

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
APRIL 26, 2018

The Tax Reform and Relief Legislative Task Force met Thursday, April 26, 2018, at 9:00 a.m., in Committee Room A-MAC, Little Rock, Arkansas.

Task Force Members Present: Senators Jim Hendren, Chair; Jonathan Dismang, Joyce Elliott, Bart Hester, Keith Ingram, Missy Irvin, Larry Teague, and David Wallace; Representatives Lane Jean, Chair; Frances Cavanaugh, Jim Dotson, Kenneth Ferguson, Joe Jett, and Bob Johnson.

Other Legislators Present: Senators Alan Clark, Trent Garner, Jimmy Hickey, Jason Rapert, and Bill Sample; Representatives Charlie Collins, Carol Dalby, Andy Davis, Dan Douglas, Vivian Flowers, Jeremy Gillam, Justin Gonzales, Michael John Gray, David Hillman, Steve Hollowell, Roger Lynch, Austin McCollum, Aaron Pilkington, Marcus Richmond, Johnny Rye, Matthew Shepherd, James Sorvillo, Jeff Wardlaw, and Jeff Williams.

Representative Jean called the meeting to order and advised members to submit their signed sales tax recommendations and questions to staff before the May 10, 2018, meeting. He said members may contact Bureau of Legislative Research staff and the Department of Finance and Administration staff beforehand if they have any questions or need additional information.

Presentation by Ms. Nicole Kaeding [Exhibit C]

Ms. Nicole, Kaeding, Director of Special Projects, Tax Foundation, Washington, DC, presented a report on Options for Income Tax Reform. She stated 26 major studies have shown that higher taxes are associated with slower growth. Arkansas has a very progressive income tax rate and is the only state that uses three different rate schedules. The state also has one of the highest tax rates, 39th best, in the country. Ms. Kaeding said the state's corporate tax does not make sense as most businesses are multi-state and using the three-factor method penalizes out of state businesses. She believes that within the next 15 years most states will use a single sales factor. Ms. Kaeding recommended lowering the individual and corporate income tax rates and said the changes can be financed by sales tax base expansions or by eliminating individual and corporate tax expenditures, thereby reducing the tax burden on families and businesses.

Presentation by Ms. Lisa Christensen Gee [Exhibit D]

Ms. Lisa Christensen Gee, Senior Policy Analyst, Institute on Taxation and Economic Policy, Washington, DC, followed up on her report from the last meeting regarding sales and income tax and information on offering a targeted credit instead of a broad exemption. Thirty-two states exempt groceries from taxes, and in 2018 the exemption of 1.5% cost the state of Arkansas approximately \$249 million. Ms. Gee spoke on the state's tax rates noting that while the bottom 20% of taxpayers are subject to a higher rate, the top 1% pay the largest amount of state and local taxes. Personal income tax is the only major revenue source available to states to pay for services that are vital to economic growth such as education, police, courts, etc. She noted that Arkansas is among 10 states with the highest tax rates. Enacting a refundable Earned Income Tax Credit would offset the impact of other regressive taxes. Ms. Gee stated that in order to cut taxes, the task force must figure out how to fund the tax cut, which taxes to raise, or where to cut spending.

Review by Mr. Richard Wilson [Exhibits E-1, E-2]

Mr. Richard Wilson, Assistant Director, Bureau of Legislative Research, provided an overview of Arkansas' personal and corporate income tax. Mr. Wilson said in order to simplify tax rates, the Tax Foundation suggested that a 4.95% flat rate increase will be revenue neutral. He explained how multiple variables to adjust regressive factors (Earned Income Tax Credit) and simplifying tax rates will depend on sales tax base additions, exemptions, deletions, and certain tax credits. Any increase in general revenue would require a super majority vote by both chambers. Thirty-one states have a flat corporate tax rate and Arkansas is one of only three states that does not conform to either taxable or net taxable income. While Arkansas uses a four-factor formula, most states use a single sales factor. He said changes to federal tax law does not apply to Arkansas. The General Assembly must adopt federal provisions by a certain date.

Overview of Income Tax in Arkansas [Exhibit F-1, F-2]

Mr. Paul Gehring, Assistant Commissioner of Revenue; Mr. Walter Anger, Deputy Director and Commissioner of Revenue; and Dr. John Shelnett, Administrator, Economic Analysis and Tax Research, Department of Finance and Administration (DFA), presented a report on tax exemptions, deductions, credits, and exclusions on individual and corporate income tax. As part of the overall tax collection for FY2017, individual income taxes accounted for 52% of the state's general revenue. The individual income tax has three different rate schedules and is levied on the net income of Arkansas residents as well as non-residents/part-time residents if there is income earned from sources reasonably allocated to the state. Corporate income tax is levied on the net income of a corporation with a three-factor apportionment and a double weighted sales factor. There is only one tax table for the levy of corporate income tax, which ranges from 1% - 6.5%. The report also included information on the federal tax provisions available to Arkansas taxpayers.

Proposals or Modifications for Sales and Use Tax Exemptions to be Studied Further

Mr. George Ernst, Legislative Attorney, Legal Research and Drafting Section, Bureau of Legislative Research, provided a brief overview of sales tax exemptions.

The following sales tax exemption was approved for further study by a majority vote.

- **Magazine/Publication Subscription Sales** - motion by Senator Hendren; second by Senator Elliot. Speaking against the motion were Ms. Ellen Kreth, owner of Madison County Record in Huntsville and Director, Board of Trustees, Arkansas Press Association; and Ms. Ashley Wimberly, Executive Director, Arkansas Press Association.

With no further business, the meeting adjourned at 2:55 p.m.