

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
APRIL 25, 2018

The Tax Reform and Relief Legislative Task Force met Wednesday, April 25, 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, Bob Johnson, and Mathew Pitsch.

Other Legislators Present: Senators Alan Clark, Jimmy Hickey, Jr., Jason Rapert, and Bill Sample. Representatives Fred Allen, Sarah Capp, Charlie Collins, Andy Davis, Carol Dalby, Charlotte Douglas, Trevor Drown, Vivian Flowers, Mickey Gates, Jimmy Gazaway, Jeremy Gillam, Justin Gonzales, Michael John Gray, Ken Henderson, David Hillman, Grant Hodges, Steve Hollowell, Douglas House, John Maddox, Austin McCollum, Aaron Pilkington, Johnny Rye, James Sorvillo, DeAnn Vaught, Danny Watson, and Jeff Williams.

Senator Hendren called the meeting to order.

Consideration to Approve the March 19 and 20, 2018 Minutes [Exhibits C-1, C-2]

Representative Pitsch made the motion to approve the minutes from the March 19 and 20, 2018, meetings and, with a second by Senator Elliott, the minutes were adopted without objection.

Comparing Tax Environment Conditions between States for Corporate Planning [Exhibit D]

Ms. Leisa Cagle, Vice President and Controller; and Connie Vaughan, Government Relations Manager, McKee Foods Corporation, Collegedale, Tennessee were introduced. Ms. Cagle explained McKee Foods is a family owned business headquartered in Tennessee with manufacturing facilities in Arkansas and Virginia, including a distribution center in Arizona. She said the Arkansas facility has invested \$263 million in construction and expansion projects and plans to spend an additional \$110 million over the next five years. Ms. Cagle also stated the facility contributes \$88,000,000 to the state's economy, of which \$77,000,000 goes back into the local community. Ms. Cagle presented a tax table that McKee uses to compare corporate taxes and exemptions between Arkansas, Tennessee, and Virginia. She suggested to the task force that as they work to adjust the state's tax structure to consider how those changes will impact manufacturing companies in the state. Ms. Cagle pointed out that although Arkansas' sales and use tax and property tax rates are high, she commended the state on implementing a tax exemption on manufacturers' repair parts and services. She suggested that the task force simplify the state's current tax policies by adding property tax incentives and exempt manufacture's inventory to offset property tax rates, move to a single sales factor apportionment, simplify Arkansas Advantage to ease wage calculations, and add computer training to the state's workforce program.

Comments on Sales Tax Proposal Procedure by the Co-Chairs:

Senator Hendren explained that votes taken on a sales tax proposal will be in the form of a motion made by a task force member, followed by a second to the motion, and passed by a majority vote. The task force member may make a motion requesting permission to work with Bureau staff to further study the proposal for inclusion in the final packet for consideration. Following the motion, public comments and questions addressing the proposal will be allowed before a vote is taken.

Senator Hester made the motion that the task force define parameters before a vote is taken on the exemptions regarding the dollar amount generated from the tax exemptions that will be used to offset tax reductions and, with a second by Representative Dotson, the motion passed by a majority vote.

Representative Jett made the motion to recommend that the General Assembly enact legislation requiring the state to implement a systematic review of sales tax exemptions and, with a second by Senator Hester, the motion passed by a majority vote.

Senator Wallace made the motion that legislation be drafted to define the sales tax authority at the local levels, including sales tax cap levels and, with a second by Senator Irvin, the motion passed by a majority vote.

Legal and Fiscal Analysis of Sales and Use Tax Proposals and Requests for Information [Exhibit F]

Ms. Joi Leonard, Administrator, Legal Research and Drafting Section, Bureau of Legislative Research (BLR); Mr. George Ernst, Legislative Attorney, Legal Research and Drafting Section, BLR; Mr. Richard Wilson, Assistant Director, Research Division, BLR; Mr. Walter Anger, Commissioner of Revenue, Department of Finance and Administration (DFA); Dr. John Shelnett, Administrator of the Office of Economic Analysis and Tax Research, DFA; and Mr. Paul Gehring, Assistant Commissioner of Revenue, DFA, were recognized to answer questions regarding the list of Sales Tax Exemption Proposals. Ms. Leonard and Mr. Ernst gave a brief overview of each sales tax exemption listed.

The following sales tax exemptions were approved for further study by a majority vote.

- **Services Provided by Coin-Operated Car Washes** – motion by Senator Hester; second by Representative Jean.
- **Sales of 4-Wheelers and ATVs for Farm Use** – motion by Senator Hester; second by Senator Irvin.
Speaking against the motion were Mr. West Higginbotham, President, Mr. Andrew Grobmyer, Executive Vice President, Mr. Larry McClendon, past President, Agricultural Council of Arkansas; Mr. Derek Helms, Director, Arkansas Soybean Association; Mr. Leyden Pugh, Dealer, Deere and Company; Mr. Scott Sullivan, Government Relations, Farm Credit Services of Arkansas; Mr. Jeff Rutledge, Chairman, and Mr. Dow Brantley, former Chairman, Arkansas Rice Federation.
- **Back-to-School Tax Holiday** – motion by Representative Pitsch; second by Senator Irvin.
- **Sales Tax Exemptions of Less than Ten Thousand Dollars (\$10,000)** – motion by Representative Pitsch on behalf of Representative Cavanaugh; second by Senator Irvin.
Speaking against the motion were Mr. Scott Sullivan, Government Relations for Farm Credit Services of Arkansas; and Mr. Jeff Rutledge, Chairman, Arkansas Rice Federation.
- **Sales Tax Exemptions for Named Non-Profit Entities** – motion by Senator Irvin; second by Representative Johnson.
Speaking against the motion were Sister Joan Pytlik, Social Justice Advocate for the Catholic Diocese of Little Rock; and Mr. Chad Avery, Heifer International.
- **Sales Tax on Food and Food Ingredients: (A) Food Tax Credit or (B) Earned Income Tax Credit** – motion by Representative Jean; second by Representative Wallace.
Speaking against the motion was Sister Joan Pytlik, Social Justice Advocate for the Catholic Diocese of Little Rock

The following stakeholders spoke against sales tax proposals that received motions that failed.

Billboard advertising services

- Mr. Tom Gibbons, President of Arkansas Outdoor Advertising Association
- Mr. Whitney Weeks, Vice President of Arkansas Outdoor Advertising Association
- Mr. Sylvester Smith, State Director of National Federation of Independent Business

Sale of manufactured homes and modular homes

- Mr. J. D. Harper, Executive Director of Arkansas Manufactured Housing Association

Natural gas and electricity by electric power generators

- Mr. Kirkley Thomas, Vice President for Governmental Affairs, Arkansas Electric Cooperatives, Inc.

Sales of rental of advertising space in newspapers and publications

- Mr. Sylvester Smith, State Director for National Federation of Independent Business
- Ms. Ashley Wimberley, Executive Director of the Arkansas Press Association
- Mr. Rick Green, Wills Law Firm

Services purchased by radio and television companies

This proposal did not receive a motion. Mr. Sylvester Smith, State Director of National Federation of Independent Business; Mr. Chad Gallagher, Legal Consulting; and Mr. Luke Story, Executive Director, Arkansas Broadcaster's Association, were recognized to answer members' questions.

Senator Hendren advised task force members that the remaining sales and use tax proposals will be reviewed at tomorrow's meeting.

The meeting adjourned at 4:50 p.m.