

Options for Property and Excise Tax Reform in Arkansas

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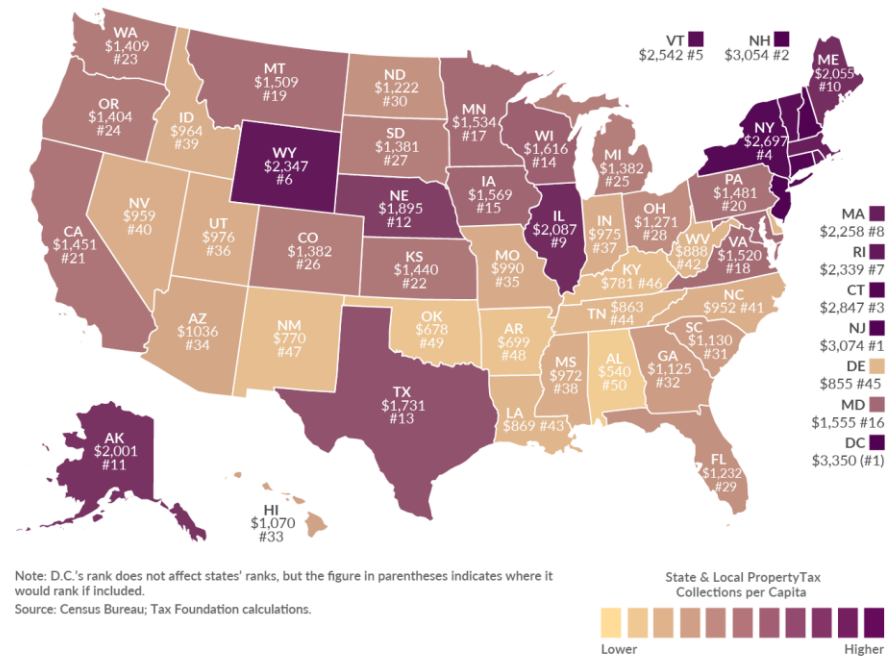
PROPERTY TAXES

GENERAL OVERVIEW

- Property taxes are among the oldest forms of taxation and a significant source of local government revenue in most states—accounting for 72% of local tax collections nationwide.
- On average, state and local governments collect **\$1,518** per capita in property taxes. In Arkansas, it's **\$699** (#48).

How High Are Property Tax Collections in Your State?

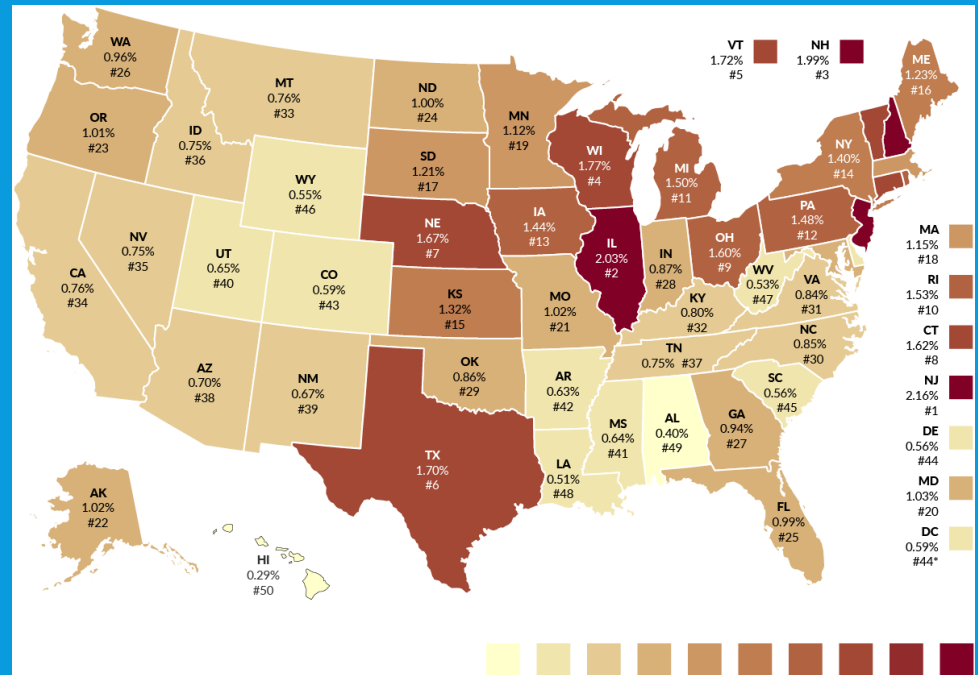
State & Local Property Tax Collections per Capita, FY 2015



PROPERTY TAXES

GENERAL OVERVIEW

- That's not just an artifact of property values.
- Nationwide, property taxes average **1.13%** as a percentage of owner-occupied housing value. In Arkansas, it's **0.63%** (#42).
- Property taxes account for **18.1%** of state and local tax collections in Arkansas, compared to **31.3%** nationally.
- Centralized structure: **79.8%** of taxes collected at state level, compared to **61.5%** nationwide.



PROPERTY TAXES

GENERAL OVERVIEW

Property Taxes Paid as a Percentage of Owner-Occupied Housing Value Arkansas and Bordering States (2016)

State	Effective Rate	National Rank
Arkansas	0.63%	42
Louisiana	0.51%	48
Mississippi	0.64%	41
Missouri	1.02%	21
Oklahoma	0.86%	29
Tennessee	0.75%	37
Texas	1.70%	6
US total	1.13%	

Source: Tax Foundation, Facts & Figures 2018

PROPERTY TAXES

GENERAL OVERVIEW

- This makes Arkansas a national outlier, though it's in line with effective rates of several other states in the region (AL, LA, MS).
- Southern states are considerably more likely to offer local option sales taxes, which reduce reliance on property taxes.

Table 2. Property Taxes as a Percentage of State and Local Tax Collections by Region (FY 2014)

Region	State	Local	Combined
New England	8.5%	97.2%	44.6%
Mideast	0.7%	65.8%	31.0%
Great Lakes	1.8%	82.8%	32.5%
Plains	0.7%	76.8%	29.0%
Southeast	2.2%	66.4%	26.2%
Southwest	2.0%	63.3%	26.5%
Rocky Mountain	4.7%	80.3%	32.3%
Far West	3.2%	70.9%	27.5%

Table 3. Sales Taxes as a Percentage of State and Local Tax Collections by Region (FY 2014)

Region	State	Local	Combined
New England	20.1%	0.4%	12.5%
Mideast	16.1%	6.2%	13.2%
Great Lakes	32.7%	3.5%	21.9%
Plains	34.3%	14.1%	25.9%
Southeast	34.0%	18.2%	28.0%
Southwest	42.7%	30.4%	36.4%
Rocky Mountain	24.5%	12.4%	20.7%
Far West	31.3%	11.3%	24.7%

PROPERTY TAXES

GENERAL OVERVIEW

Property Taxes as Percent of Total Taxes

Arkansas and Bordering States (2015)

Arkansas	18.1%
Louisiana	22.0%
Mississippi	26.5%
Missouri	27.2%
Tennessee	26.4%
Texas	42.0%
US (all states combined)	31.1%

PROPERTY TAXES

GENERAL OVERVIEW

- The case for property taxes –
 - Limited economic distortion (immobile asset)
 - Consistent with benefit test
 - Familiar and transparent
- Common objections –
 - Taxing on something already owned
 - Social value of home ownership
 - Concern about pricing people out of homes

PROPERTY TAXES

REAL PROPERTY TAX STRUCTURE

- 20% assessment ratio
- Tax levied at three levels of government –
 - School Districts – uniform rate of 25 mills (with voter override)
 - Counties – rates capped at 21 mills
 - Cities – rates capped at 20 mills
- Rate, levy, and assessment limits
 - Other states with all three: AZ, CO, IL, MI, MT, NM, TX (+ DC)
- Property tax relief credit (currently \$350)
 - Funded by 0.5% additional sales tax levy
 - Constitutional \$300 minimum

PROPERTY TAXES

INVENTORY TAX

- Arkansas is one of only nine states to fully tax inventory as personal property (others: KY, MD, MS, OK, TX, VT, VA, WV)
- Does have a freeport exemption for inventory in transit
- Distortionary tax levied on value of company's inventory
- Source of local revenue, but could be replaced with revenue from sales tax base broadening

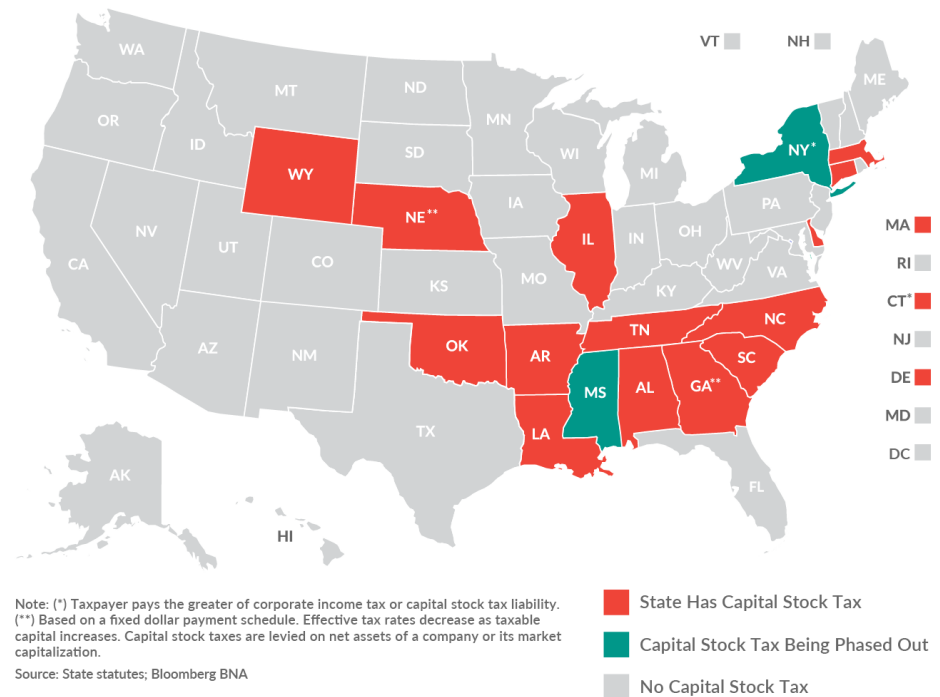
PROPERTY TAXES

FRANCHISE TAX

- Arkansas levies a franchise tax on business net worth at a rate of 0.3% (second-highest rate in country after CT)
- Franchise/capital stock taxes are increasingly rare but still common in the southeast
- Raises little revenue, falls disproportionately on capital-intensive businesses, collected by Secretary of State

How High Are Capital Stock Taxes in Your State?

State Capital Stock Tax Rates as of January 1, 2017



EXCISE TAXES

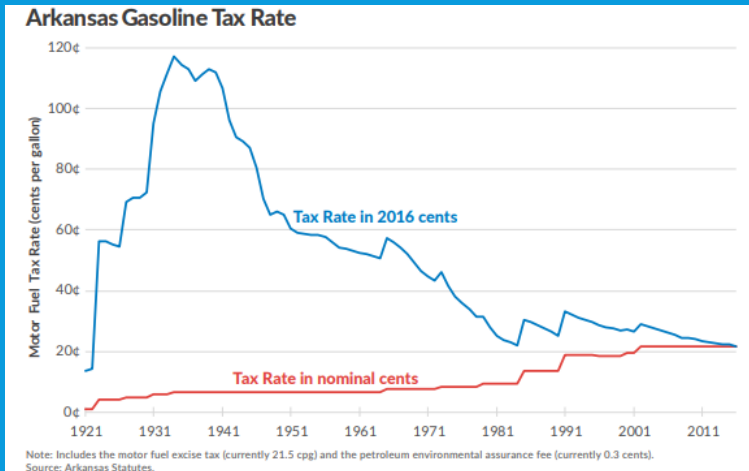
GENERAL OVERVIEW

- Imposed on specific (rather than general) sales, sometimes *ad valorem* but more often based on volume
- Generally thought of as an attempt to internalize the externalities associated with consumption of a particular good or service, which cannot be adequately addressed by a general sales tax
- Frequently, though, excise tax rates have more to do with revenue targets than any accounting of external costs
- Excise taxes are often a declining source of revenue because the taxes themselves discourage consumption and favor substitutes
 - Particularly true when excise taxes are levied in part to discourage or moderate consumption, e.g., cigarette taxes or soft drink taxes
 - Even more significant when there's an existing trend toward lower use

EXCISE TAXES

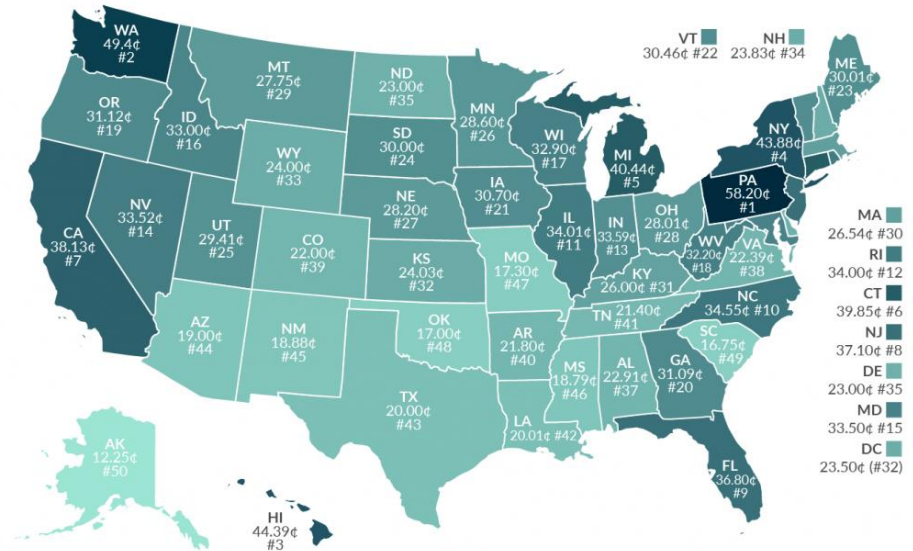
GAS TAX

- At 21.8 cpg (including 0.3 cpg environmental assurance fee), Arkansas' gas tax has the 40th-highest rate nationwide
- The tax rate has not kept up with inflation



How High Are Gas Taxes in Your State?

Total State Taxes and Fees on Gasoline, as of January 2017 (cents per gallon)

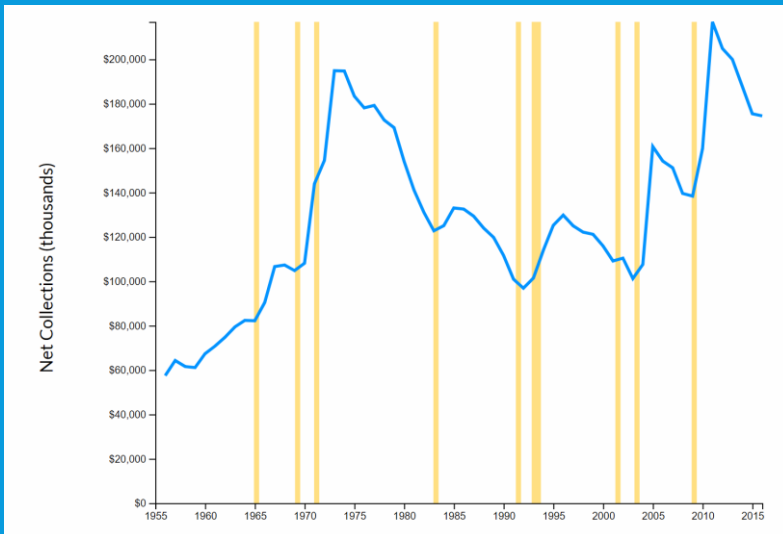


Notes: These rates do not include the 18.40 cent/gallon federal excise tax on gas. The American Petroleum Institute (API) has developed a methodology for determining the average tax rate on a gallon of fuel. Rates may include any of the following: excise taxes, environmental fees, storage tank taxes, other fees or taxes, and general sales tax. In states where gasoline is subject to the general sales tax, or where the fuel tax is based on the average sale price, the average rate determined by API is sensitive to changes in the price of gasoline. States that fully or partially apply general sales taxes to gasoline are California, Connecticut, Georgia, Illinois, Indiana, Michigan, and New York. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.
Source: American Petroleum Institute.

EXCISE TAXES

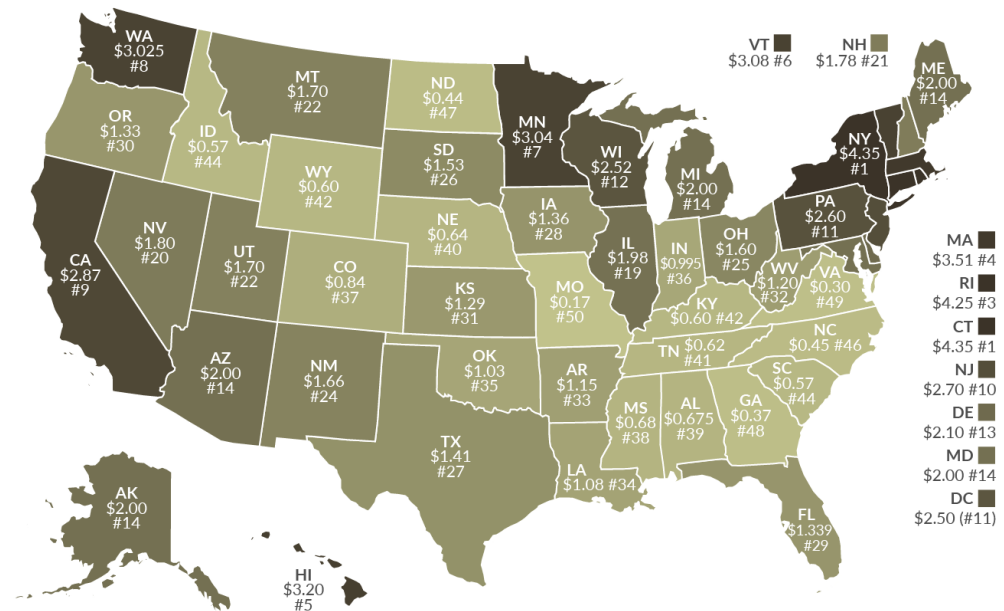
CIGARETTE TAX

- At \$1.15 / pack, Arkansas' cigarette tax is the second-highest in the region after Texas, and well higher than neighboring MO (\$0.17), TN (\$0.62), or MS (\$0.68)
- Declining revenue source



How High Are Cigarette Taxes in Your State?

State Cigarette Excise Tax Rates, 2018 (dollars per 20-pack)



Note: Local taxes are not included and can be substantial. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Source: Bloomberg BNA; state statutes.

State Cigarette Excise Tax Rates (dollars per 20-pack)



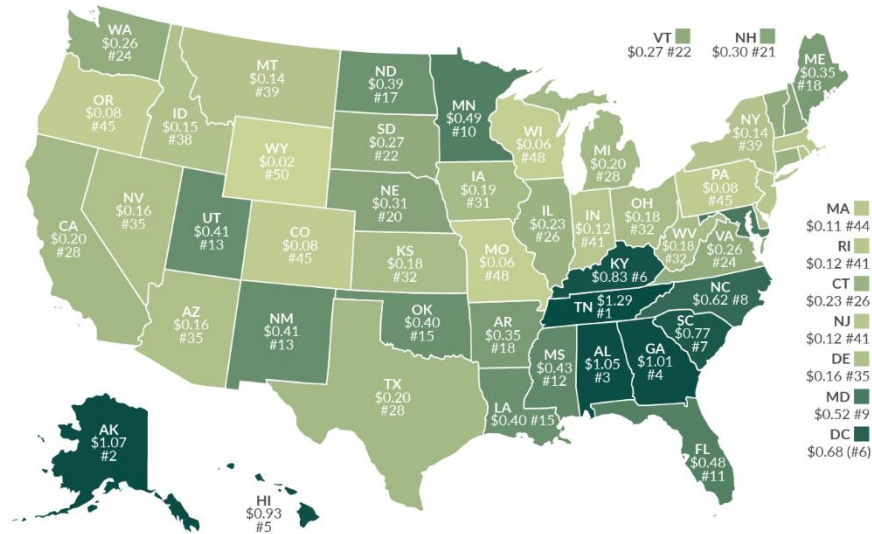
EXCISE TAXES

ALCOHOL TAXES

- Beer: \$0.23 / gallon
- Wine: \$0.75 / gallon
- Liquor: \$2.50 / gallon

How High Are Beer Taxes in Your State?

State Beer Excise Tax Rates (Dollars per Gallon), as of January 2017



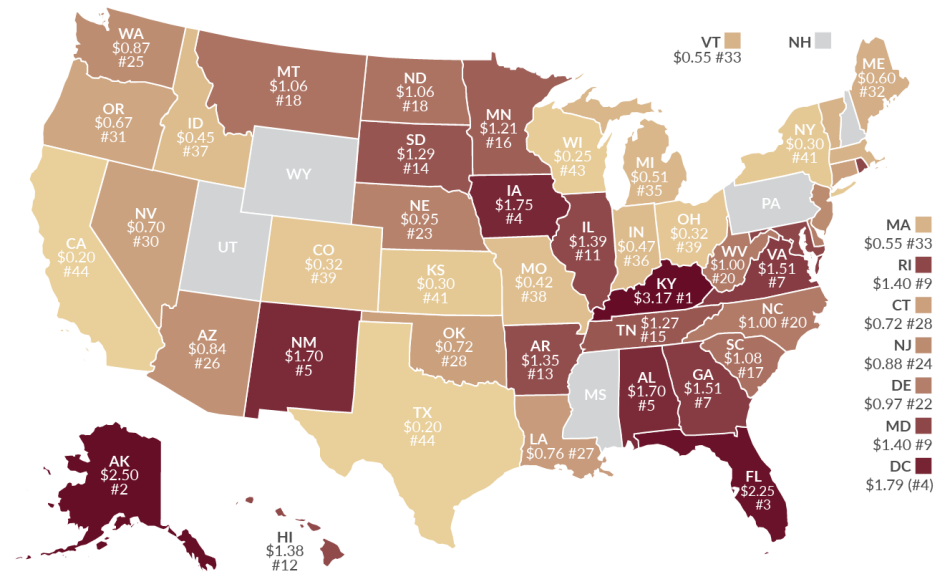
Note: Rates are those applicable to off-premise sales of 4.7% a.b.v. beer in 12 ounce containers. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. FL, HI, ID, IA, KS, MN, NC, ND, OH, OK, TX, UT, VA, WA, and WI also apply different rates according to alcohol content, place of production, size of container, or place purchased (on- or off-premise or onboard airlines). Statewide local rate

State Beer Excise Tax Rates (Dollars per Gallon)



How High Are Wine Taxes in Your State?

State Wine Excise Tax Rates (Dollars Per Gallon), As of January 1, 2017



Note: Rates are those applicable to off-premise sales of 11% alcohol by volume (a.b.v.) non-carbonated wine in 750ml containers. Federal rates vary by alcohol content and type of wine, ranging up to \$3.15 for 21-24 percent alcohol and \$3.40 for sparkling wine. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

AL, AZ, CA, CO, CT, FL, GA, HI, ID, IL, IN, IA, KS, LA, ME, MA, MI, MS, MT, NE, NV, NH, NM, NC, ND, OH, OK, OR, RI, SC, SD, TX, UT, VA, WA, WV, WI, DC: Different rates also applicable to alcohol content, place of production, size of container, place purchased (on- or off-premise or on board airlines) or type of wine (carbonated, vermouth, etc.).

MS, NH, UT, PA, WY: Control states, where the government controls all sales. Products can be subject to ad valorem mark-up as well as excise taxes.

KY: Includes the wholesale tax rate of 11%, converted to a gallonage excise tax rate.

AR, MN, TN: Includes case fees and/or bottle fees which may vary with size of container.

AR, MD, MN, SD, DC: Includes sales taxes specific to alcoholic beverages.

Source: Distilled Spirits Council of the United States.

State Wine Excise Tax Rate (Dollars Per Gallon)



Questions?

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