

**MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
MAY 10, 2018**

The Tax Reform and Relief Legislative Task Force met Thursday, May 10, 2018, at 9:00 a.m., in Room A-MAC, Little Rock, Arkansas.

Task Force members present: Senators Jim Hendren, chair; Jonathan Dismang, Bart Hester, Keith Ingram, Larry Teague, and David Wallace; Representatives Lane Jean, chair; Frances Cavanaugh, Jim Dotson, Kenneth B. Ferguson, Bob Johnson, and Warwick Sabin.

Other legislators present: Senators Eddie Cheatham, Jimmy Hickey, Jr., Jason Rapert, and Bill Sample; Representatives Fred Allen, Scott Baltz, Carol Dalby, Andy Davis, Charlene Fite, Justin Gonzales, Kim Hammer, David Hillman, Douglas House, John Maddox, Aaron Pilkington, Johnny Rye, Matthew Shepherd, Danny Watson, and Jeff Williams.

Senator Hendren called the meeting to order.

Proposals for Individual and Corporate Income Tax Exemptions to be Discussed and Considered at the May 23 and 24, 2018, Meetings

Mr. Joel DiPippa, Senior Counsel; Mr. Paul Gehring, Assistant Commissioner of Revenue; Dr. John Shelnett, Administrator, Economic Analysis and Tax Research, Department of Finance and Administration (DFA); and Mr. Richard Wilson, Assistant Director, Bureau of Legislative Research (BLR), were recognized.

Mr. Gehring presented a letter of response [Handout #1] to follow up on inquiries made during the task force meetings on April 25 and 26, 2018. The follow up to inquiries are listed:

- 1. Amount of sales and use tax farm exemption estimate attributable to ATVs and UTVs:** DFA is unable to determine how much of the revenue estimate is attributable to properly-claimed exemptions solely for ATVs and UTVs at this time.
- 2. Monthly sales tax revenue before and after the enactment of the Sales Tax Holiday:** DFA estimates the revenue impact generated from the Sales Tax Holiday totaled \$2.65 million (General Revenue portion - \$1.8 million). DFA provided a Gross Receipts chart regarding the dollar amount of Sales and Use tax revenues generated from August 2006 through August 2017.
- 3. The original enactment dates of the income tax deductions for organ donors and the special railroad retirement exemption:** Organ donor deduction was enacted in 2005. Railroad retirement was enacted to comply with federal law in 1969.
- 4. DFA's estimates related to expensing and depreciation of business assets:** DFA provided history regarding bonus depreciation and Internal Revenue Code (IRC) § 179. Arkansas did not adopt bonus depreciation because estimated revenue loss range from \$30 million to over \$50 million in the first year of adoption. The revenue loss of adopting both bonus depreciation and IRC § 179 for tax years 2019 and after total \$137.7 million for FY2020; \$130.1 million for FY2021; \$86.8 million for FY2022; \$53 million for FY2023; and \$42.5 million for FY2024.

- 5. Options for a vending machine operator to collect and remit tax:** Vending operators in Arkansas have three options to choose from to collect and remit sales tax to the state on merchandise they sell. The first option involves the operator buying all the items they are going to sell and pay sales tax at the time of purchase. The second option requires the operator to exempt the merchandise and pay a wholesale vending tax each month on the merchandise to be sold and file a monthly ET-1 Excise Tax Report. The third option involves exempting vending merchandise purchases from tax under the sale for resale exemption with the purchase of five decals and file a monthly ET-1 Excise Tax Report. All options require a decal to be placed on each vending machine.
- 6. Whether there is a constitutional prohibition on taxing magazine subscriptions:** DFA does not find any legal problems the state may encounter collecting sales tax on magazine subscriptions.
- 7. Single sales factor corporate income changes:** DFA presented a comparison analysis [Handout #2] of how businesses in Arkansas that operate in multiple states use apportionment of business income and how legislative changes made to the apportionment method may affect different businesses in the state. Most state apportionment formulas fall within one of three categories: equally weighted three-factor formulas; three-factor formulas, with enhanced sales factors, or single sales factor formulas. Arkansas requires all businesses to operate under the enhanced sales factor on property, payroll, and double the sales factor. If the state operated under a single sales factor, the fiscal impact to the state would generate revenue of \$8.8 million. This is because the top 100 largest corporations would have an estimated net reduction of \$22 million. The remainder of the corporations would have an estimated increase of \$30 million. If Arkansas operated on a single sales factor, the estimated fiscal impact to the state would be a reduction of \$7.6 million.

Task force members submitted to staff their list of suggested individual and corporate income tax proposals. Staff consolidated the list and it was recited by Senator Hendren to the task force members during the meeting. Stakeholders will have an opportunity to present their comments at the next Tax Reform meeting before a vote is taken.

The next task force meetings are Wednesday, May 23, and Thursday, May 24, 2018.

The meeting adjourned at 10:03 a.m.