

**MINUTES  
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE  
MARCH 19, 2018**

The Tax Reform and Relief Legislative Task Force met Monday, March 19, 2018, at 9:00 a.m., in Room A-MAC, Little Rock, Arkansas.

**Task Force members present:** Senators Jim Hendren, chair, Jonathan Dismang, Joyce Elliott, Bart Hester, Keith Ingram, Missy Irvin, and David Wallace; Representatives Lane Jean, chair, Frances Cavanaugh, Jim Dotson, Kenneth B. Ferguson, Bob Johnson, and Mathew Pitsch.

**Other legislators present:** Senators Jane English, Trent Garner, Jimmy Hickey, Jr., and Bill Sample; Representatives Fred Allen, Charlie Collins, Carol Dalby, Andy Davis, Jana Della Rosa, Kim Hammer, Douglas House, Austin McCollum, Aaron Pilkington, Johnny Rye, and Jeff Williams.

Senator Hendren called the meeting to order.

**Consideration to Approve Minutes of the February 5, 2018, Meeting [Exhibit B]**

Representative Dotson made the motion to approve the minutes from the February 5, 2018, Tax Reform and Relief Legislative Task Force meeting; with a second from Senator Hester, the motion was adopted.

**Discussion on Sales Tax Reform [Exhibits C-1, C-2]**

**Ms. Nicole M. Kaeding, Director of Special Projects, Tax Foundation, Washington, DC**, was recognized to present a PowerPoint presentation regarding Options for Sales Tax Reform [Exhibit C-1]. Ms. Kaeding recommended several options to increase revenue through broadening the state's sales tax base. She also suggested repealing the sales tax holiday to mitigate regressivity, exempting business inputs, increasing the standard deduction, and providing a grocery tax credit or an Earned Income Tax Credit (EITC). Ms. Kaeding recommended the task force use the increased revenue from the sales tax base expansion toward reducing the burdens of individual and corporate income tax rates.

**Ms. Lisa Christensen Gee, Senior Policy Analyst, Institute on Taxation and Economic Policy, Washington, DC**, was recognized to present a PowerPoint presentation entitled Arkansas Sales Tax Policy Recommendations for Reform [Exhibit C-2]. Ms. Gee explained that under the state's current sales tax structure, low income families pay much higher sales tax rates on consumption than high income earners which raises questions with adequacy and sustainability. She offered several tax credit options to offset regressive tax rates for low income earners; for example, offering a refundable tax credit such as the EITC and broadening the sales tax base. Ms. Gee addressed concerns with fraudulent EITC activity and explained that unintentional errors made by tax filers may generate an unearned EITC. She stated these issues are being addressed at the federal level.

**Review of Tax-Related Documents [Exhibits D-1, D-2, D-3]**

**Mr. Richard Wilson, Assistant Director, Bureau of Legislative Research (BLR)**, was recognized to give an overview of PFM's previous sales tax handout [Exhibit D-1] and cited errors in some of the information provided to the task force regarding state sales tax rates, exemptions and tax base erosion. Mr. Wilson explained that sales tax base as a percentage to personal income has been decreasing in previous years due to online sales, shifting from goods to services, and the aging population spending less. Mr. Wilson provided a summary of cities and counties in the state and their current local sales and

use tax rates [Exhibit D-2] which is published quarterly on the Department of Finance and Administration's website, and a handout on state and local tax comparison across states [Exhibit D-3]. Compared to other states, Arkansas has a higher tax burden on sales and use tax, including local and state, and a relatively low tax burden on property taxation.

**Presentation on Updated Dollar Estimates of All Sales Tax Exemptions [Exhibit E]**

**Mr. Walter Anger, Deputy Director and Commissioner of Revenue; Mr. Paul Gehring, Assistant Commissioner of Revenue; and Dr. John Shelnutt, Administrator, Economic Analysis and Tax Research, Department of Finance and Administration (DFA),** were recognized to give a presentation on the estimated value of various exemptions to the Arkansas sales and use tax. For the revenue estimates that have been updated for FY2017, the values have been calculated at the current 6.5% state sales tax rate and at the 4.5% portion that is deposited into general revenue. For the estimates that have not been updated since FY2011, the values have been updated with the current 6.5% total sales tax rate from 6.0% from the FY2011 study, as well as the 4.5% deposit to general revenue.

**Consideration of Motion to Approve Contracting for Outside Group to Conduct Dynamic Scoring, if Required**

**Mr. Richard Wilson, BLR,** explained that Regional Economic Models, Inc., (REMI), is a company that offers a Tax-PI software tool that evaluates fiscal and economic effects of tax policy changes. Mr. Wilson said the state contracted with REMI in previous years regarding tax policy and economic tax proposals. REMI is offering consulting services and a one year licensure for use of their software. Currently BLR and REMI are negotiating a service proposal and statement of work agreement. Mr. Wilson is waiting to hear back from REMI's counter proposal.

**Ms. Jill Thayer, Counsel to the Director, BLR,** provided a draft handout to the task force regarding language that will be included in the Professional Services Agreement contract with REMI. BLR agrees to pay REMI for all reasonable out-of-pocket expenses up to the maximum contract amount of \$80,500. The contract amount includes \$68,000 for REMI to build the software and pay their travel expenses to Little Rock. The term of the agreement will start May 1, 2018, and continue until May 1, 2019, with an option to renew for an additional six-month period upon mutual agreement of the parties if the need of the Arkansas General Assembly merits an extension.

A motion from the task force is required to allow the chairs to finalize the contract. The contract will go before the ALC – Policy Making Subcommittee for discussion and approval and then to Arkansas Legislative Council for final approval.

The next Tax Reform task force meeting will be Tuesday, March 20, 2018, at which time the task force will consider a motion to approve contracting REMI to conduct dynamic scoring.

The meeting adjourned at 3:00 p.m.