

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
JUNE 26, 2018

The Tax Reform and Relief Legislative Task Force met Tuesday, June 26, 2018, at 10:00 a.m., in Committee Room A-MAC, Little Rock, Arkansas.

Task Force Members Present: Senators Jim Hendren, Chair; Jonathan Dismang, Missy Irvin, Larry Teague, and David Wallace. Representatives Lane Jean, Chair; Frances Cavanaugh, Jim Dotson, Kenneth B. Ferguson, Bob Johnson, Mathew Pitsch, and Warwick Sabin.

Other Legislators Present: Senators Trent Garner, Jimmy Hickey, Jr., and Bill Sample. Representatives Bob Ballinger, Scott Baltz, Charles Blake, Carol Dalby, Andy Davis, Charlotte Douglas, Trevor Drown, Vivian Flowers, Jimmy Gazaway, Michael Gray, Kim Hammer, Mike Holcomb, Fredrick Love, David Meeks, Donald Ragland, Marcus Richmond, Johnny Rye, and Dan Sullivan.

Representative Jean called the meeting to order.

Legal and Fiscal Analysis of Excise and Miscellaneous Tax Proposals and Requests for Information [Exhibit C]

Ms. Joi Leonard, Administrator, Legal Research and Drafting Section, Bureau of Legislative Research (BLR); Department of Finance and Administration (DFA) representatives Mr. Walter Anger, Commissioner of Revenue; Mr. Joel DiPippa, Senior Counsel; and Mr. Paul Gehring, Assistant Commissioner of Revenue, were recognized to answer questions regarding the list of excise and miscellaneous tax proposals and requests for information. Ms. Leonard gave a brief overview of each proposal for consideration.

The following proposals were approved for further study by a majority vote:

E-Cigarette Taxes #1 - 3: Motion made by Rep. Cavanaugh; second by Rep. Ferguson

1. Create an e-cigarette tax (Sen. Wallace). DFA estimates increased revenue of \$7 million and requires an emergency clause with a $\frac{3}{4}$ vote.
2. Levy a tax on e-cigarettes that is equal to the tax on other tobacco products (Rep. Cavanaugh, Rep. Pitsch). DFA estimates increased revenue of \$12 million and requires an emergency clause with a $\frac{3}{4}$ vote.
3. Levy a tax on e-cigarettes that is “middle of the road” among other states (Sen. Irvin). DFA estimates increased revenue of \$1.5 million and requires an emergency clause with a $\frac{3}{4}$ vote.

Cigarette Taxes #4 and 5: Motion made by Sen. Hendren; second by Sen. Wallace

4. Increase the excise tax on cigarettes by \$0.15 to \$1.30 per pack and use resulting revenues to reduce income tax burden (Sen. Irvin). DFA estimates increased revenue of \$26 million and requires an emergency clause with a $\frac{3}{4}$ vote.
5. Increase the cigarette tax by \$0.50 to \$1.65 per pack (Sen. Wallace). DFA estimates increased revenue of \$77 million and requires an emergency clause with a $\frac{3}{4}$ vote.

Mr. Michael Keck, Government Relations Director, American Cancer Society, Cancer Action Network, Arkansas, (ACS CAN), was recognized to answer task force questions and address his concerns regarding cross-state cigarette sales (Attachment 1).

Alcoholic Beverage Taxes #6 - 8: Motion by Rep. Johnson; second by Sen. Wallace

6. Convert the excise taxes on alcoholic beverages from a volume-based tax to a percentage of the purchase price (Sen. Hendren). DFA does not have available the average wholesale cost on which

this calculation could be made.

7. Increase the excise taxes on wine and beer by 20% (Sen. Wallace). DFA estimates increased revenue of \$3 million and requires an emergency clause with a $\frac{3}{4}$ vote.
8. Levy a special excise tax at a rate of 2.5% on alcoholic beverages, cigarettes, and other tobacco products (Rep. Johnson). DFA does not have immediate access to all necessary information.

Fuel Taxes #9 - 13: Motion made by Rep. Johnson; second by Sen. Wallace

Without a specific combination of how to use all of these variables, DFA is unable to provide a fiscal impact for #9 - 12.

9. Index the excise taxes on fuel using a combination of the Consumer Price Index, fuel efficiency, and income (Sen. Hendren)
10. Index the excise taxes on fuel using several factors, such as the Consumer Price Index, population, personal income growth, and other indexes and implement a floor and ceiling on the tax (Sen. Irvin)
11. Index the excise taxes on fuel using the inflation of construction costs (Rep. Johnson)
12. Index the excise taxes on fuel using inflation (Rep. Pitsch, Sen. Wallace)
13. Impose an indexed retail sales tax on fuel using Arkansas highway construction costs and to implement a floor and ceiling on the tax (Rep. Jett). DFA estimates, based on FY2017 motor fuel revenues, an inflationary measure of 1% would have a fiscal impact of \$4.8 million; an inflation rate of 2% would result in \$9.5 million; and an inflation of 3% would result in \$14 million. This amount would be subject to compounding inflation each year. It is unclear whether a court would determine that this proposal would be subject to the requirements of Amendment 19 of the Arkansas Constitution.

Miscellaneous Taxes #14: Motion by Sen. Irvin; second by Sen. Hendren

14. Impose a road user fee for electric/hybrid vehicles at the point of registration (Sen. Irvin). DFA estimates increased revenue of \$1 million, based on 419 electric vehicles and 16,340 hybrid vehicles.

Prioritization of Proposals for Tax Reform and Relief

Mr. Richard Wilson, Assistant Director, Research Division, Bureau of Legislative Research, (BLR), was recognized and presented a tally sheet (Handout 1) prioritizing task force member's proposals using three scenarios:

1. **Number votes** = the number of members is showing at least some preference. The top four tax topics by order of the number of votes are: Throwback Single Sales Factor (SSF), income tax bracket Option A, Net Operating Loss (NOL), and a tie between personal (PIT) and corporate (CIT) income tax top rates.
2. **Ratio** = Rank totals divided by number votes. The top four tax topics by ratio order are: income tax bracket Option A, PIT top rate, Throwback SSF, and NOL.
3. **Devoted Dollars** = by order of the dollar amount of each member's tax cut package: income tax bracket Option A, PIT top rate, CIT top rate, and Throwback SSF.

Department of Finance and Administration (DFA) representatives, Mr. Walter Anger, Commissioner of Revenue; Mr. Joel DiPippa, Senior Counsel; and Mr. Paul Gehring, Assistant Commissioner of Revenue, were recognized to present a revised fiscal impact to Option A and Option B individual income tax brackets. They explained why the bracket estimates presented at a previous task force meeting excluded a tax group, which resulted in an \$80 million deficit. DFA presented a handout that included a breakdown of Options A and B and the Governor's 6% tax cut plan. Also attached is Ms.

Kaeding's individual income tax bracket calculations based on the State Business Tax Climate Index, and Ms. Gee's tax bracket breakdown from the Institute on Taxation and Economic Policy (Attachment 2).

Discussion by the Task Force on Dynamic Scoring

Representative Dotson made a motion to allow the tax reform chairs to work with BLR staff to send proposals to REMI for dynamic scoring; with a second by Representative Johnson, the motion passed. Possible submissions include tax bracket Option A, Option B with an EITC at 10%, lower the top rate of the personal income tax, and the Tax Foundation package.

The meeting adjourned at 11:53 a.m.