



STATE OF ARKANSAS
**Department of Finance
and Administration**

Commissioner of Revenue

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March 20, 2018

The Honorable Jim Hendren, Co-Chair
The Honorable Lane Jean, Co-Chair
Arkansas Tax Reform and Relief Legislative Task Force

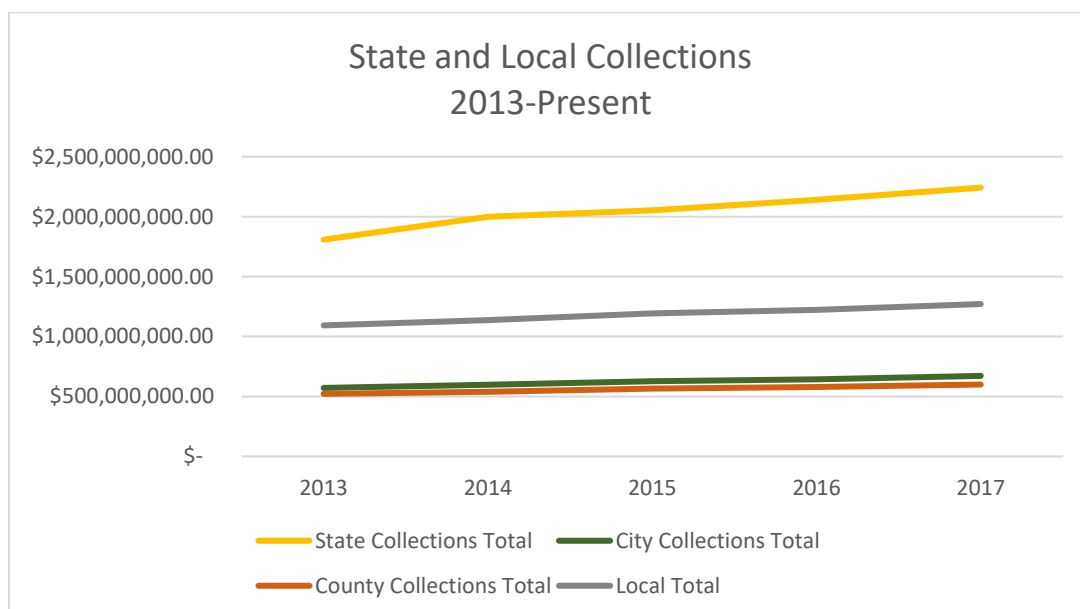
Re: Task Force Inquiries on March 19, 2018

Chairman Hendren and Chairman Jean,

During the March 19, 2018, meeting of the Arkansas Tax Reform and Relief Legislative Task Force, there were several inquiries or requests of the Department of Finance and Administration. Because the Task Force is continuing its meeting on March 20, 2018, the Department is providing the following answers to ensure that the Task Force has the best available information for the continuing deliberations.

1) Update to the Amount of Local versus State Sales Tax Collected

Please see the attached chart which shows the amount of sales tax collected from State and Local levies from 2013 to present as requested by Sen. Dismang. We are also providing the average local tax rate for cities and counties in each of those years. This is a simple average and is not weighted by population to reflect which local rate is levied on the most number of Arkansans. Additionally, tax rates may change every calendar quarter per Arkansas law but the simplest method of demonstrating whether there was a relationship between the local tax receipts and the tax rate is to provide this average on a year over year basis. Please see Attachment A for more information regarding this amount.



2) What would be the cost per gallon if Motor Fuel were subject to the sales tax?

Initially, it is important to note that the exemption from the sales tax, or Arkansas Gross Receipts Tax, for the sale of motor fuel cannot be repealed without significant administrative difficulty. Arkansas is a party to the International Fuel Tax Agreement (“IFTA”) which provides a method by which commercial interstate motor carriers are able to allocate motor fuel tax based on the miles driven within each jurisdiction. IFTA requires that the tax on motor fuel be a definite amount per gallon rather than a sales tax percentage of the receipts, be levied at the wholesale level, and that the tax rate only be changed on a set time table, such as quarterly. The General Assembly could, however, levy a new excise tax that mimicked the effects and revenue of the existing sales tax on motor fuel.

The Department could publish on a quarterly, biannual, or annual basis, the amount of a special motor fuel excise tax that could be calculated as a percent of the average price over a set period. A new law would need to specify what period would be used to measure average prices, direct DFA to convert a percentage tax on that amount to an amount per gallon, publish such rates, and take care for the administration of the tax. This tax could have its revenues directed in any manner that the law specified, maintaining the existing 70-15-15 turnback split or modified in some way. Please see Attachment B for additional calculations based on the 6.5% rate.

Gas		Tax Rate	Subtotal	2015 Consumption (Gallons)	Total Revenue
\$	3.10	6.50%	\$ 0.202	1425775140	287,293,690.71
\$	2.90	6.50%	\$ 0.189	1425775140	268,758,613.89
\$	2.70	6.50%	\$ 0.176	1425775140	250,223,537.07
\$	2.50	6.50%	\$ 0.163	1425775140	231,688,460.25
\$	2.30	6.50%	\$ 0.150	1425775140	213,153,383.43
\$	2.10	6.50%	\$ 0.137	1425775140	194,618,306.61
\$	1.90	6.50%	\$ 0.124	1425775140	176,083,229.79
Diesel		Tax Rate	Subtotal	2015 Consumption (Gallons)	Total Revenue
\$	3.10	6.50%	\$ 0.202	629764007	126,897,447.41
\$	2.90	6.50%	\$ 0.189	629764007	118,710,515.32
\$	2.70	6.50%	\$ 0.176	629764007	110,523,583.23
\$	2.50	6.50%	\$ 0.163	629764007	102,336,651.14
\$	2.30	6.50%	\$ 0.150	629764007	94,149,719.05
\$	2.10	6.50%	\$ 0.137	629764007	85,962,786.96
\$	1.90	6.50%	\$ 0.124	629764007	77,775,854.86

3) Whether an Exemption May Be Apply to Just Local or Just State Sales Tax.

No, without leaving the Streamline Sales and Use Tax Agreement. Arkansas is a member of the Streamline Sales and Use Tax Agreement and is a full member in the Streamline Governing Board. Part of the Agreement is to have a uniform State rate of tax and a uniform tax base within the State. This specifically means that everything that the State sales tax applies to is also what the local sales tax will apply to without variation. Additionally, with certain specific exceptions, all of the tax base within a state must have a uniform rate of tax. If something is subjected to the sales tax or exempted from the sales tax, it must be entirely subjected or entirely exempted.

4) Whether a Partial Exemption is Feasible.

No, without leaving the Streamline Sales and Use Tax Agreement. Arkansas is a member of the Streamline Sales and Use Tax Agreement and is a full member in the Streamline Governing Board. The same rationale for providing a uniform rate of tax at the State level applies to partial exemptions or reduced rates, subject to the limited carve outs.

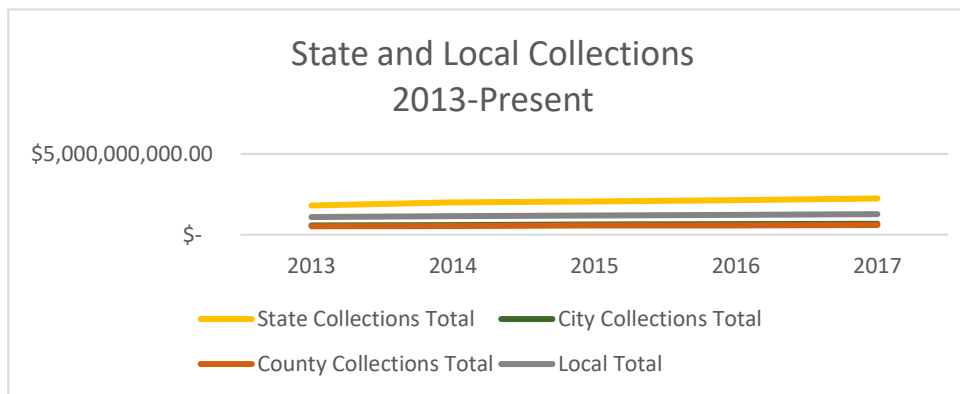
5) The Basis for the Differing Partial Rates for Utilities.

Generally, utilities are something that the Streamline Agreement acknowledges may be at different tax rates, rather a uniform rate, for member states. The different special reduced rates for utilities are an example of the State using this authority. There is no specific or legal reason why these reduced rates of utility consumption cannot be standardized for the beneficiaries of the reduced rates.

Sincerely,

Walter Anger
Commissioner of Revenue

State and Local Average Collections 2013-2017					
	2013	2014	2015	2016	2017
State Collections					
6.25% Avg. Rate	\$ 1,808,394,306.05				
6.50% Avg. Rate		\$ 1,999,460,976.30	\$ 2,053,738,835.69	\$ 2,140,409,339.99	\$ 2,242,175,875.50
State Collections Total	\$ 1,808,394,306.05	\$ 1,999,460,976.30	\$ 2,053,738,835.69	\$ 2,140,409,339.99	\$ 2,242,175,875.50
	2013	2014	2015	2016	2017
City Collections					
1.425% Avg. Rate	\$ 571,248,707.84				
1.458% Avg. Rate		\$ 598,746,114.85			
1.454% Avg. Rate			\$ 625,939,780.43		
1.465% Avg. Rate				\$ 642,529,456.57	
1.491% Avg. Rate					\$ 671,359,208.49
City Collections Total	\$ 571,248,707.84	\$ 598,746,114.85	\$ 625,939,780.43	\$ 642,529,456.57	\$ 671,359,208.49
	2013	2014	2015	2016	2017
County Collections					
1.473% Avg. Rate	\$ 521,657,301.60				
1.587% Avg. Rate		\$ 538,976,202.24			
1.593% Avg. Rate			\$ 566,057,860.71		
1.598% Avg. Rate				\$ 580,104,858.51	
1.635% Avg. Rate					\$ 599,663,076.11
County Collections Total	\$ 521,657,301.60	\$ 538,976,202.24	\$ 566,057,860.71	\$ 580,104,858.51	\$ 599,663,076.11
Local Total	\$ 1,092,906,009.44	\$ 1,137,722,317.09	\$ 1,191,997,641.14	\$ 1,222,634,315.08	\$ 1,271,022,284.60



Motor Fuel Revenue Projections

Retail Gas Price	Tax Rate	Subtotal	2015 Consumption (Gallons)	Total Revenue
\$ 5.10	6.50%	\$ 0.332	1425775140	472,644,458.91
\$ 4.90	6.50%	\$ 0.319	1425775140	454,109,382.09
\$ 4.70	6.50%	\$ 0.306	1425775140	435,574,305.27
\$ 4.50	6.50%	\$ 0.293	1425775140	417,039,228.45
\$ 4.30	6.50%	\$ 0.280	1425775140	398,504,151.63
\$ 4.10	6.50%	\$ 0.267	1425775140	379,969,074.81
\$ 3.90	6.50%	\$ 0.254	1425775140	361,433,997.99
\$ 3.70	6.50%	\$ 0.241	1425775140	342,898,921.17
\$ 3.50	6.50%	\$ 0.228	1425775140	324,363,844.35
\$ 3.30	6.50%	\$ 0.215	1425775140	305,828,767.53
\$ 3.10	6.50%	\$ 0.202	1425775140	287,293,690.71
\$ 2.90	6.50%	\$ 0.189	1425775140	268,758,613.89
\$ 2.70	6.50%	\$ 0.176	1425775140	250,223,537.07
\$ 2.50	6.50%	\$ 0.163	1425775140	231,688,460.25
\$ 2.30	6.50%	\$ 0.150	1425775140	213,153,383.43
\$ 2.10	6.50%	\$ 0.137	1425775140	194,618,306.61
\$ 1.90	6.50%	\$ 0.124	1425775140	176,083,229.79
\$ 1.70	6.50%	\$ 0.111	1425775140	157,548,152.97
\$ 1.50	6.50%	\$ 0.098	1425775140	139,013,076.15
\$ 1.30	6.50%	\$ 0.085	1425775140	120,477,999.33
\$ 1.10	6.50%	\$ 0.072	1425775140	101,942,922.51

Diesel Revenue Projections

Diesel	Tax Rate	Subtotal	2015 Consumption (Gallons)	Total Revenue
\$ 5.00	6.50%	\$ 0.325	629764007	204,673,302.28
\$ 4.90	6.50%	\$ 0.319	629764007	200,579,836.23
\$ 4.70	6.50%	\$ 0.306	629764007	192,392,904.14
\$ 4.50	6.50%	\$ 0.293	629764007	184,205,972.05
\$ 4.30	6.50%	\$ 0.280	629764007	176,019,039.96
\$ 4.10	6.50%	\$ 0.267	629764007	167,832,107.87
\$ 3.90	6.50%	\$ 0.254	629764007	159,645,175.77
\$ 3.70	6.50%	\$ 0.241	629764007	151,458,243.68
\$ 3.50	6.50%	\$ 0.228	629764007	143,271,311.59
\$ 3.30	6.50%	\$ 0.215	629764007	135,084,379.50
\$ 3.10	6.50%	\$ 0.202	629764007	126,897,447.41
\$ 2.90	6.50%	\$ 0.189	629764007	118,710,515.32
\$ 2.70	6.50%	\$ 0.176	629764007	110,523,583.23
\$ 2.50	6.50%	\$ 0.163	629764007	102,336,651.14
\$ 2.30	6.50%	\$ 0.150	629764007	94,149,719.05
\$ 2.10	6.50%	\$ 0.137	629764007	85,962,786.96
\$ 1.90	6.50%	\$ 0.124	629764007	77,775,854.86
\$ 1.70	6.50%	\$ 0.111	629764007	69,588,922.77
\$ 1.50	6.50%	\$ 0.098	629764007	61,401,990.68
\$ 1.30	6.50%	\$ 0.085	629764007	53,215,058.59
\$ 1.10	6.50%	\$ 0.072	629764007	45,028,126.50