaid wireless telecommunications service including a recharge of wireless telecommunications service
  - Collected by the retailer from the consumer and remitted to DFA on monthly sales tax reports.
  - DFA remits the entirety of this charge to the Arkansas Emergency Telephone Services Board.
- Sales Tax on Prepaid Phonocards and Cell Phones
  - For Fiscal Year 2016 approximately **\$6.9M** was collected at the State 6.5% tax rate on E911 fees for prepaid/phone card transactions. These collections are based on total E911 fees collected by DFA from retailers;
  - Based on an article written by the Association of Counties on December 6<sup>th</sup>, 2016 the State 6.5% tax collections for 2015 are approximately **\$56.7M** for E911 fees on prepaid mobile phone transactions. These collections are based on total E911 fees collected provided by the Emergency Telephone Services Board.

# Telephone & Telecommunications Charges, cont.

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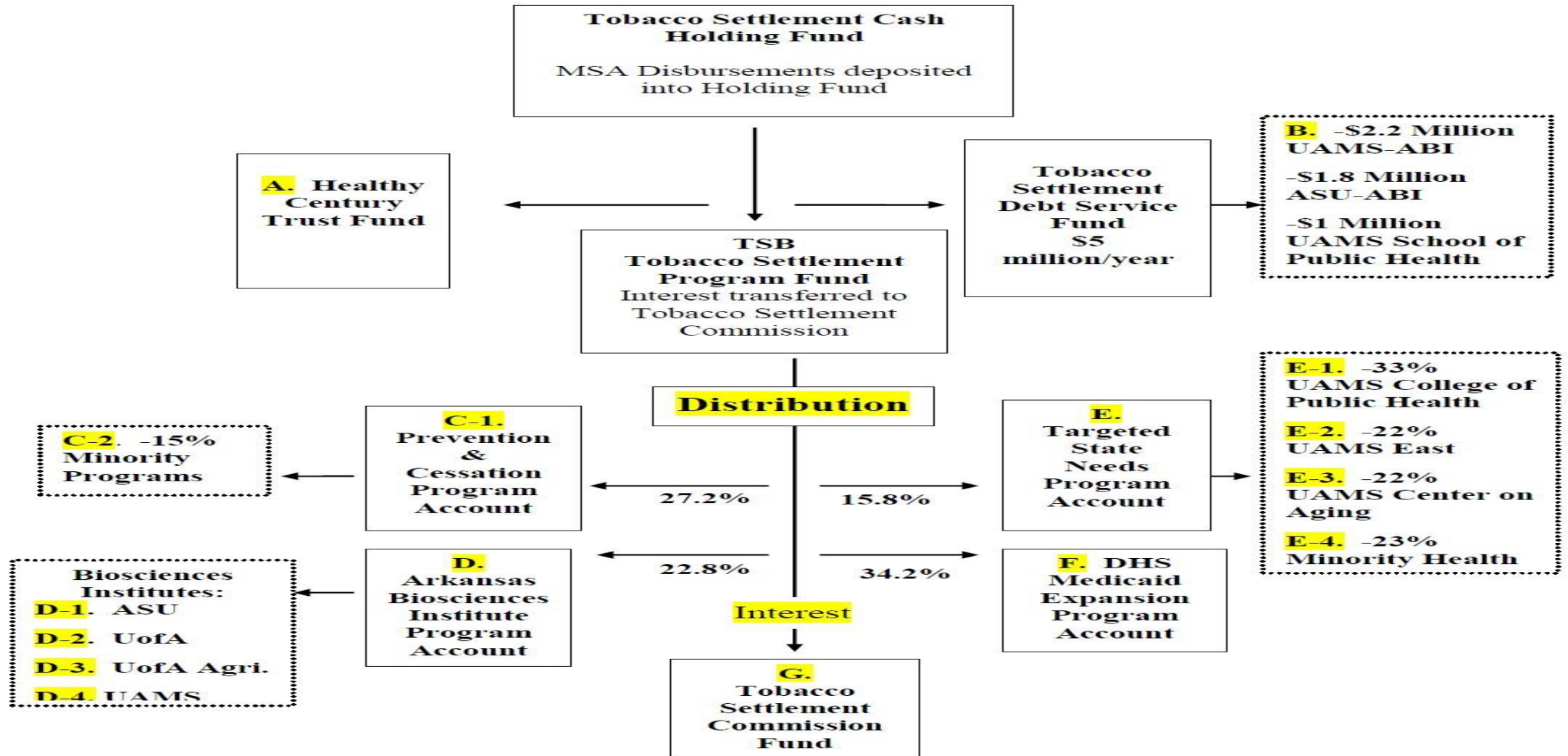
- Telephone Surcharge
  - The surcharge is to be collected by Commercial Mobile Radio Service Providers and Local Exchange Carriers.
  - The surcharge rate is established by the Public Service Commission and collected by the local carriers from their customers.
  - Effective July 1, 2013, the monthly Telephone Surcharge rate of \$0.02 applies to working subject telephone numbers (Commercial Mobile Radio Service Providers) and subject access lines (Local Exchange Carriers).
  - Total revenue from Fiscal Year 2017 - \$440,656.98

# Cigarette and Tobacco Tax: Overview

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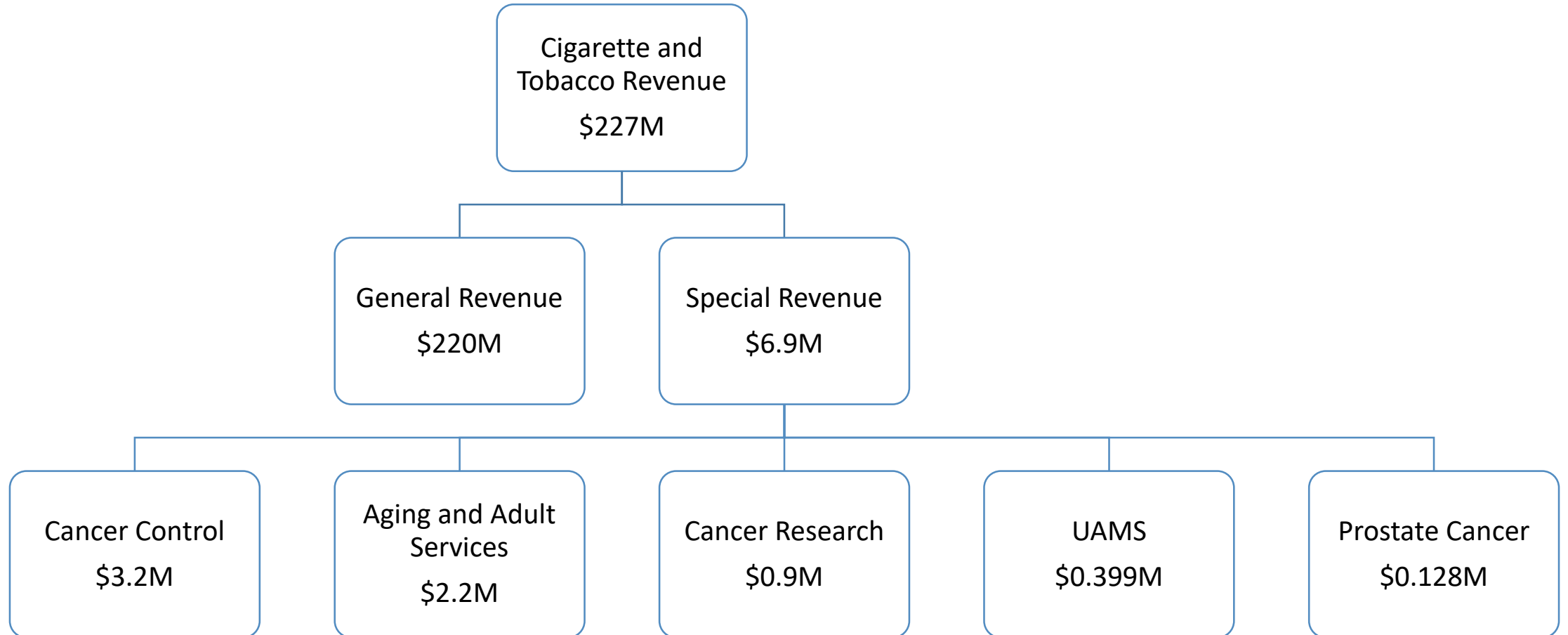
- **Cigarette Tax: Ark. Code Ann. § 26-57-208**
  - A special excise tax of \$57.50 per 1,000 cigarettes.
  - \$1.15 per pack of twenty cigarettes.
  - Paid by the wholesaler, unless the retailer purchases cigarettes from an wholesaler or producer not licensed by Arkansas.
  - General revenue, with some special revenue components.
- **Tobacco Tax: : Ark. Code Ann. § 26-57-208**
  - 68% Excise tax on manufacturer's price
  - Paid by the wholesaler, unless the retailer purchases cigarettes from a wholesaler or producer not licensed by Arkansas.
  - General revenue, with some special revenue components.
- **Master Settlement Agreement – Ark. Code Ann. § 19-12-101 - 119**
  - Overseen by the Attorney General's Office.
  - The Tobacco Settlement Proceeds Act, Initiated Act 1 of 2000.
  - Average of \$49M per year from tobacco companies pursuant to 1998 MSA.

# Cigarette and Tobacco – Master Settlement Agreement Distribution

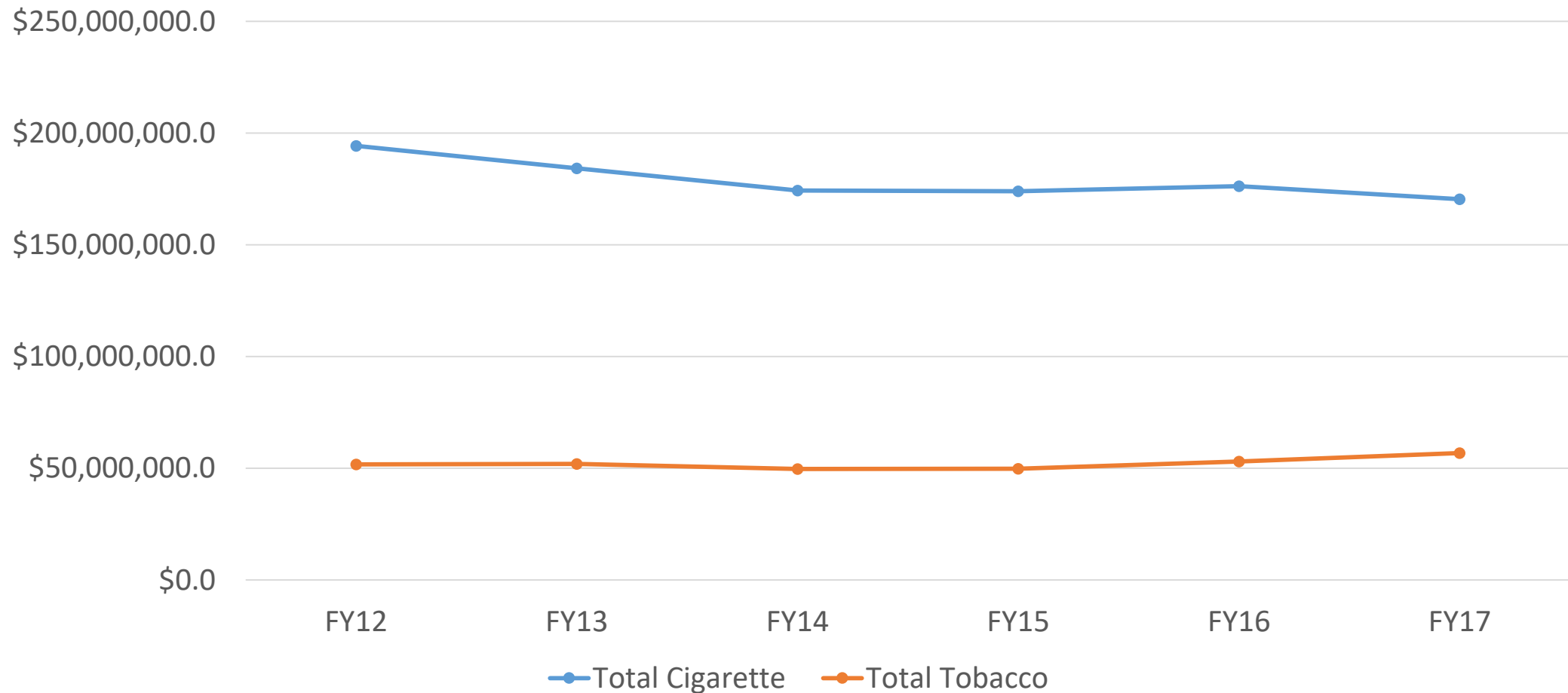


Source: K. Anderson-Tobacco Settlement Funds Overview

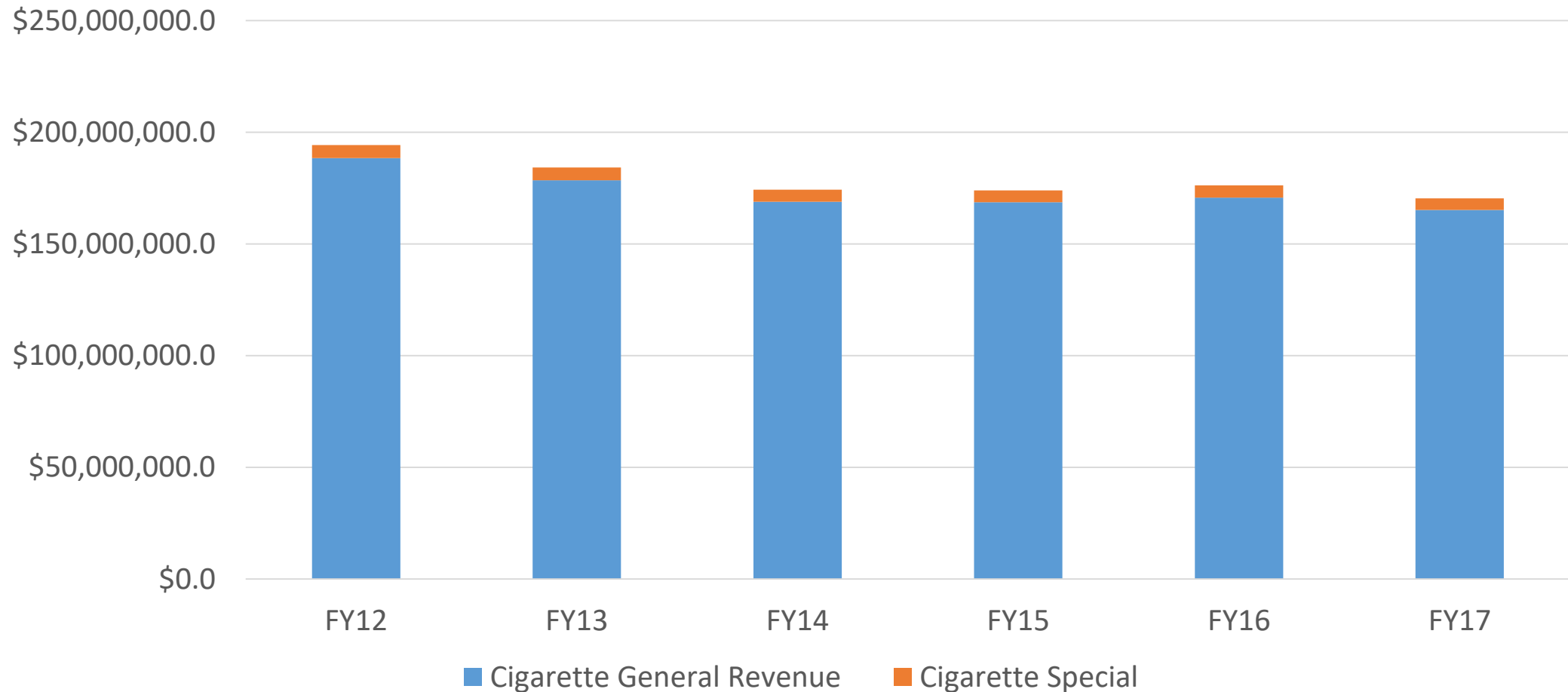
# Cigarette and Tobacco Tax: Distribution (FY17)



# Cigarette and Tobacco Tax: Total Collections

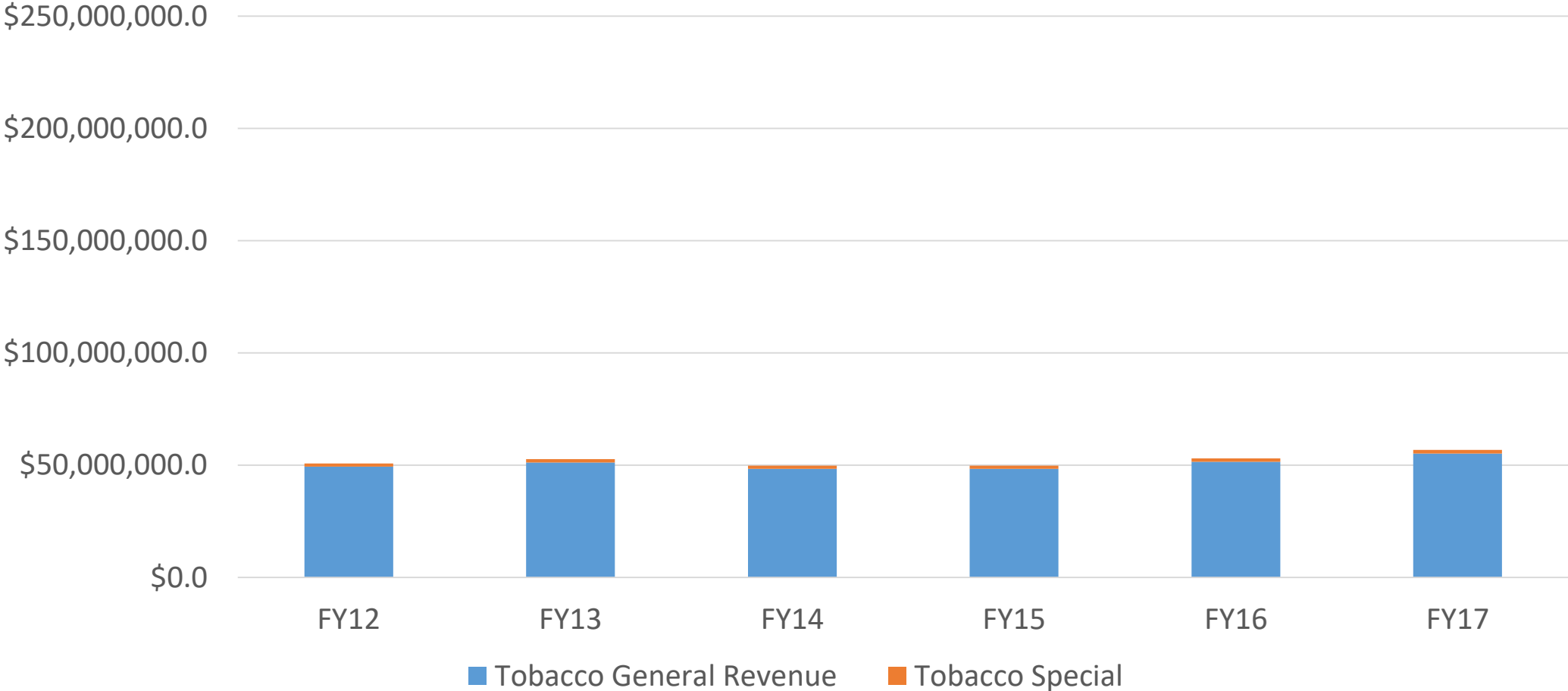


# Cigarette Tax: General vs Special



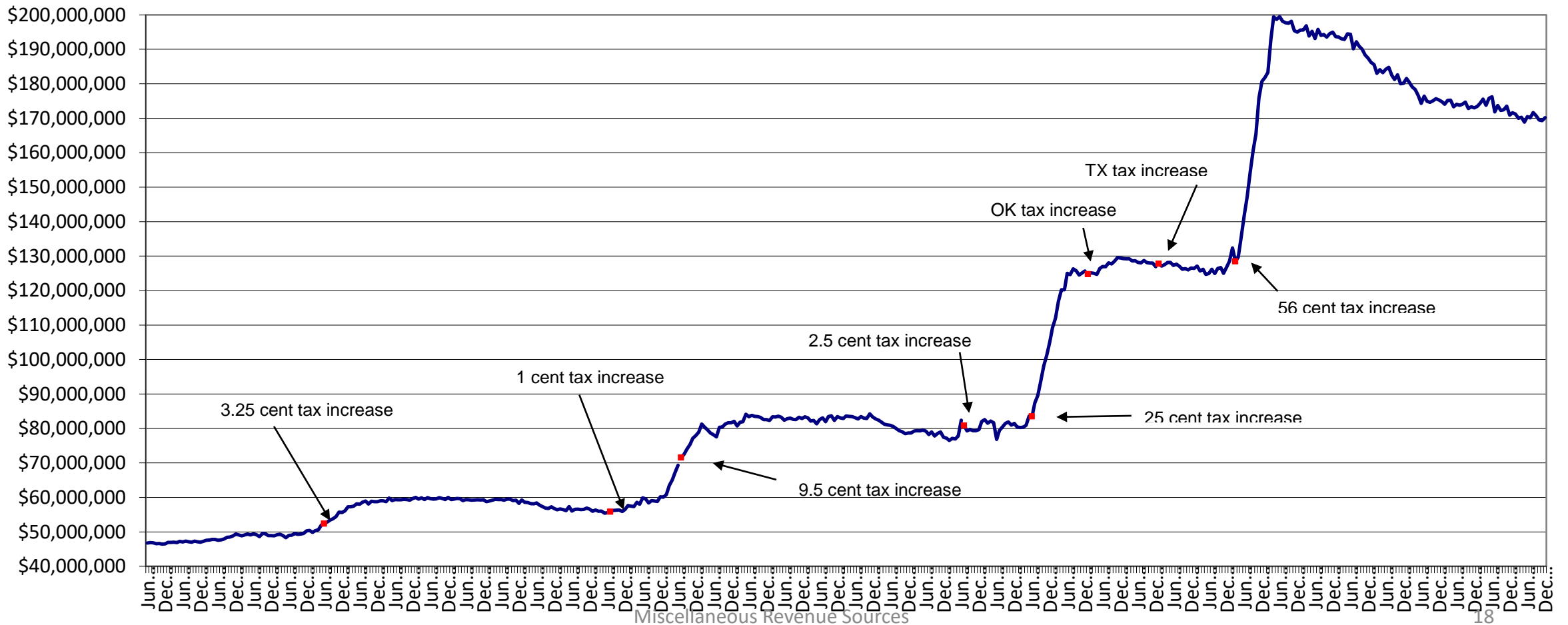


# Tobacco Tax: General vs Special

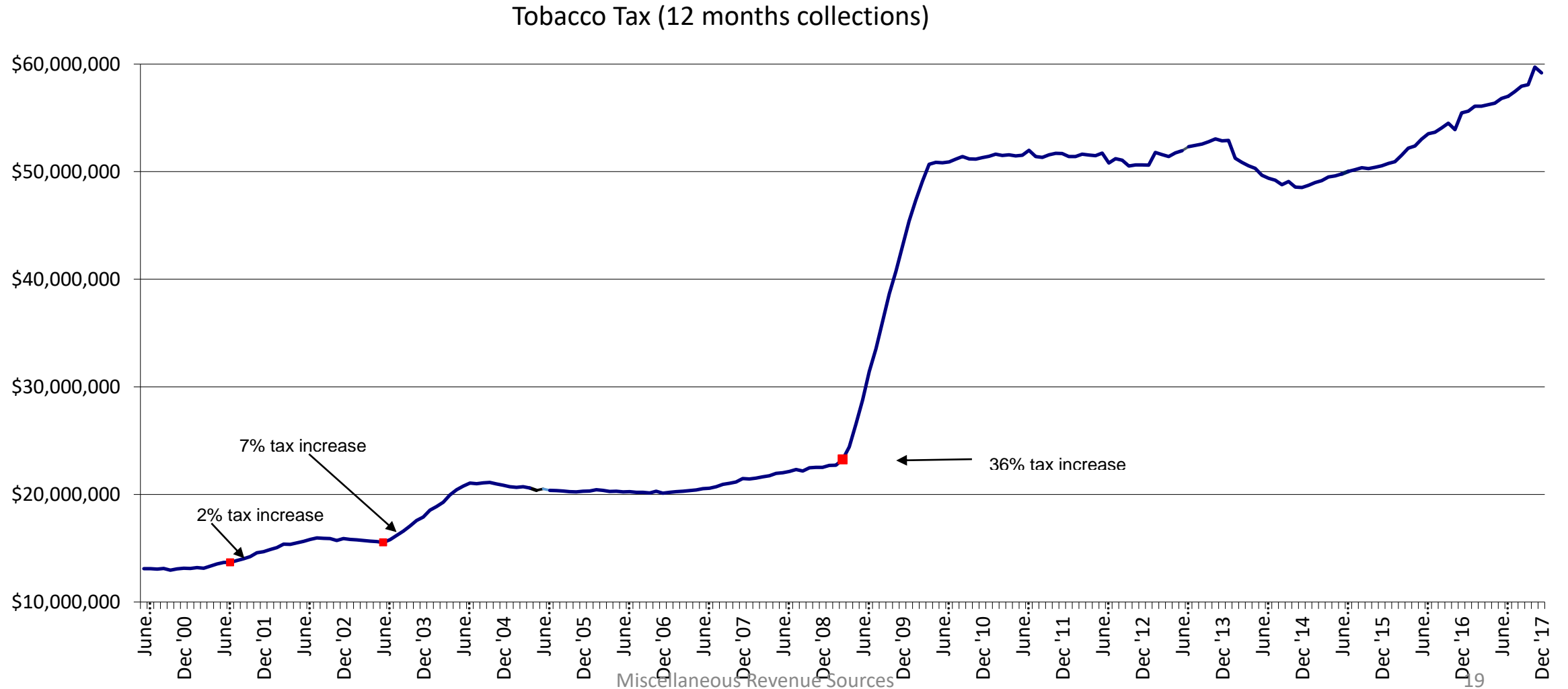


# Cigarette Tax: Long Term Trend

Cigarette Tax (12 months collections)



# Tobacco Tax: Long Term Trend



# Soft Drink Tax: Overview

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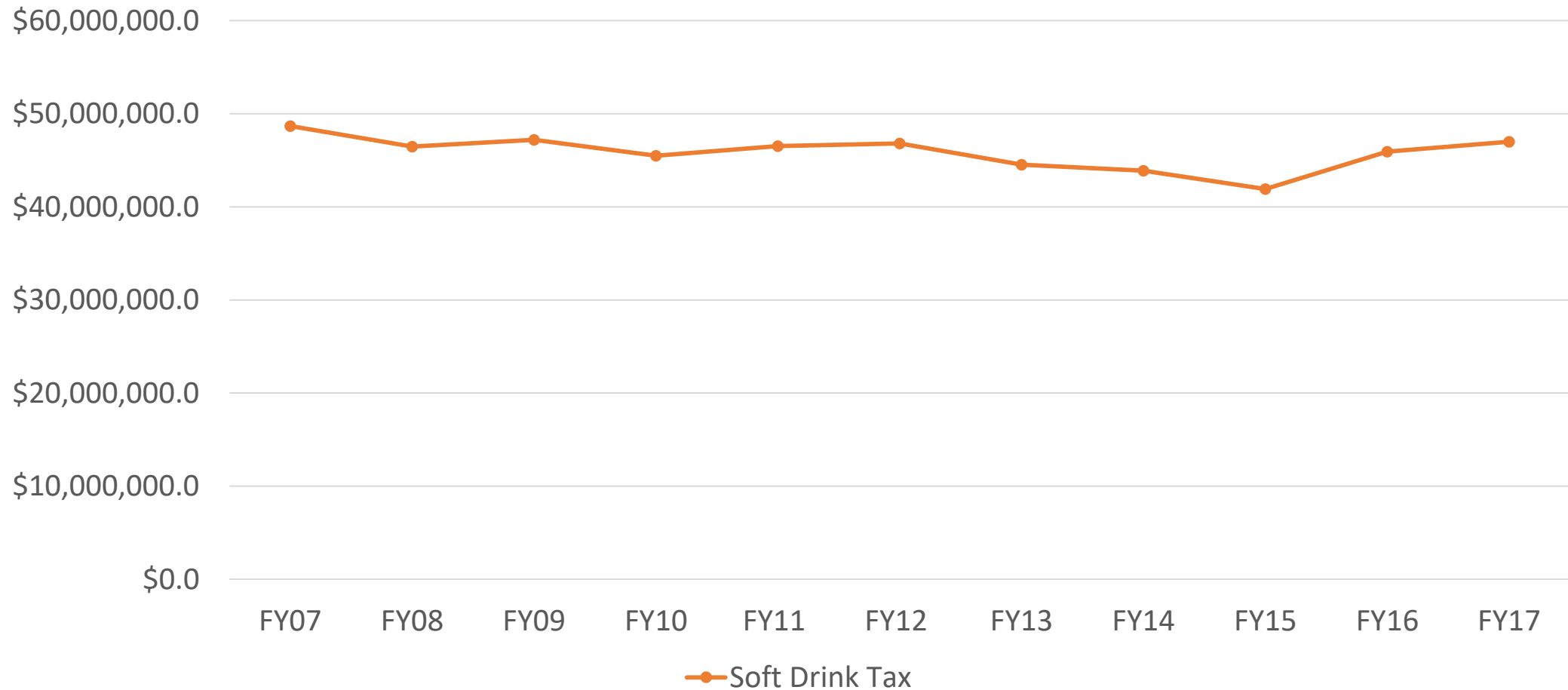
- Tax became effective March 1, 1993 (Act 7 of 1992, 2<sup>nd</sup> Extraordinary Session). Ark. Code Ann. § 26-57-901 - 909.
  - Levied on nonalcoholic beverages for human consumption including soda water, ginger ale, cola, flavored drinks or juices with less than 10% fruit juice, and other “soft drinks”.
    - Excludes coffee and tea unless bottled as a liquid for sale
  - Different rates for different types of products:
    - Soft Drink Syrup or simple syrup - \$1.31/gallon
    - Bottled Soft Drinks - \$0.21/gallon
    - Powder or other non syrup base - \$0.21/gallon based on dilution instructions.
- Syrup rate reduced from \$2.00/gallon by Act 141 of 2017

# Soft Drink Tax: Overview

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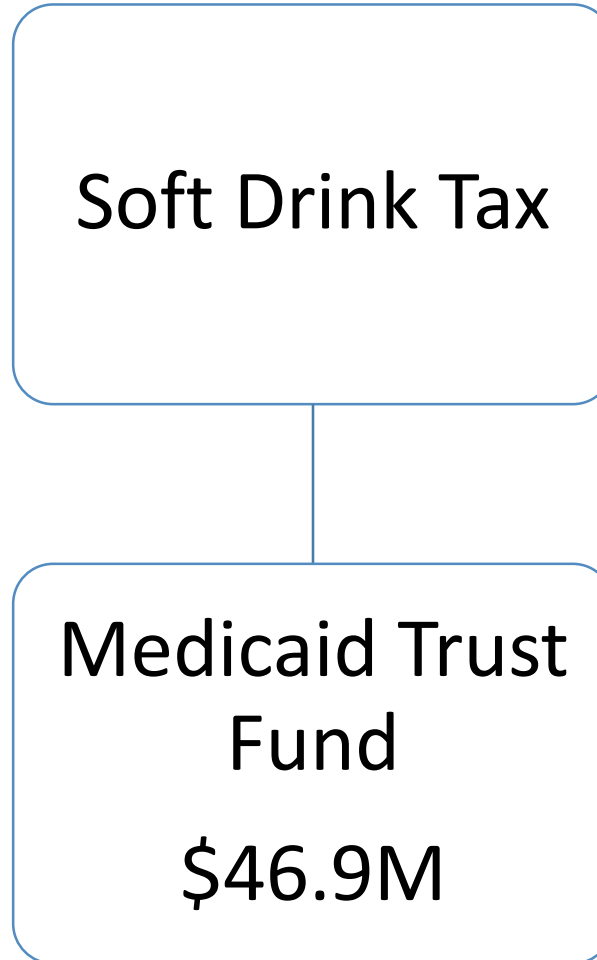
- Tax paid by the manufacturer, wholesaler, or distributor, or by the retailer if soft drinks, syrups, or soft drink base is purchased from an unlicensed manufacturer, wholesaler, or distributor.
- DFA Rule 1993-8 provides further administrative guidance.
- Special revenue dedicated to the Arkansas Medicaid Program Trust Fund by Ark. Code Ann. § 26-57-908 providing Federal match.
- The reduction in the syrup tax from Act 141 of 2017 also includes a \$6.3M transfer of general revenue into the Medicaid Trust Fund to replace the lowered revenue.

# Soft Drink Tax: Total Collections



# Soft Drink Tax: Distribution (FY17)

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# Corporate Franchise Tax: Overview

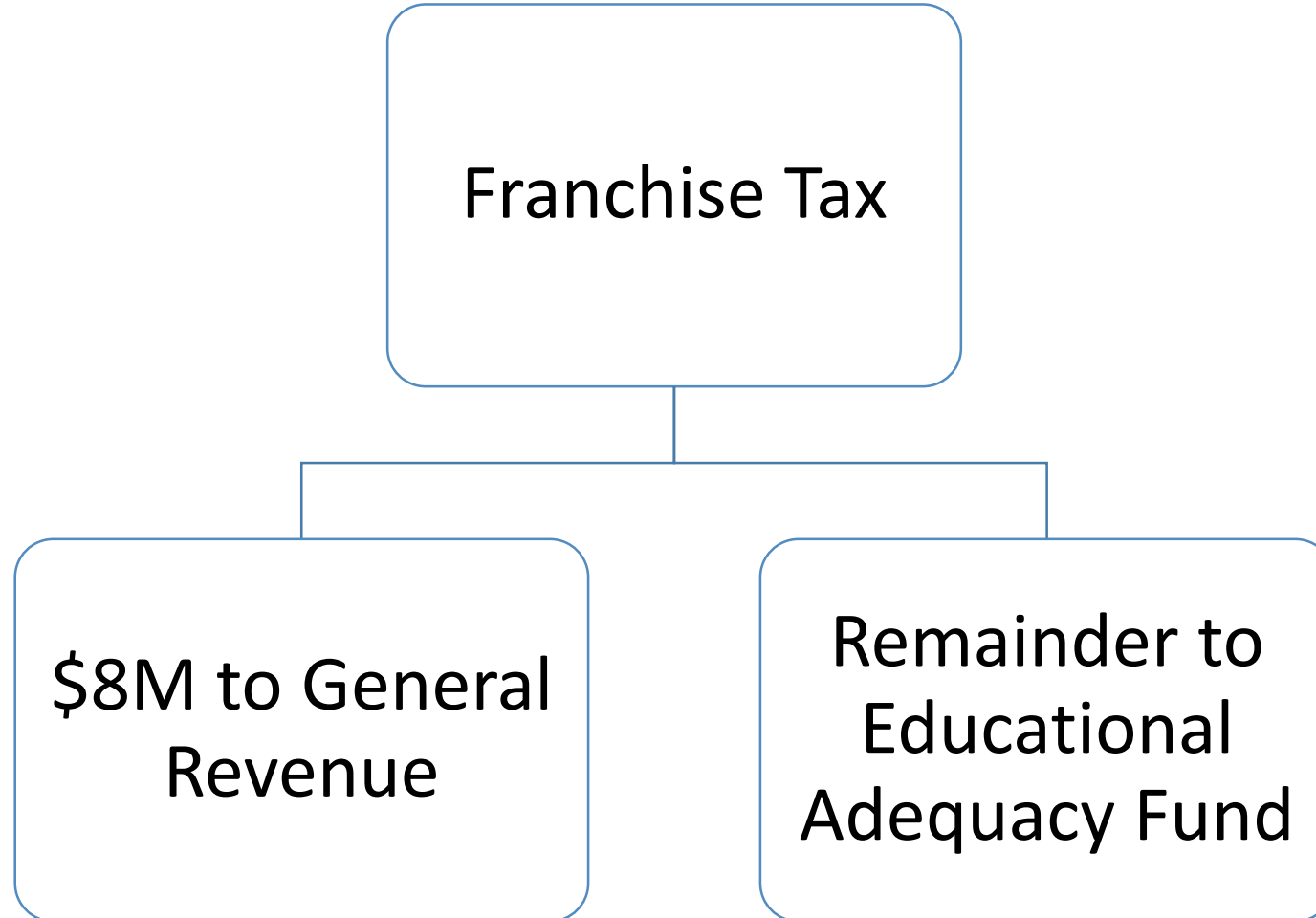
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- The Arkansas Secretary of State Office is responsible for the collection of the state's mandatory franchise taxes.
- Companies who conduct business in Arkansas are required to pay this annual tax, with the first \$8 million placed into the state's general fund and the remaining balance into the Education Adequacy Fund, which provides funding to public schools and higher education. (Source: SOS)
- The Arkansas General Assembly's Act 94 of 2003, Ark. Code Ann. § 26-54-104, adjusted the state's franchise tax and changed the tax deadline date to May 1st of the payment year. (Source: SOS)
- Last year 133,064 entities paid franchise taxes totaling \$23,189,267, according to the Secretary of State.



# Corporate Franchise Tax: Distribution

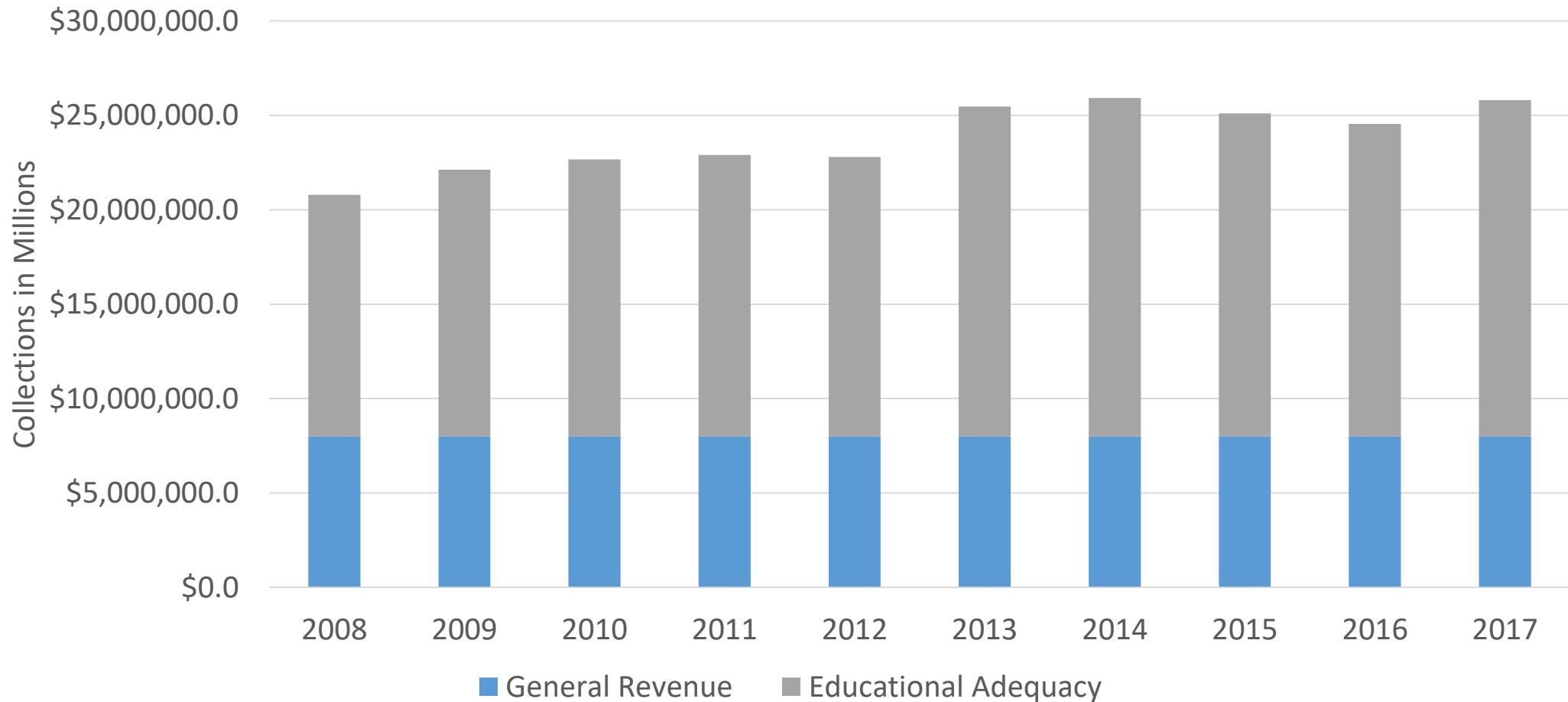
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# Corporate Franchise Tax: Collections



# Corporate Franchise Tax: General vs Adequacy

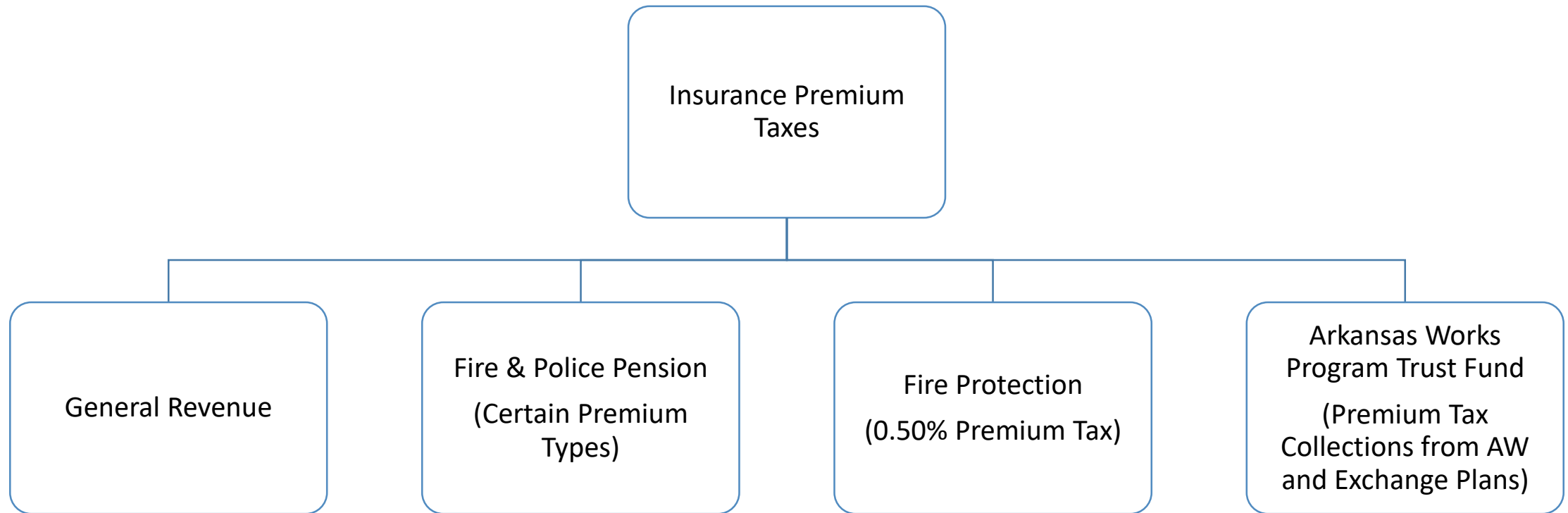


# Insurance Premium Tax: Overview

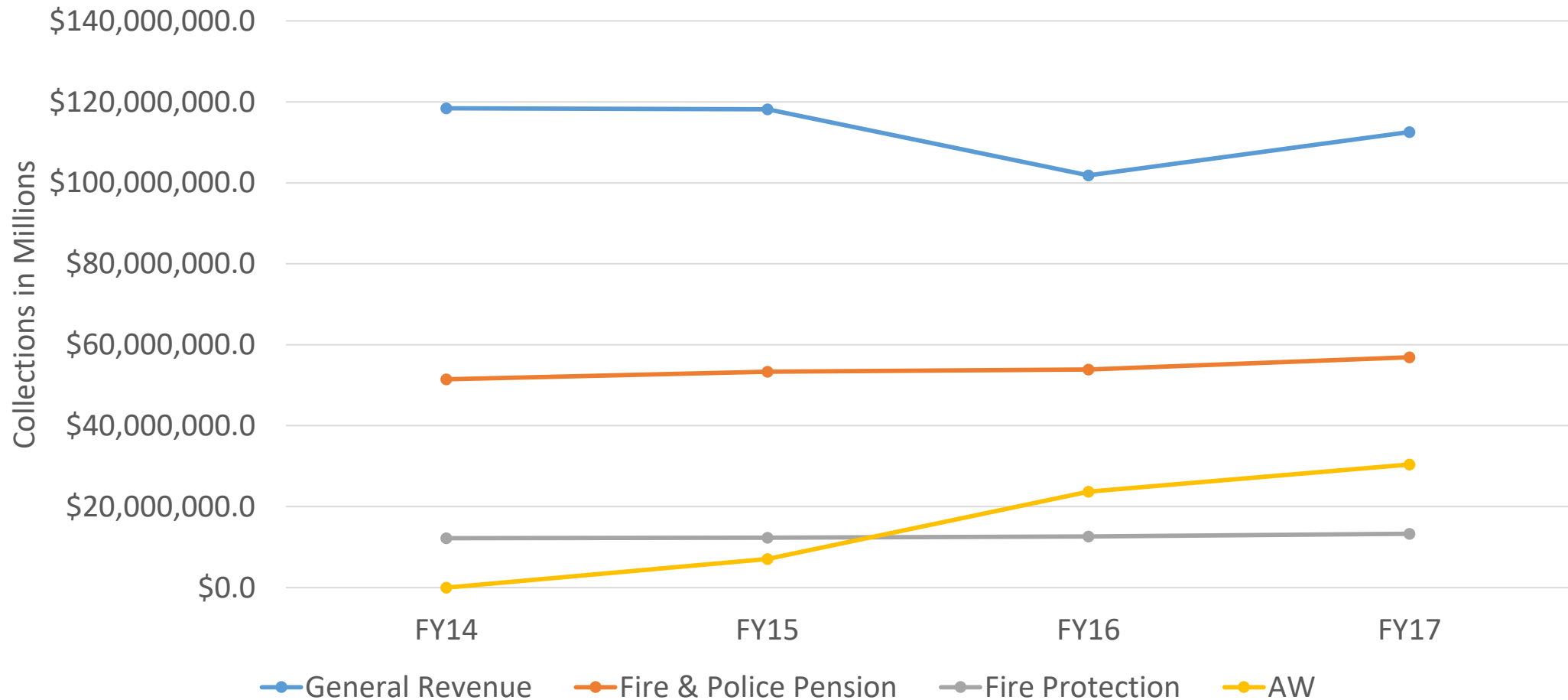
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- Administered by the Arkansas Insurance Department
- Insurance Premium Taxes are collected in lieu of other taxes on insurance premium receipts. Ark. Code Ann. § 26-57-602.
- In Arkansas, the Insurance Premium Tax is generally 2.5% on the net premiums and consideration.
- Licensed insurers and HMOs are responsible for paying the Insurance Premium Tax.
- 53% is General Revenue (\$112.6M FY17), with the other 47% earmarked or designated special revenues (\$100.6M FY17).
- These collections do not include Workers Compensation.

# Insurance Premium Tax: Distribution



# Insurance Premium Tax: Collections



# Motor Fuels Tax: Overview

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- Motor Fuel Taxes cover multiple types of fuel for motor vehicles
  - Gasoline - \$0.215/gallon
  - Special Diesel & Biodiesel - \$0.225/gallon
  - LNG & CNG - \$0.05/gallon
  - Ethanol and Methanol - \$0.215/gallon
  - Propane - \$0.215/gallon
- Designated as Special Revenue for:
  - ADOT – 70%
  - Counties through the County Aid Fund – 15%
  - Cities through the Municipal Aid Fund – 15%

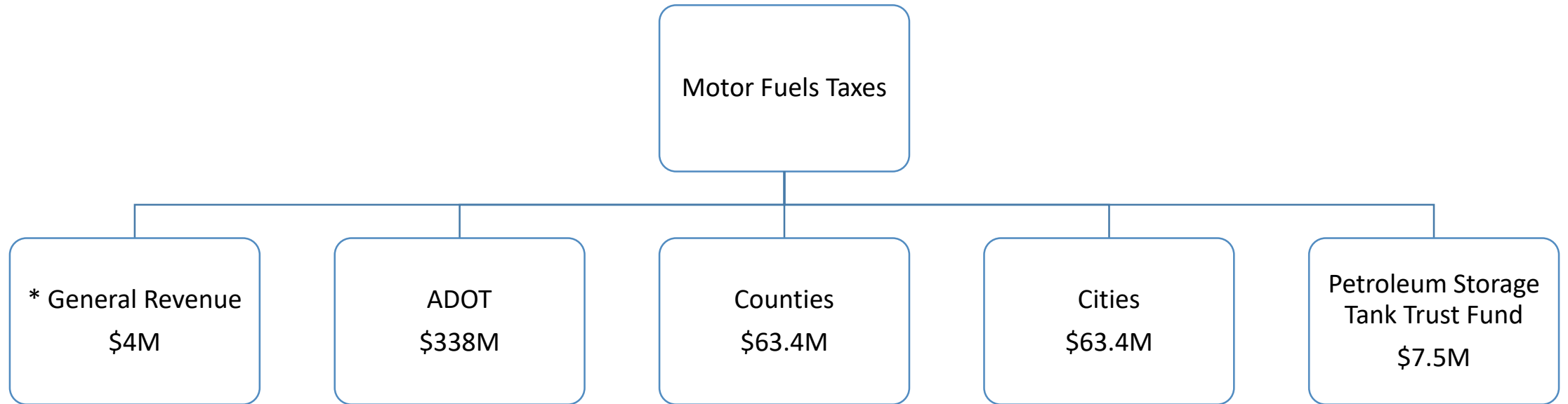
# Motor Fuels Tax: Overview

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- Arkansas is a party to the International Fuel Tax Association (IFTA)
  - IFTA provides interstate commercial carriers a method for paying fuel tax for the miles traveled in each state.
  - IFTA publishes tables for commercial carriers to use quarterly in computing tax liability.
- Collected from the end-user at the pump along with Federal Motor Fuel taxes instead of general sales tax

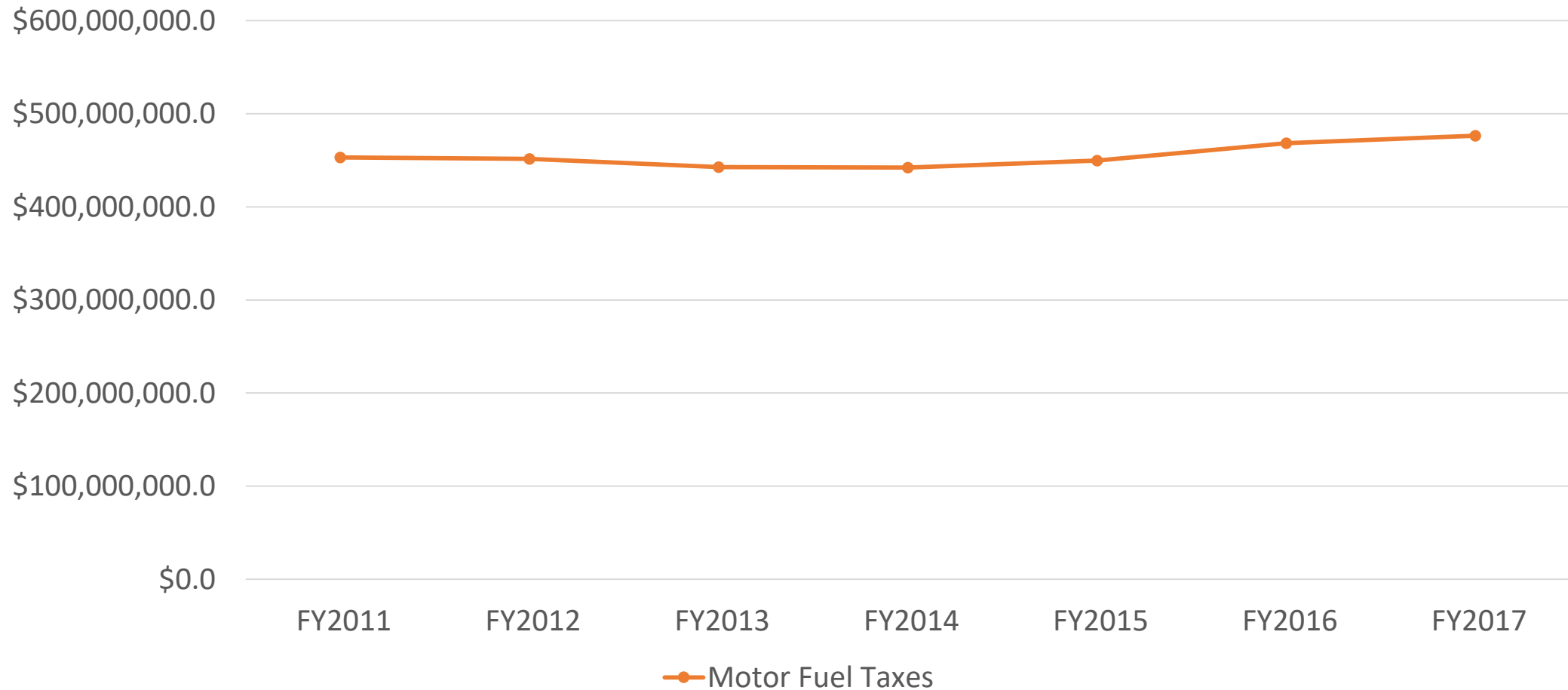


# Motor Fuels Tax: Distribution (FY17)

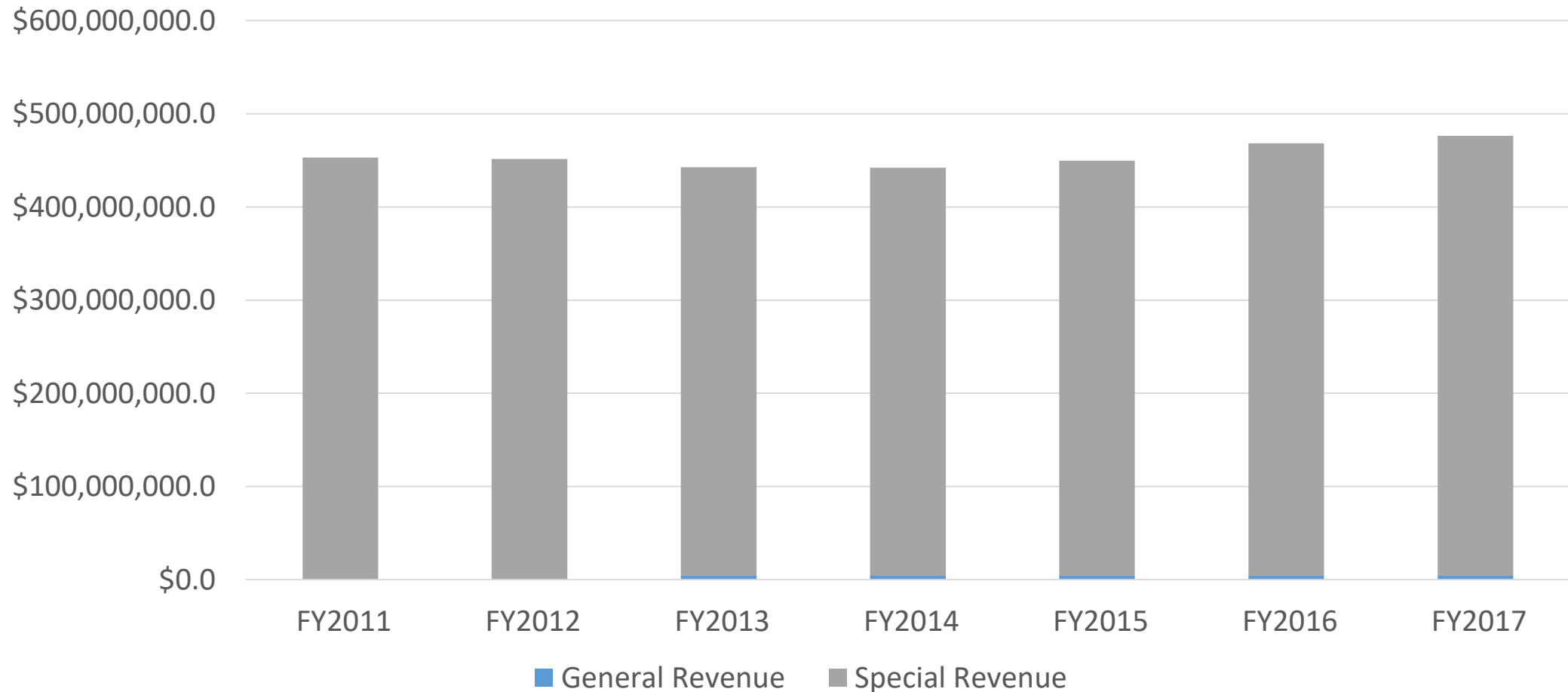


\* Beginning FY18, the \$4M transfer to General Revenue was removed.

# Motor Fuels Tax: Total Collections



# Motor Fuels Tax: General vs Special

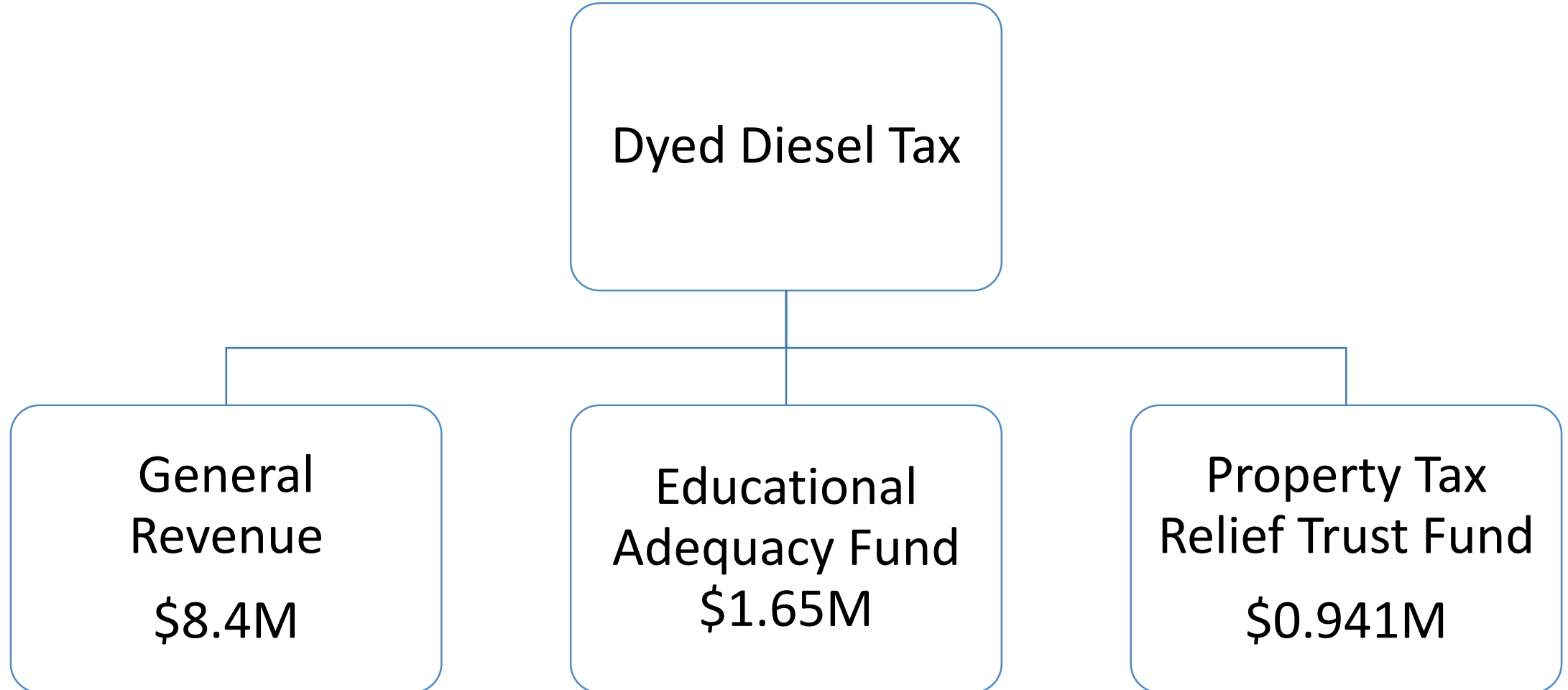


# Dyed Diesel Tax: Overview

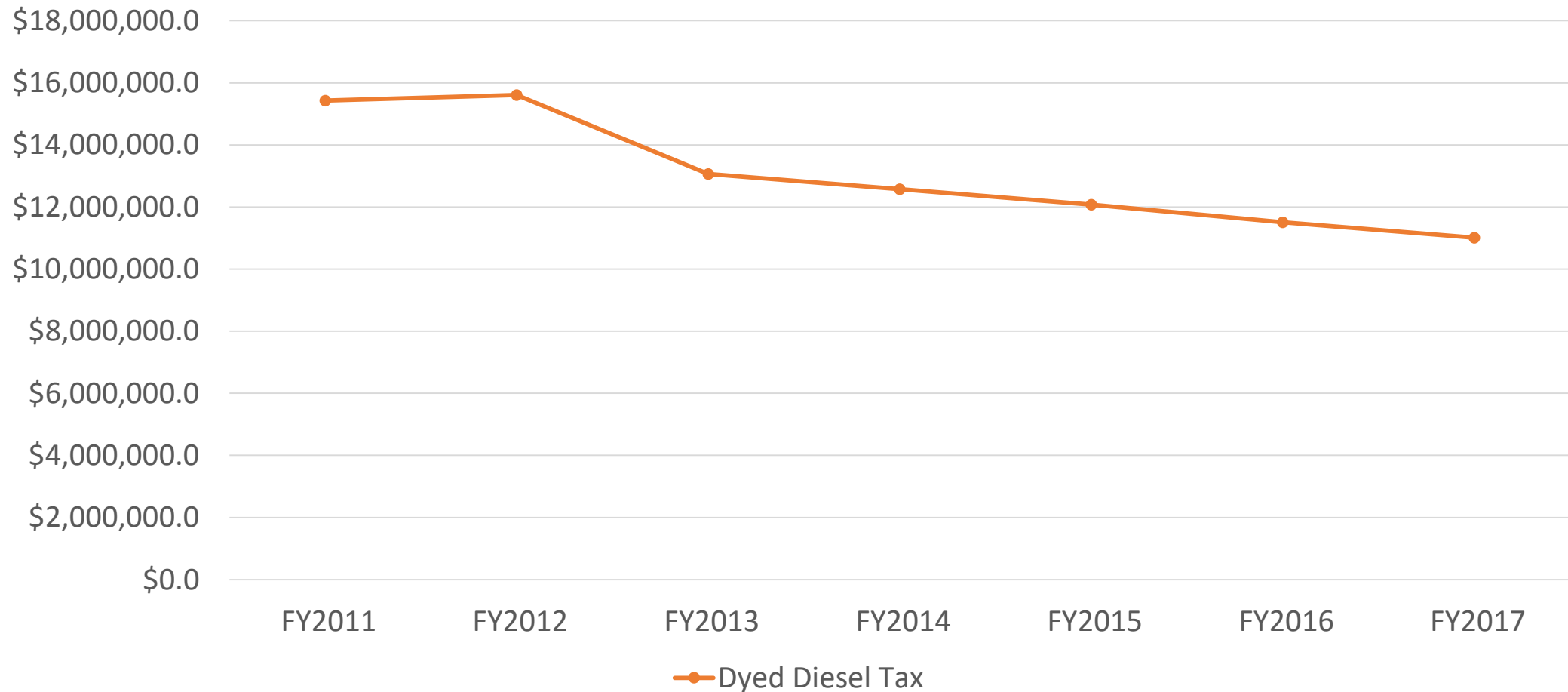
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- Dyed Diesel fuel is diesel with a red dye added.
  - Dyed Diesel is for off-road use only and exempt from the Motor Fuel Tax
  - Commonly used by farmers for farm vehicles in Arkansas
  - Other states also see Dyed Diesel use for home heating
- \$0.06 per gallon tax that is designated as General and Special Revenue.

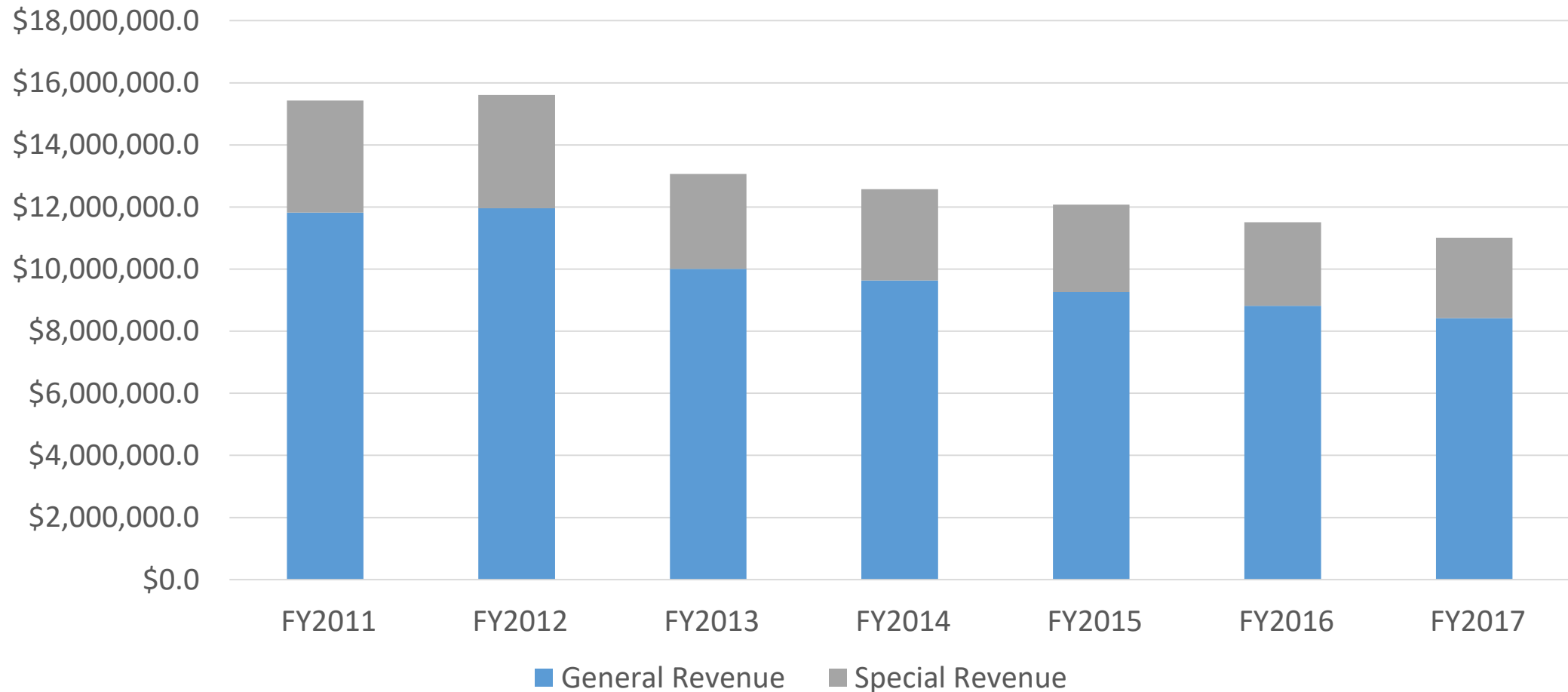
# Dyed Diesel Tax: Distribution (FY17)



# Dyed Diesel Tax: Total Collections



# Dyed Diesel Tax: General vs Special



# Racing and Gaming Taxes: Overview

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- Oaklawn
  - A special privilege tax of 1% of all money wagered on races. Ark. Code Ann. § 23-110-407(a)(2)(A)(ii).
- Southland
  - A special privilege tax of 3% of all money wagered on live, on-premises racing up to \$125M. Ark. Code Ann. § 23-111-509(c)(1)(A).
  - A special privilege tax of 7% of all money wagered on line, on-premises racing in excess of \$125M. Ark. Code Ann. § 23-111-509(c)(1)(B)
  - A special privilege tax of 1% on all money wagered on simulcast or replayed races. Ark. Code Ann. § 23-11-509(c)(2)(A).
- These are general revenues to the State, with small exceptions for certain application fees for EGS.



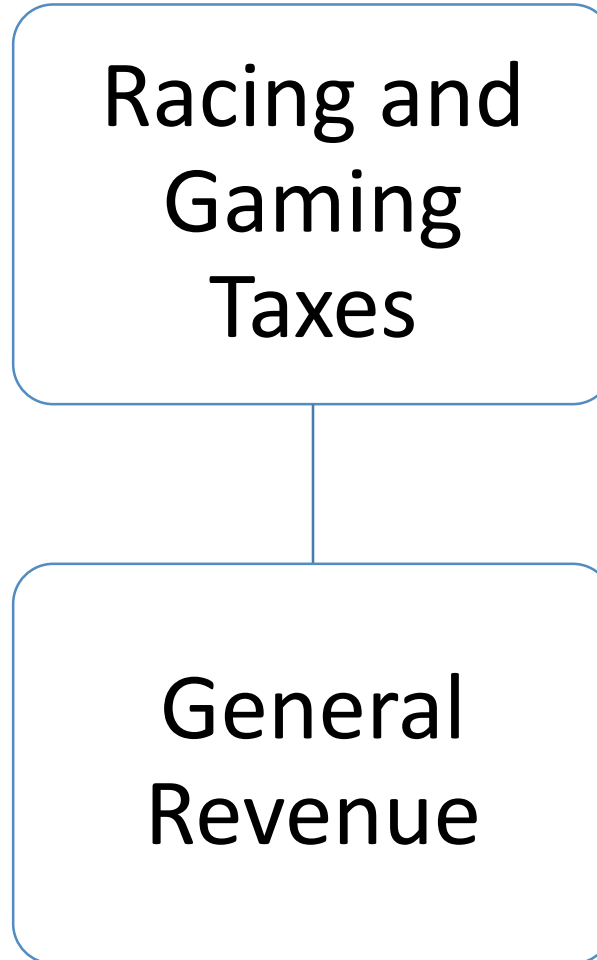
# Racing and Gaming Taxes: Electronic Games of Skill

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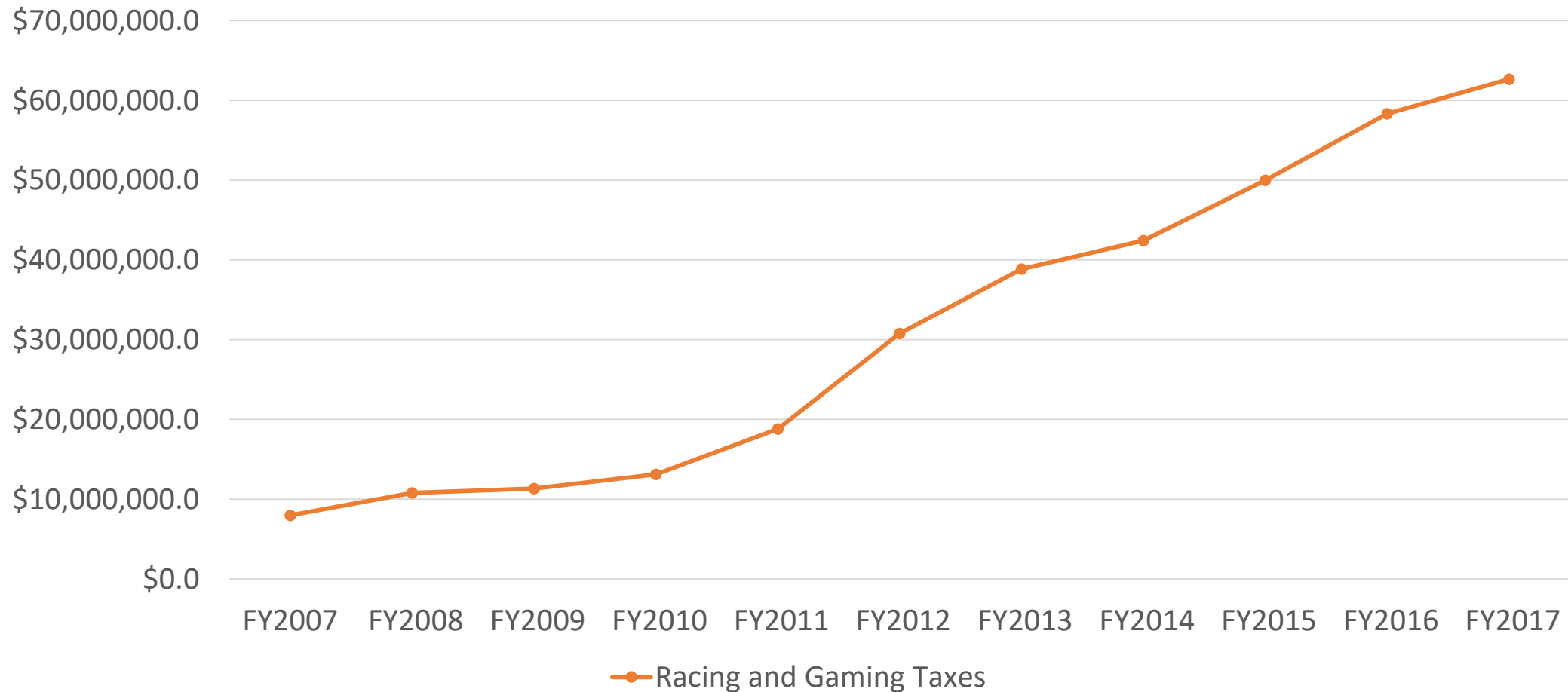
- Electronic Games of Skill means games played through any electronic device or machine that affords an opportunity for the exercise of skill or judgment where the outcome is not completely controlled by chance alone.
  - A game is not completely controlled by chance alone if the betting public may attain through the exercise of skill or judgment a better measure of success in playing the game than could be mathematically expected on the basis of pure luck, that is, on the basis of pure random chance alone.
- An 18% privilege tax is levied on the net wagering revenues from EGS. The fees are collected by the horse racing and greyhound racing franchisees.
- Local Option Horse Racing and Greyhound Racing Electronic Games of Skill Act. Ark. Code Ann. § 23-113-101 *et seq.*

# Racing and Gaming Taxes: Distribution

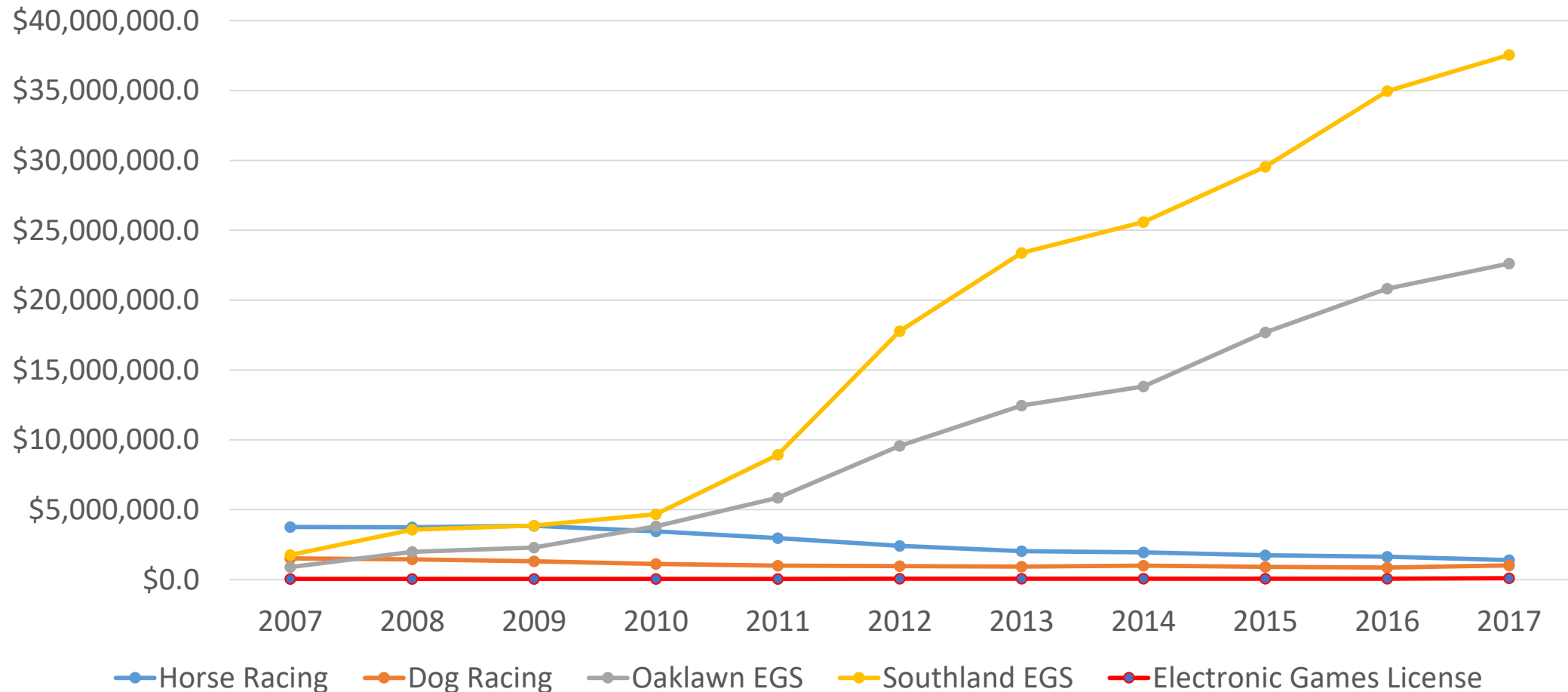
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# Racing and Gaming Taxes: Total Collections



# Racing and Gaming Taxes: Sources

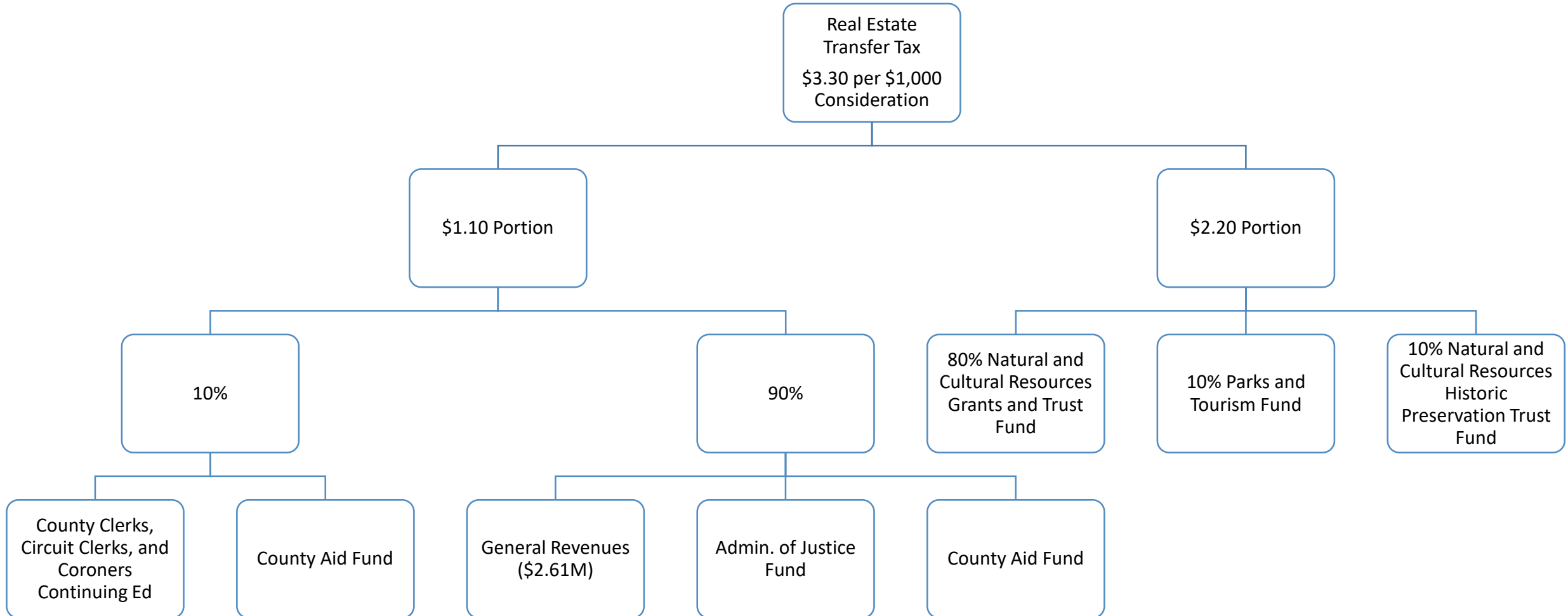


# Real Property Transfer Tax: Overview

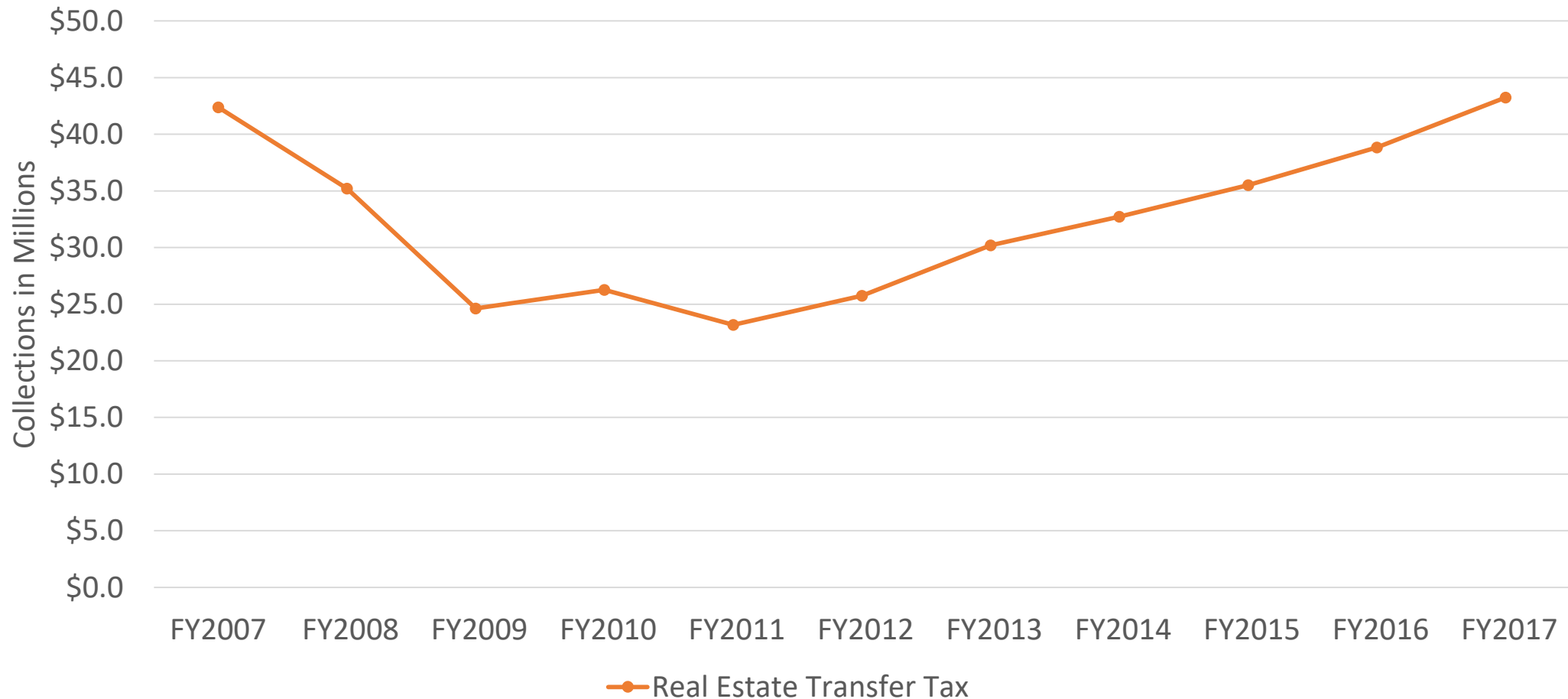
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- Total Tax Rate: \$3.30 per \$1,000.00 consideration given for the property interest.
- Levied by Ark. Code Ann. § 26-60-105. Subsection (a) levies the tax at the rate of \$1.10 per \$1,000 transfer price and Subsection (b) levies an additional tax at the rate of \$2.20 per \$1,000 transfer price.
- Administered by the Department of Finance & Administration
  - Applies at the time of the transfer of real property.
  - Unless otherwise agreed in the transfer, ½ paid by seller and ½ paid by buyer.
- Deed “Tax Stamps” and Affidavit of Compliance presented to clerk when recording deed.
- Primarily special revenue, with a small amount going into general revenue.

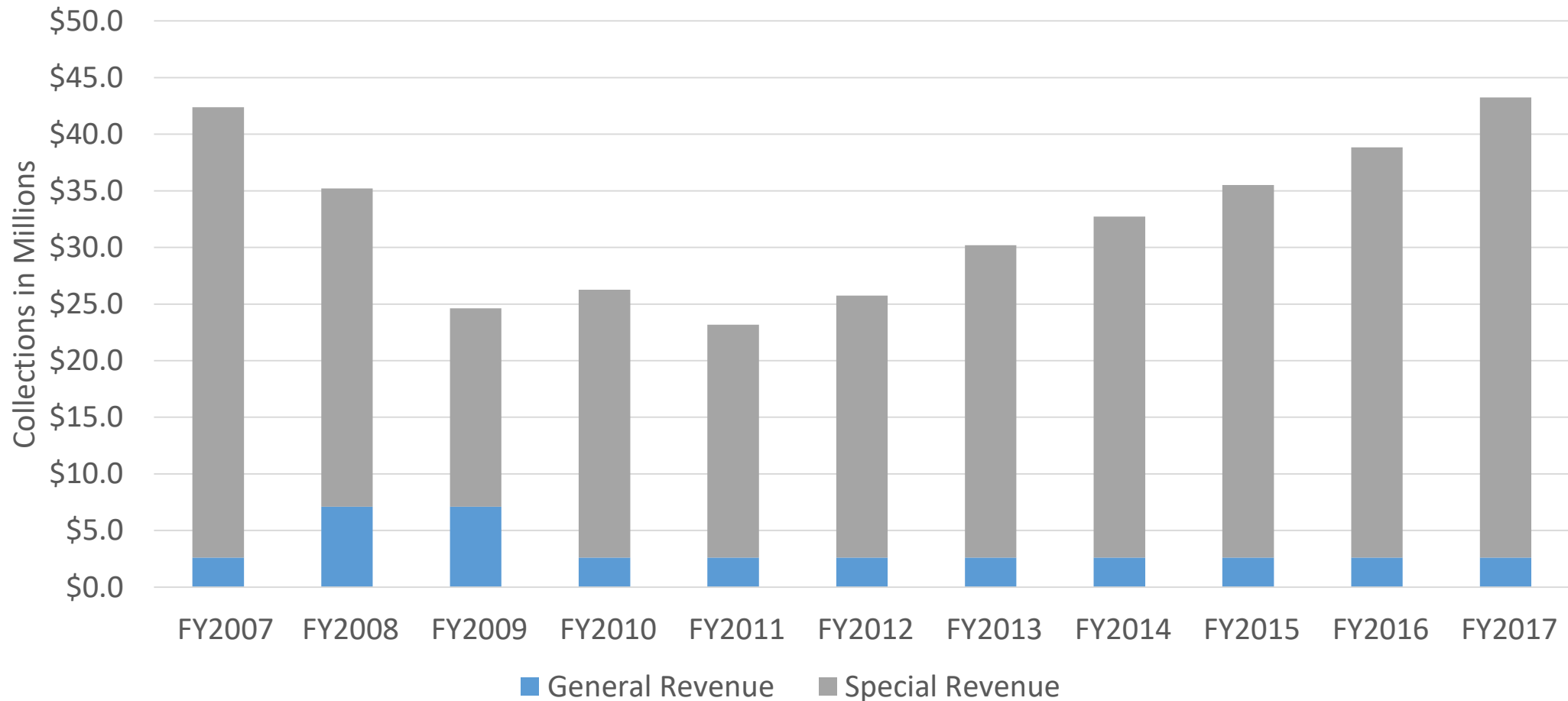
# Real Estate Transfer Tax: Distribution



# Real Estate Transfer Tax: Total Collections



# Real Estate Transfer Tax: General vs Special



Miscellaneous Revenue Sources

Additional \$4.5M Transfer to General Revenue in FY08 and FY09.



# Severance Tax: Overview

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- What is a Severance Tax?
  - “A tax imposed on the removal of nonrenewable resource such as crude oil, condensate and natural gas, coalbed methane and carbon dioxide.”
  - “Severance tax is charged to producers, or anyone with a working or royalty interest in oil or gas operations in the imposing states. You may be charged severance tax even if you do not realize a net profit on your investment.”
- What is subject to a Severance Tax in Arkansas? Ark. Code Ann. § 26-58-101, *et seq.*
  - Natural Gas
  - Oil
  - Timber
  - Brine, Crushed Stone, Coal, and other.
- Each Severance tax has different rates and distributions.

# Severance Tax: Overview, cont.

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- Natural Gas Severance Tax:
  - Different tax rates for Marginal gas, New discovery gas, High-cost gas, and all other natural gas.
  - The first \$675,000 to general revenue and everything above that distributed 5% to the Road & Bridge Repair Fund and 95% to be split 70/15/15 among ADOT/cities/counties.
- Timber Severance Tax:
  - Distributed to the Forestry Commission
- Severance Tax on Oil and Most Other Resources:
  - Other collection includes severance tax on brine, crushed stone, coal, and other.
  - Distributed 75% to general revenue and 25% to County Aid Fund
- Small Additional Severance Taxes on Oil and Brine
  - Credited to the Museum of Natural Resources and Oil & Gas Commission Fund.

# Severance Tax: Natural Gas Tax Rates

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- Marginal gas: 1.25% of market value
- New discovery gas: 1.5% of market value for the first 24 months, then at 5% of market value if not marginal gas
- High-cost gas: 1.5% of market value for the first 36 months (12 month extension possible), then at 5% of market value if not marginal gas
- All natural gas which is not defined as new discovery gas, high-cost gas, or marginal gas: 5% of market value.

# Severance Tax: Other Rates

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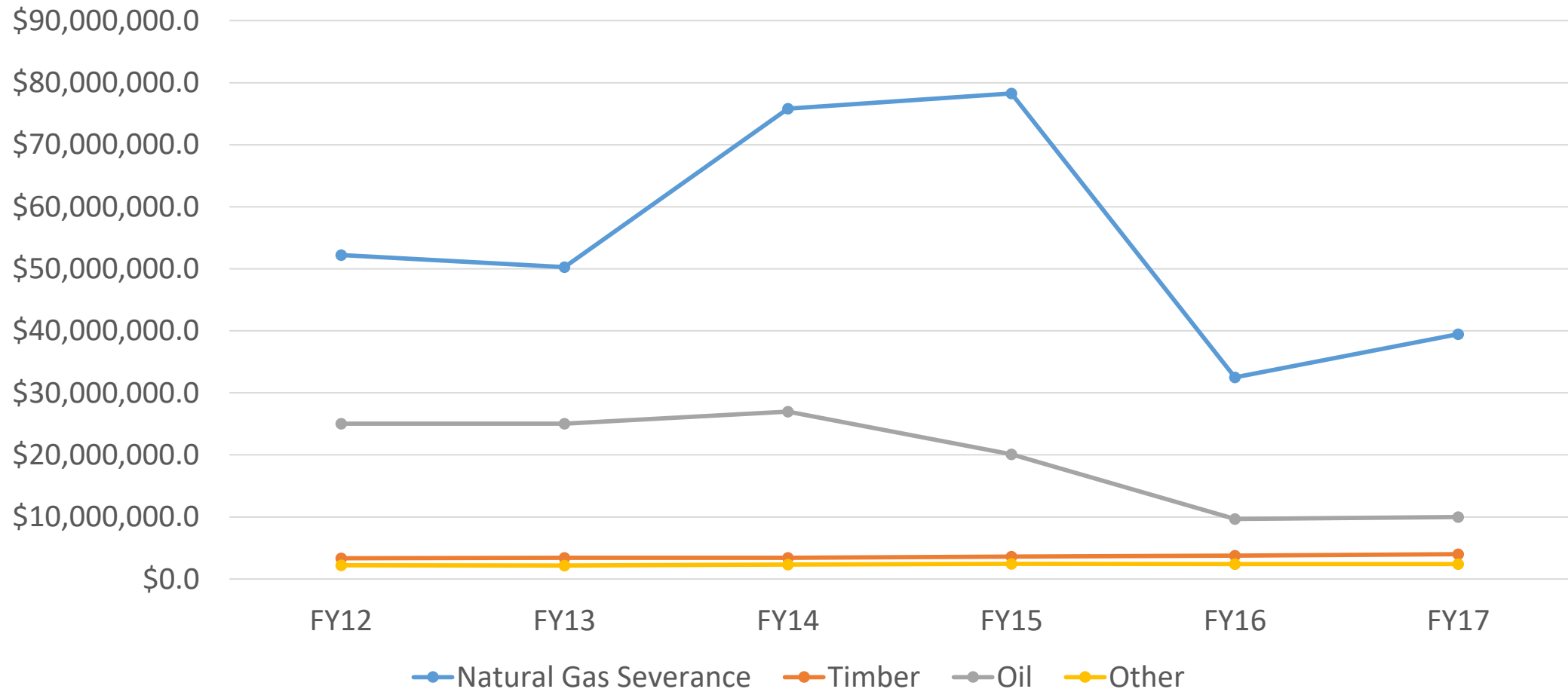
- Timber - Calculated by weight of severed timber.
  - Pine - \$0.178/ton.
  - Other timber - \$0.125/ton.
- Brine – Calculated by barrels severed
  - \$0.20/1000 Barrels
  - Special Revenue for Arkansas Museum of Natural Resources Fund
- Coal, lignite, and iron ore – Calculated by weight
  - \$0.02/ton
- Barite, bauxite, titanium ore, manganese and manganese ores, zinc ore, and cinnabar – Calculated by weight
  - \$0.15/ton

# Severance Tax: Other Rates

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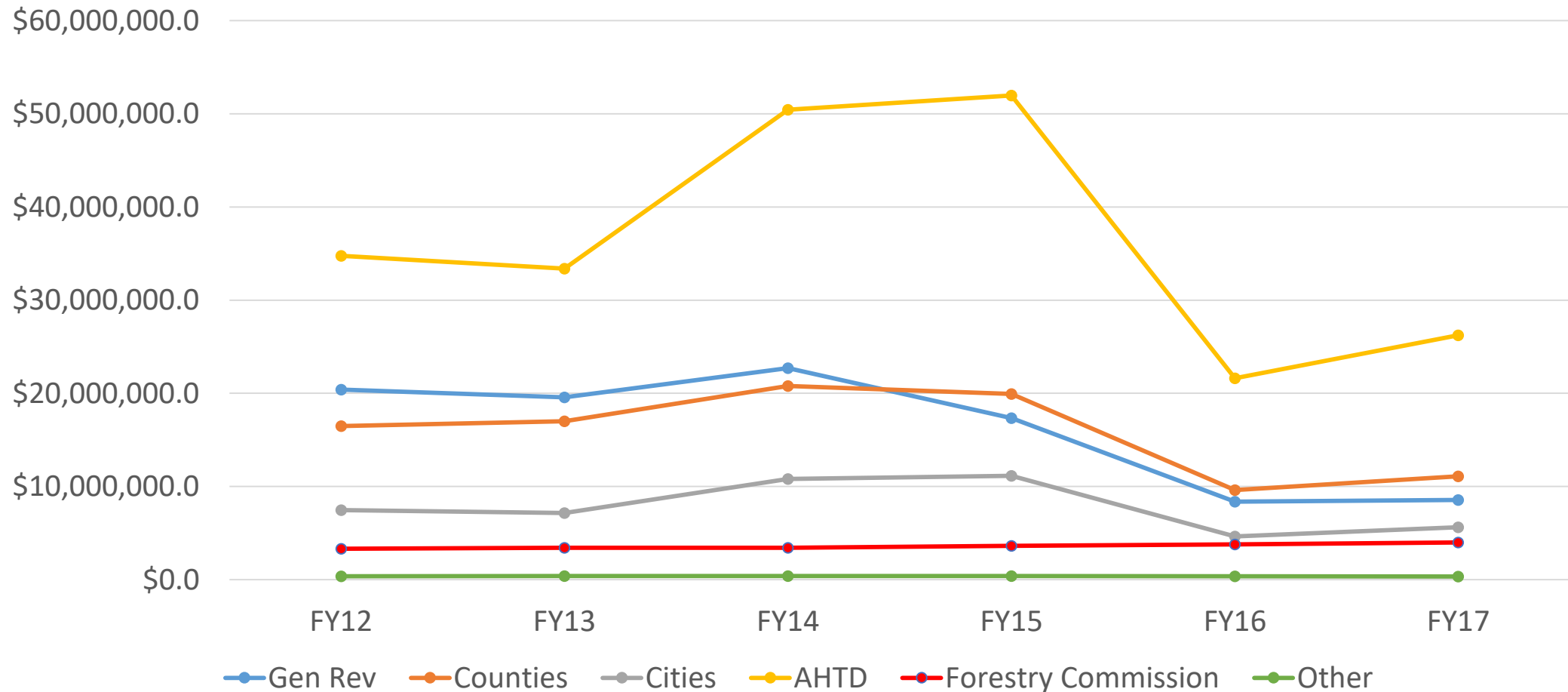
- Crushed stone - Calculated by weight.
  - \$0.1/ton.
  - Additional severance tax of \$0.3/ton levied in Ark. Code Ann. § 26-58-113.
- Oil – Based on Market Value
  - 5% Market Value and time and place of severance
- Other natural resources – Market Value
  - 5% of Market Value for other natural resources not specified in Ark. Code Ann. § 26-58-111.

# Severance Tax: Collections



Other collection includes severance tax on brine, crushed stone, coal, and other.

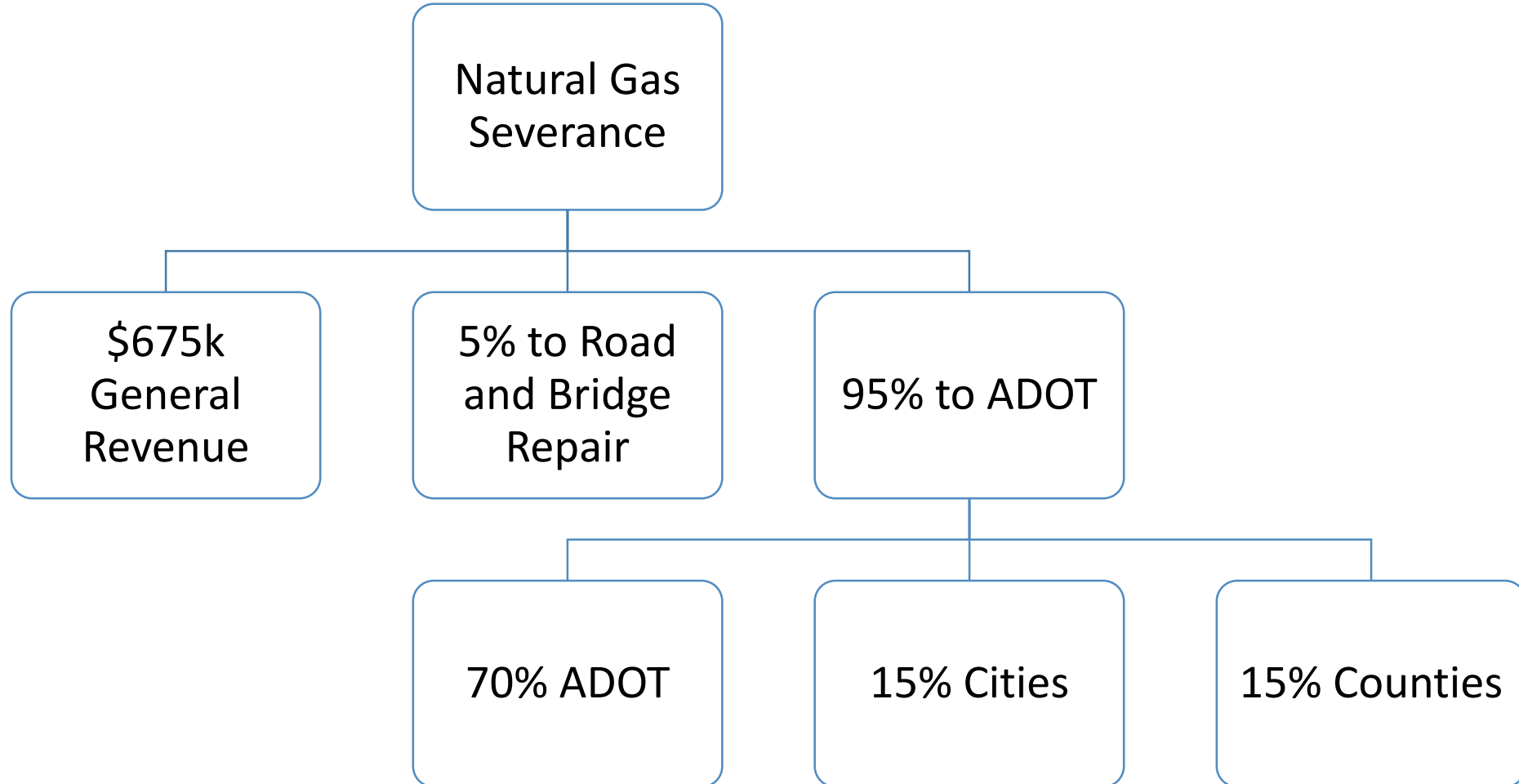
# Severance Tax: Distribution



Miscellaneous Revenue Sources

Other distribution includes Museum of Natural Resources and Oil & Gas Commission Fund.

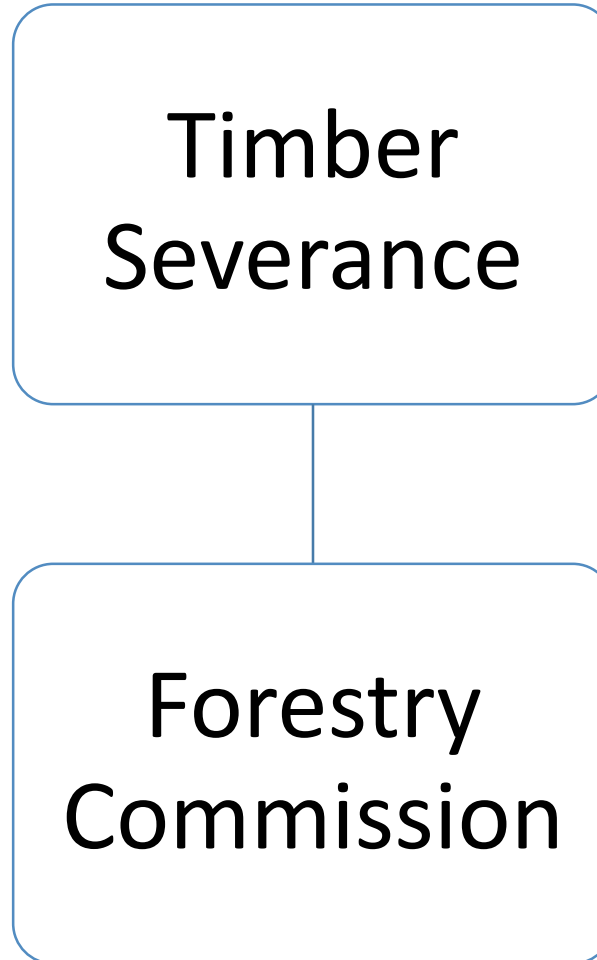
# Severance Tax: Distribution



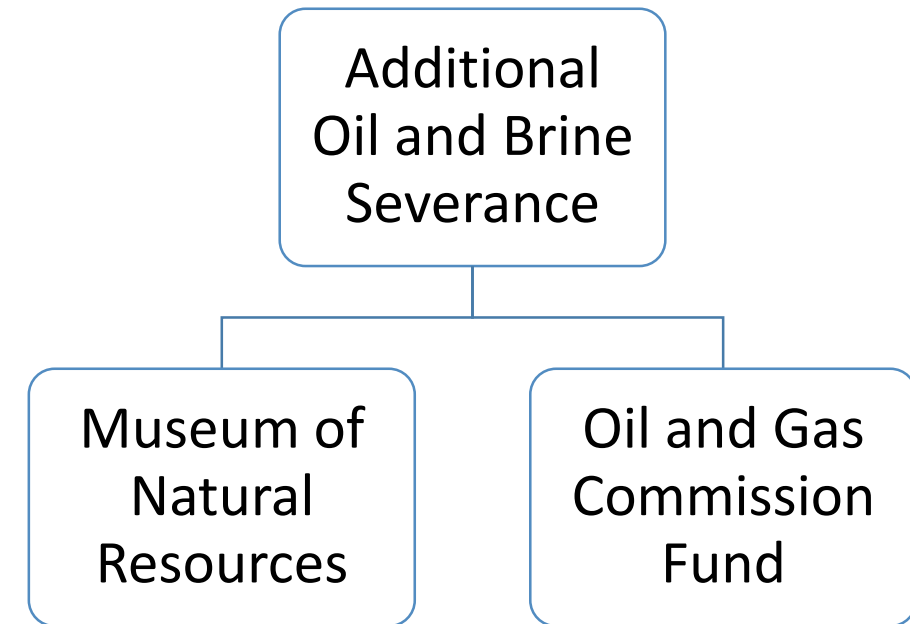
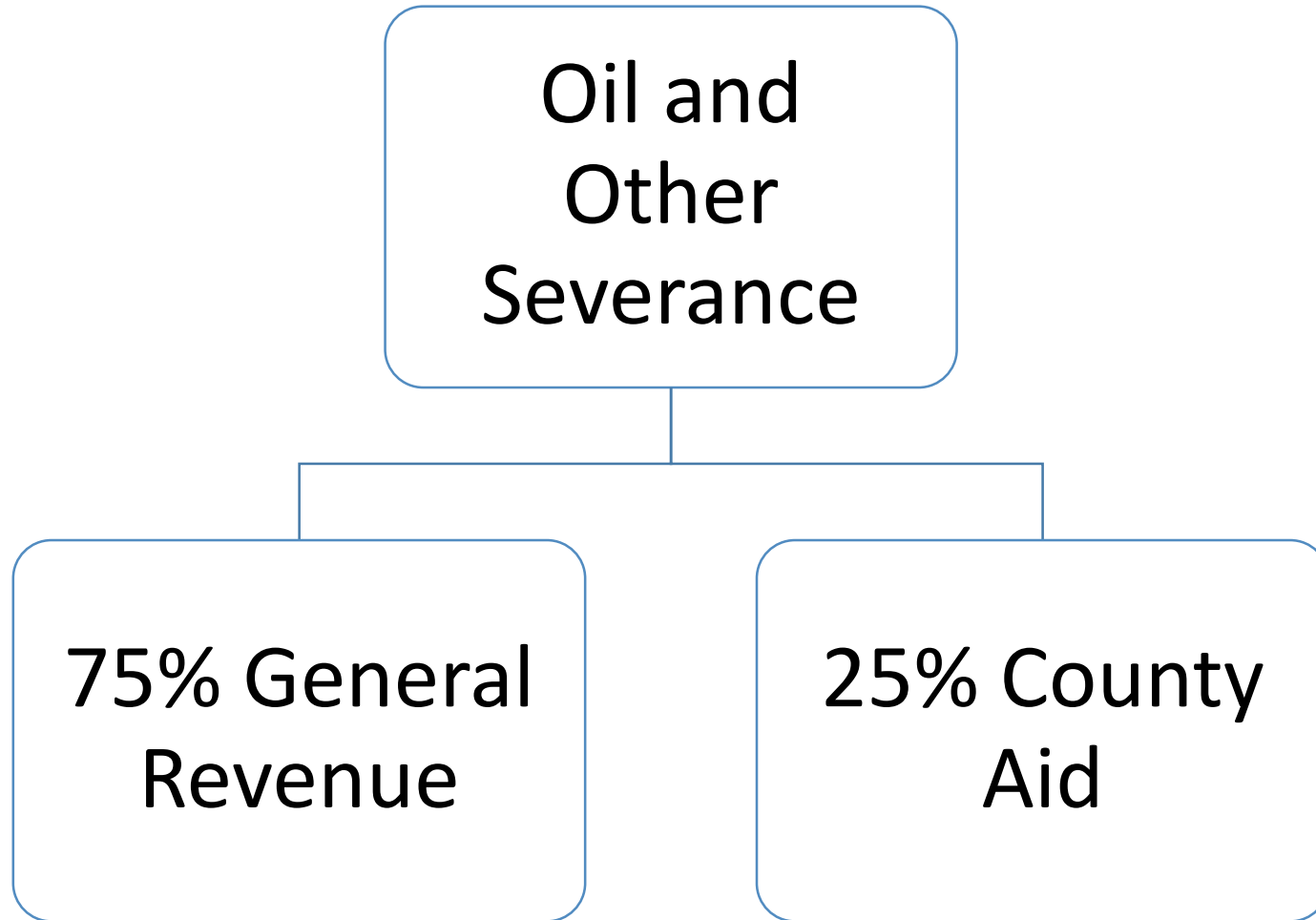


# Severance Tax: Distribution

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# Severance Tax: Distribution

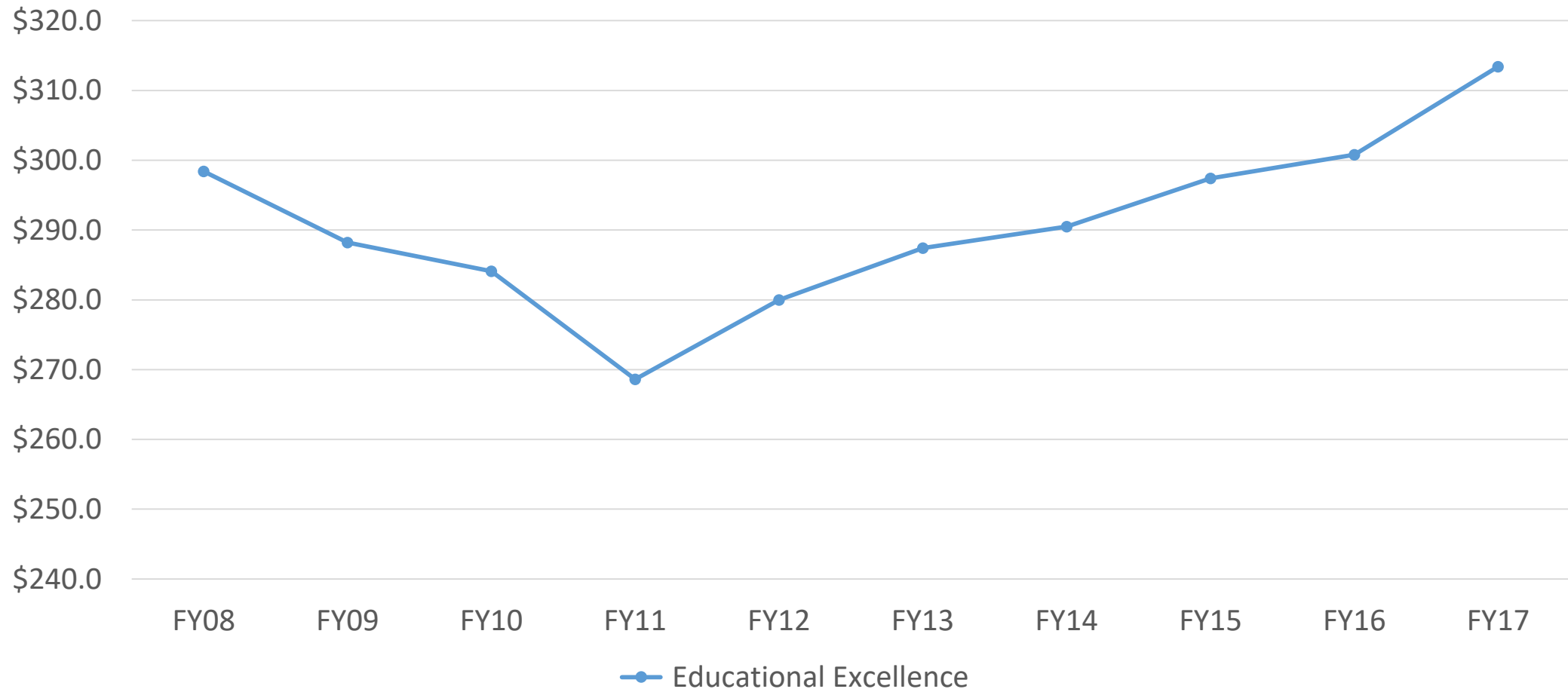


# Educational Excellence Trust Fund: Overview

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- Act 10 of 1991 established the Educational Excellence Trust Fund to be funded by the net revenues of:
  - Increasing the state sales and use tax rate from 4.0% to 4.5%
  - Levying the state sales and use tax on purchases of used motor vehicles and allowing a trade-in allowance
  - Exempting motor vehicles less than \$2000 from sales and use tax
  - Eliminating the income tax liability of filing requirements of low-income individuals
- Act 1315 of 1999 changed the method of determining the funding for the Educational Excellence Trust Fund, setting it as 14.14% of the previous year's general revenue sales tax collections.
- Proceeds are distributed to Public School Fund, institutions of higher education, and state departments of education.

# Educational Excellence Trust Fund: Collections



Miscellaneous Revenue Sources

Other collection includes severance tax on brine, crushed stone, coal, and other.

# Educational Excellence Trust Fund : Distribution (FY17)

