

# Arkansas:

## Options for Excise Tax Reform

Presentation to the Arkansas Tax Reform  
and Relief Task Force  
June 20, 2018

**Nicole Kaeding**

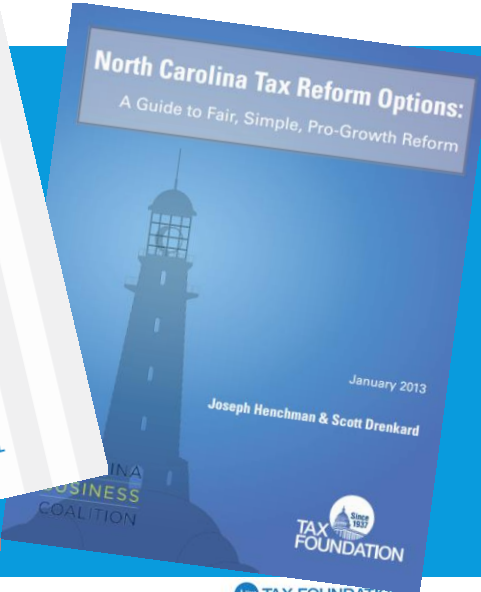
Director of Special Projects  
[kaeding@taxfoundation.org](mailto:kaeding@taxfoundation.org)  
[www.taxfoundation.org](http://www.taxfoundation.org)



# TOPICS OF DISCUSSION

- Overview of Excise Taxation
- Gas Tax
- Alcohol Taxes
- Cigarette
- Suggested Reforms

# ABOUT THE TAX FOUNDATION



we've worked for **81 years**

on objective research, data, & analysis at the federal, state, & local levels

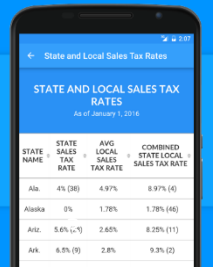


How do the 2016 Presidential Tax Plans Compare So Far?

	Bush	Carson	Cruz	Paul	Rubio	Santorum	Trump
10-Year GDP Growth	10%	16.0%	13.9%	12.9%	15%	10.2%	11.5%
10-Year Capital Investment Growth	28.8%	46.6%	43.9%	40.5%	48.9%	29%	29%
10-Year Wage Rate Growth	7.4%	10.9%	12.2%	11.4%	12.5%	7.3%	6.5%
Added Jobs (millions)	2.7	5.2	4.9	4.3	2.7	3.1	5.3
10-Year Static Revenue Estimate (billions)	-\$3,665	-\$5,617	-\$3,666	-\$1,797	-\$6,055	-\$3,223	-\$11,980
10-Year Dynamic Revenue Estimate (billions)	-\$1,610	-\$2,472	-\$768	+\$737	-\$2,401	-\$1,093	-\$10,135

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# 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

# EXCISE TAXES

## GENERAL OVERVIEW

- 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

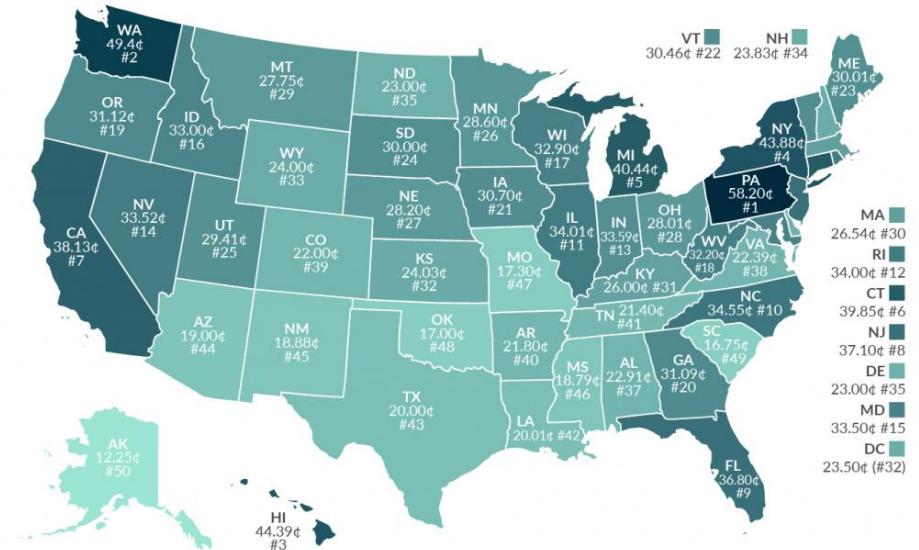
# EXCISE TAXES

## GAS TAX

- At 21.8 cpg (including 0.3 cpg environmental assurance fee), Arkansas' gas tax has the 40th-highest rate nationwide.
- In fiscal year 2015, 36.6 percent of state and local road spending was financed by gasoline and license taxes, 30<sup>th</sup> nationally.
- Only 37 percent of state and local road spending is covered by gasoline and license taxes, plus tolls and other user fees, 42<sup>nd</sup> nationally.

### 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.

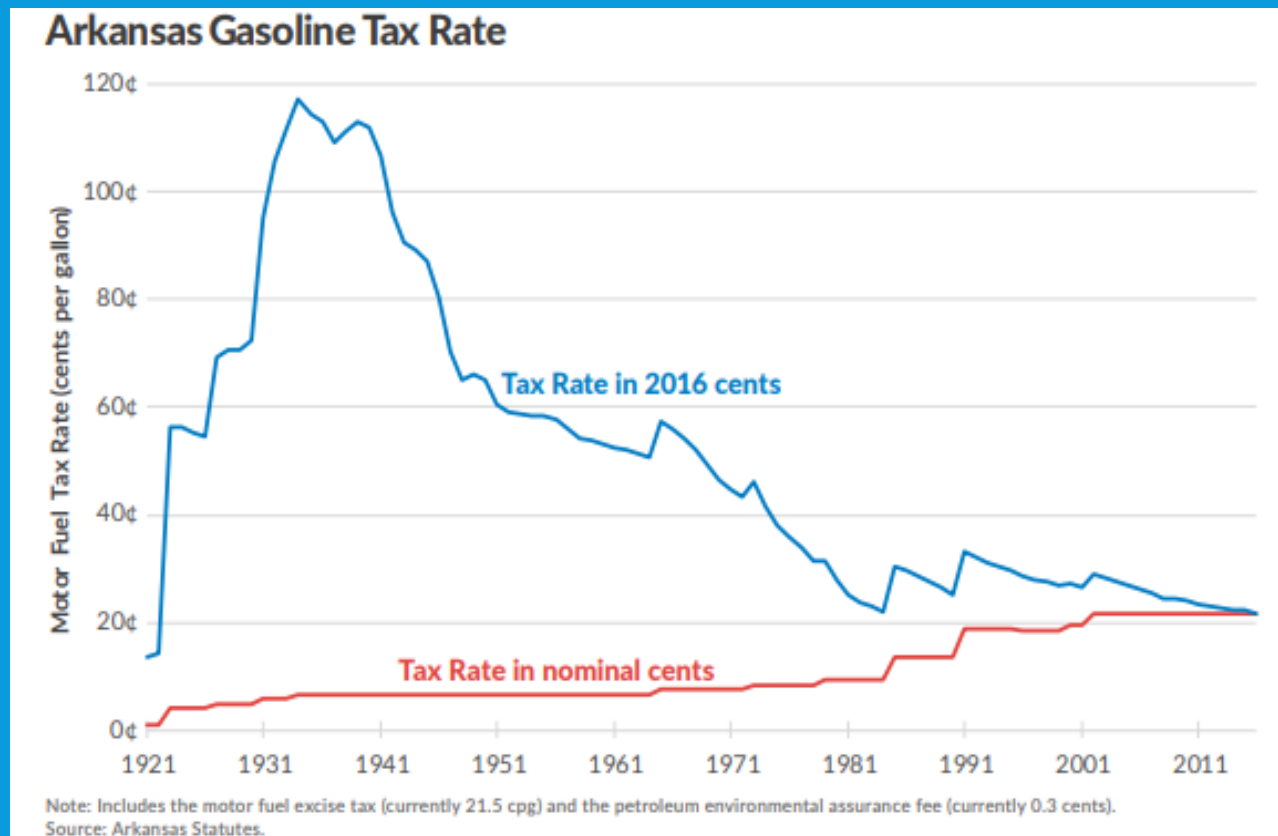
Source: American Petroleum Institute.



# EXCISE TAXES

## GAS TAX

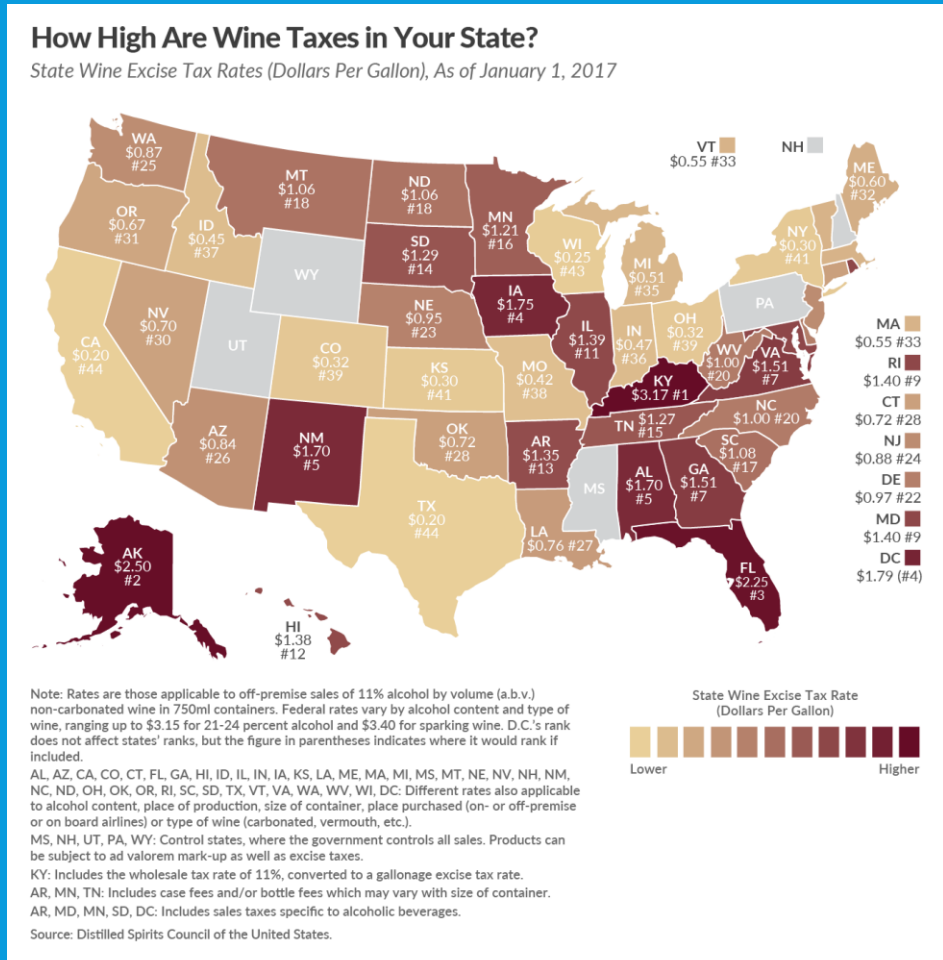
- The tax rate has not kept up with inflation.



# EXCISE TAXES

## ALCOHOL TAXES

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





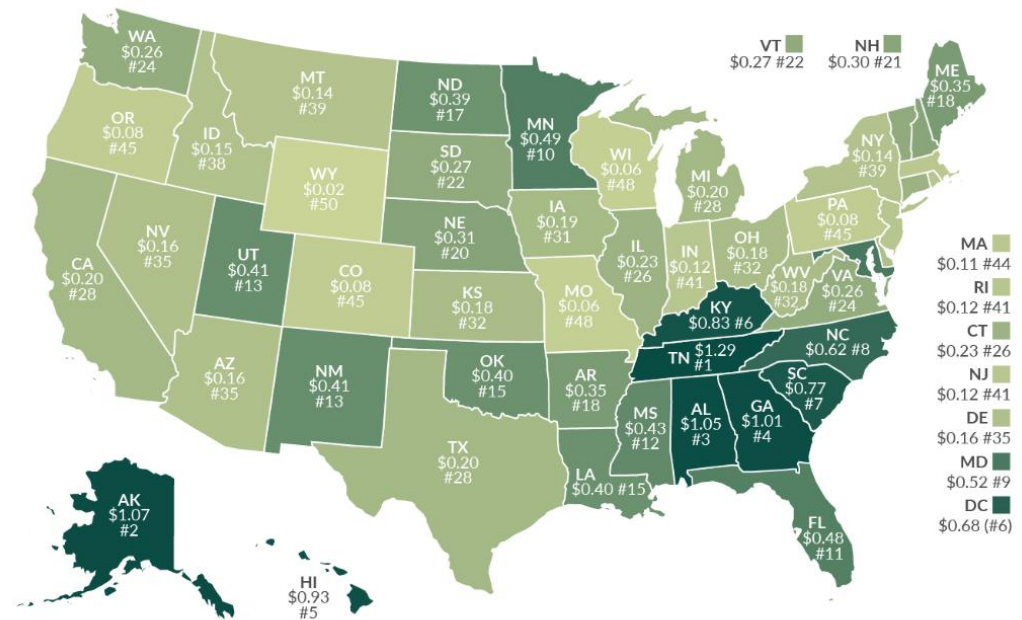
# EXCISE TAXES

## ALCOHOL TAXES

- Beer: \$ 0.23 / gallon

### How High Are Beer Taxes in Your State?

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



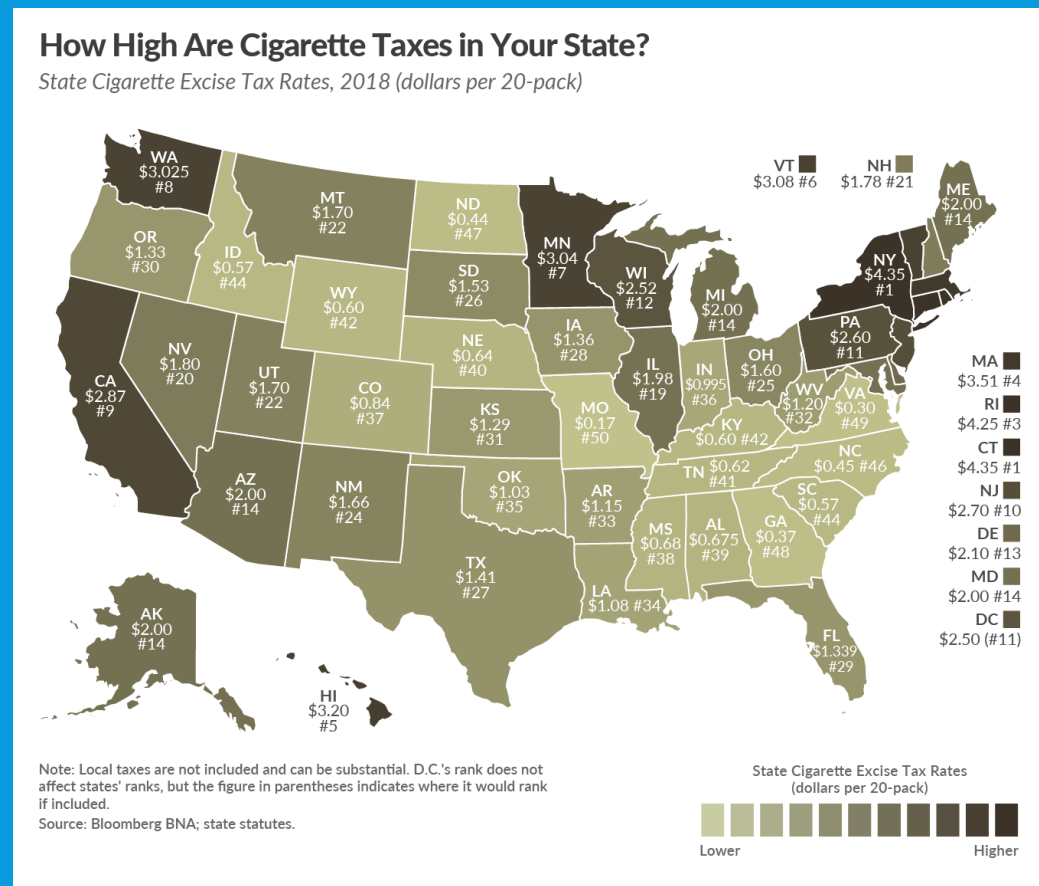
Note: Rates are those applicable to off-premise sales of 4.7% a.b.v. beer in 12 ounce containers. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included. FL, HI, ID, IA, KS, MN, NC, ND, OH, OK, TX, UT, VA, WA, and WI also apply different rates according to alcohol content, place of production, size of container, or place purchased (on- or off-premise or onboard airlines). Statewide local rate included in AL (\$0.52) and GA (\$0.53). Sales tax specific to alcoholic beverages included in AR, MD, MN, and DC. Case fees and/or bottle fees which may vary with the size of container included in AR and RI. Wholesale tax rate converted into a gallonage excise tax rate included in KY (10.5%) and TN (17%).

Source: Distilled Spirits Council of the United States.

# EXCISE TAXES

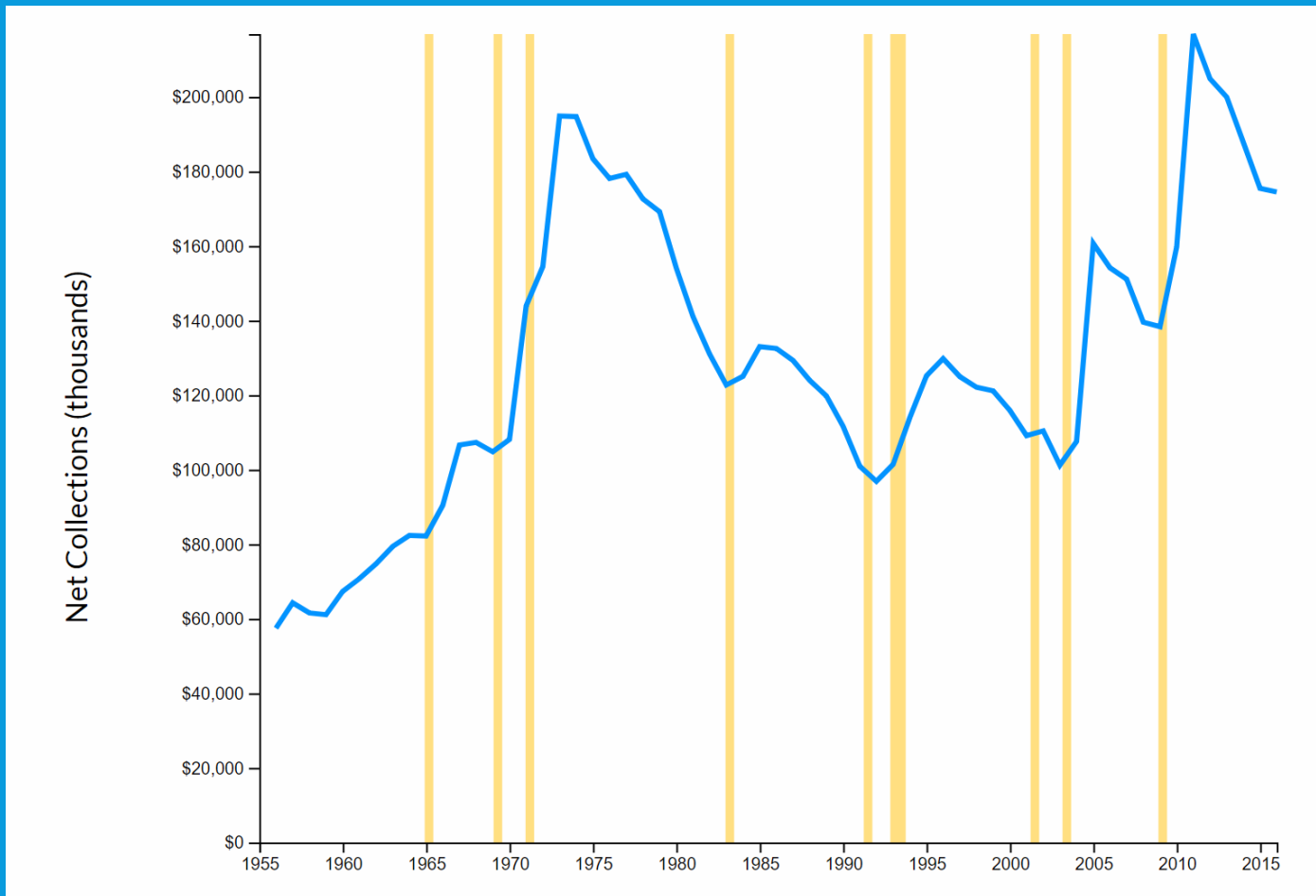
## CIGARETTE TAX

- 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)



# EXCISE TAXES

## CIGARETTE TAX

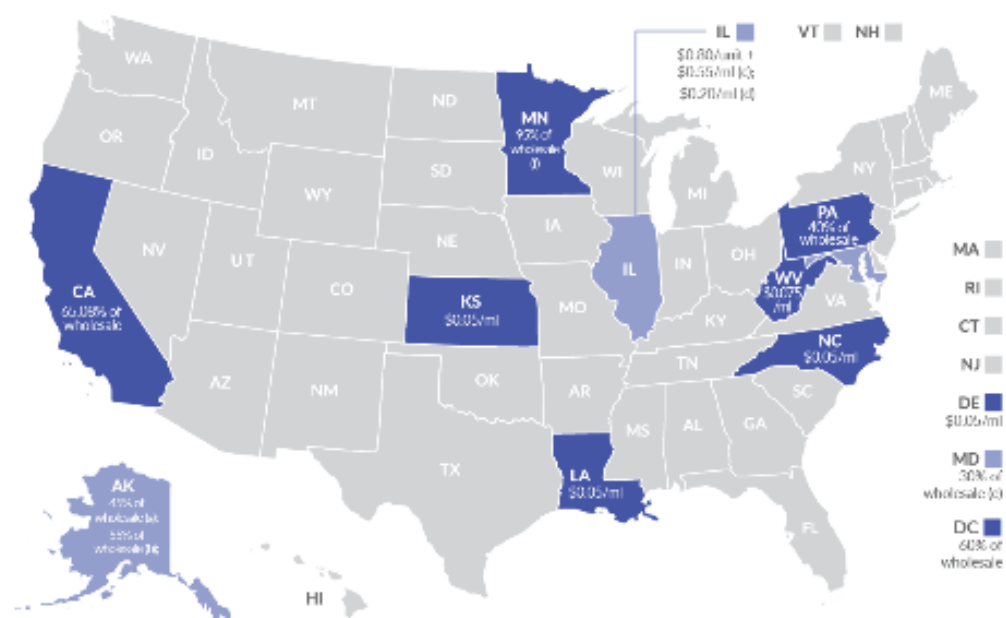


# EXCISE TAXES

## VAPOR TAXES

### How High Are Vapor Excise Taxes in Your State?

State & Local Vapor Excise Tax Rates, as of January 1, 2018



Note: (a) Tax is only applicable in Juneau, NW Arctic Borough, and Petersburg. (b) Tax is only applicable in Mat-Su Valley. (c) Tax is only applicable in the city of Chicago. (d) Tax is only applicable in Cook County. (e) Tax is only applicable in Montgomery County. (f) Tax is on the wholesale cost of any product containing or derived from tobacco. The tax on an e-cigarette starter kit is calculated on the total cost unless the nicotine cartridges are sold separately and then the tax is levied only on the value of the nicotine cartridge.

Source: State statutes; Bloomberg BNA.

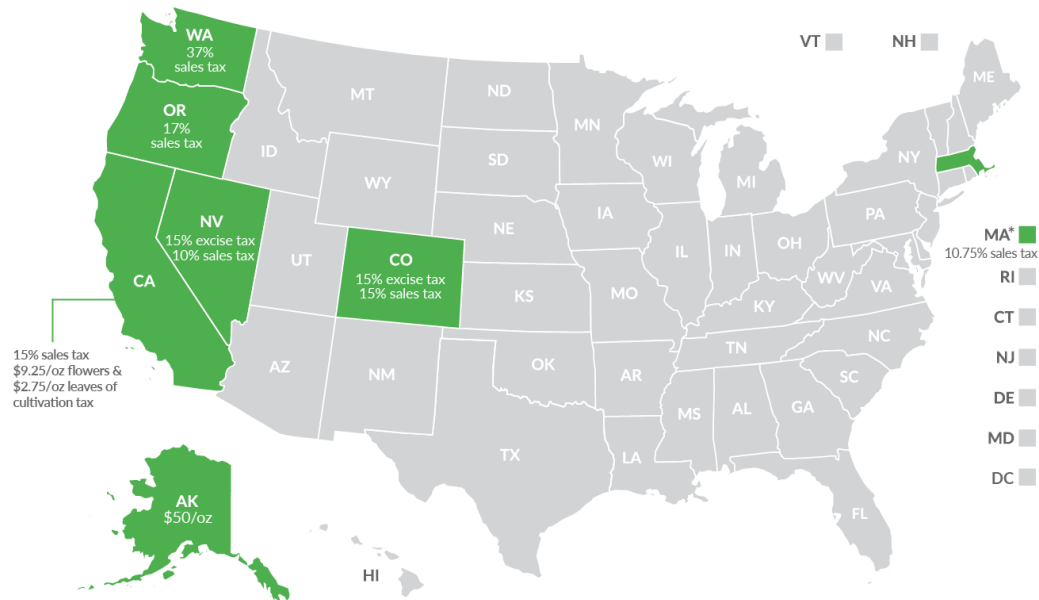
- Statewide Vapor Excise Tax
- Municipal Vapor Excise Tax

# EXCISE TAXES

## MARIJUANA TAXES

### How High Are Marijuana Taxes in Your State?

State Recreational Marijuana Excise Tax Rates, January 2018



Note: (\*) Massachusetts has not yet begun recreational sales.

D.C. voters approved legalization and purchase of marijuana in 2014 but federal law prohibits any action to implement it. The New Hampshire Legislature voted this year to legalize the possession and growing of marijuana, but sales are not permitted. Alabama, Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Nebraska, Oklahoma, Rhode Island, Tennessee, and Wisconsin impose a controlled substance tax on the purchase of illegal products. Vermont legalized the possession of recreational marijuana legislatively in January 2018, but is not implementing a legal recreational market. Maine legalized recreational marijuana in November 2016 by ballot initiative, but the state has not implemented a legal recreational market. Legislation is pending that would create a taxing structure.

Source: Tax Foundation, "Massachusetts Increases Marijuana Tax Rate" (2017); state statutes; Bloomberg BNA.

# EXCISE TAXES

## RECOMMENDATIONS

- Arkansas should consider raising the state's gas tax to better fund transportation needs.

# CONCLUSION

- Questions?
- Contact Information:
  - [Kaeding@Taxfoundation.org](mailto:Kaeding@Taxfoundation.org)