

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
MAY 23, 2018

The Tax Reform and Relief Legislative Task Force met Wednesday, May 23, 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, Missy Irvin, and David Wallace. Representatives Lane Jean, Chair; Frances Cavenaugh, Jim Dotson, Joe Jett, Bob Johnson, and Warwick Sabin.

Other Legislators Present: Senators Trent Garner, Jimmy Hickey, Jr., and Bill Sample. Representatives Sarah Capp, Charlie Collins, Carol Dalby, Andy Davis, Les Eaves, Ken Henderson, David Hillman, Steve Hollowell, Jack Ladyman, David Meeks, Aaron Pilkington, Marcus Richmond, Laurie Rushing, Johnny Rye, Matthew Shepherd, Dan Sullivan, Jeff Wardlaw, Danny Watson, Jeff Williams, Carlton Wing, and Richard Womack.

Representative Jean called the meeting to order.

Consideration to Approve the April 25, 26, and May 10, 2018 Minutes [Exhibits C-1, C-2, C-3]

Senator Elliott made the motion to approve the minutes from the April 25, 26, and May 10, 2018, meetings and, with a second by Senator Irvin, the minutes were adopted without objection.

Comments by Mr. Dennis Farmer, President, Arkansas Beverage Association

Mr. Dennis Farmer, was recognized and advocated phasing out the Arkansas beverage excise tax because it burdens the state and reduces the viability and profitability of local businesses.

Comments on Income Tax Proposal Procedure by the Co-Chairs

Senator Hendren explained the process moving forward as task force members' work to prioritize their proposals in the form of reducing the top tax brackets, an earned income tax credit, or some other tax change to present at the June meeting.

Legal and Fiscal Analysis of Individual and Corporate Income Tax Proposals and Requests for Information [Exhibit F]

Ms. Joi Leonard, Administrator, Legal Research and Drafting Section, Bureau of Legislative Research (BLR); Mr. Joel DiPippa, Senior Counsel, 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 Individual and Corporate Income Tax Proposals. Ms. Leonard gave a brief overview of each individual and corporate income tax listed.

The following income tax proposals were consolidated by category and approved for further study by a majority vote.

Income tax proposals 1 – 4: Motion made by Representative Johnson; second by Senator Elliott.

- **Proposal #1A:** Amend Net Operating Loss Carry Forward to Ten (10) Years Incrementally
- **Proposal #1B:** Amend Net Operating Loss Carry Forward to Twenty (20) Years Incrementally
- **Proposal #2:** Repeal the Ten-Year Net Operating Loss Carry Forward for Steel Manufacturers and Increase All Net Operating Loss Carry Forward to Twenty (20) Years
- **Proposal #3:** Amend Net Operating Loss Carry Forward to Twenty (20) Years and Allow Unlimited Amount of Net Operating Losses to be Deducted
- **Proposal #4:** Conform the Net Operating Loss Deduction to Federal Law

Mr. Kurt Naumann, Director, Strategic Planning and Research, and Mr. Kenneth Burleson, General Counsel, Arkansas Economic Development Commission (AEDC); Mr. Kenneth Hall, Executive Vice President, Arkansas State Chamber; and Mr. Matthew Boch, Tax Attorney, Dover Dixon Horne, PLLC, and on behalf of Arkansas State Chamber of Commerce, Little Rock, were recognized to present their comments and answer questions regarding proposals 1–4.

Income tax proposals 5 – 8: Motion made by Senator Hendren; second by Senator Irvin.

- Proposal #5: Amend Individual Income Tax Rates and Brackets
- Proposal #6: Amend Individual Income Tax Rates and Brackets
- Proposal #7A: Amend Individual Income Tax Rates and Brackets
- Proposal #7B: Amend Individual Income Tax Rates
- Proposal #8: Amend Individual Income Tax Rates and Brackets

Income tax proposals 9 – 10: Motion made by Representative Dotson; second by Representative Cavanaugh.

- Proposal #9: Amend Corporate Income Tax Rates and Brackets
- Proposal #10: Amend Corporate Income Tax Rates

Mr. Kurt Naumann was recognized to present his comments and answer questions regarding proposals 9 and 10.

Income tax proposal 11: Motion made by Representative Dotson; second by Senator Irvin.

- Proposal #11: Create a Systematic Review Process for Personal Income Tax Exemptions and Corporate Income Tax Exemptions

Income tax proposals 12 – 13: Motion made by Senator Elliott; second by Senator Irvin.

- Proposal #12: Implement Earned Income Tax Credit of Ten Percent (10%) of the Federal Earned Income Tax Credit with Distribution on a Quarterly, Semi-Annual, or Annual Basis
- Proposal #13: Establish Earned Income Tax Credit of Five Percent (5%) of the Federal Earned Income Tax Credit

Mr. Jared Walczak, Senior Policy Analyst, Tax Foundation, Washington, D.C., was recognized to present his comments and answer questions regarding proposals 12 and 13.

Income tax proposals 14 – 16: Motion made by Representative Dotson; second by Representative Cavanaugh.

- Proposal #14: Increase Standard Deduction to Two Thousand Five Hundred Dollars (\$2,500)
- Proposal #15: Replace Standard Deduction with an Individual Tax Exemption
- Proposal #16: Adopt Federal Standard Deduction as Amended by the Tax Cuts and Jobs Act

Income tax proposals 17 – 18: Motion made by Representative Jett; second by Representative Cavanaugh.

- Proposal #17: Implement Tax Reduction Tax Trigger
- Proposal #18: Study Implementation of Tax Triggers Using the Revenue Stabilization Act

Mr. Jared Walczak was recognized to present his comments and answer questions regarding proposals 17 and 18.

Income tax proposal 19: Motion made by Representative Dotson; second by Representative Johnson.

- Proposal #19: Repeal Throwback Rule for Business Income

Income tax proposal 20: Motion made by Representative Dotson; second by Senator Irvin.

- Proposal #20: Amend Apportionment Formula to Use a Single Weighted Sales Factor
Mr. Kenneth Burleson, Mr. Kurt Naumann, Mr. Matthew Boch, and Mr. Jared Walczak answered questions regarding proposal 20.

Income tax proposal 21: Motion made by Senator Hendren; second by Representative Jean.

- Proposal #21: Repeal Capital Gains Tax Exemption for Capital Gains over \$10 Million

Income tax proposals 22 – 23: Motion made by Representative Jett; second by Senator Hendren.

- Proposal #22: Adopt Depreciation Schedules and Bonus Depreciation as Amended by the Tax Cuts and Jobs Act
- Proposal #23: Adopt Depreciation Schedules, Except Bonus Depreciation, as Amended by the Tax Cuts and Jobs Act

Mr. Jared Walczak was recognized to present his comments and answer questions regarding proposals 22 and 23.

Income tax proposal 24: Motion made by Representative Cavanaugh; second by Senator Irvin.

- Proposal #24: Repeal Income Tax Exemptions for Windmill Blade Manufacturers

Mr. Kenneth Burleson and Mr. Kurt Naumann were recognized to present their comments and answer questions regarding proposal 24.

Income tax proposal 29: Motion made by Representative Dotson; second by Senator Hendren.

- Proposal #29: Repeal Political Contributions Income Tax Credit

Income tax proposal 30: Motion made by Representative Jett; second by Representative Johnson.

- Proposal #30: Create Deductible Pass -Through Entity Tax

Mr. Tim Leathers, Vice President of Consulting, InVeritas Research and Consulting; Ms. Jennifer Bell, CPA, Bell & Company; and Mr. Jared Walczak, Tax Foundation, were recognized to present their comments and answer questions regarding proposal 30.

Arkansas Property Tax Overview Presentation and Comments [Exhibit G]

Mr. Bear Chaney, Director; Ms. Angela Hill, Deputy Director; Mr. John Nichols, Staff Attorney; and Ms. Lindsey Bailey, Legal Counsel, Arkansas Assessment Coordination Department, were recognized and presented a PowerPoint presentation regarding the state's property tax system. Per capita, Arkansas property tax ranks among the lowest in the nation and surrounding states. Arkansas is one of 14 states to tax business inventory. In 2016, there was a proposed tax incentive to reduce the property tax on business inventory in which cities and counties would see a revenue loss of approximately \$65 million per year in local property tax revenue. Mr. Nichols suggested the task force consider a state income tax credit or reduction on inventory expenses for businesses while allowing cities and counties to continue maintaining local control of revenue collection and distribution.

Ms. Heather Stevens, Stone County Assessor and Ms. Dana Baker, Pope County Assessor, were recognized for their comments regarding how county assessors determine if a religious organization or entity in that county qualify for a partial or whole tax exemption.

The meeting adjourned at 3:20 p.m.