

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
AUGUST 6, 2018

The Tax Reform and Relief Legislative Task Force met Monday, August 6, 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, Keith Ingram, Missy Irvin, Larry Teague, and David Wallace. Representatives Lane Jean, Chair; Frances Cavanaugh, Jim Dotson, Kenneth B. Ferguson, Joe Jett, Bob Johnson, and Warwick Sabin.

Other Legislators Present: Senators Alan Clark, Lanny Fite, Trent Garner, Jimmy Hickey, Jr., and Bill Sample. Representatives Fred Allen, Carol Dalby, Andy Davis, Jana Della Rosa, Charlotte Douglas, Trevor Drown, Vivian Flowers, Grant Hodges, Greg Leding, John Maddox, Reginald Murdock, Marcus Richmond, Johnny Rye, and Brandt Smith.

Representative Jean called the meeting to order.

Presentation of Dynamic Scoring Results [Exhibits C, C-1]

Dr. Peter Evangelakis, Senior Economist, and Ms. Jamie Neville, Economic Associate, Regional Economic Models, Inc. (REMI), were recognized to present dynamic scoring analyses for the following tax proposals under consideration by the task force. Mr. Evangelakis provided fiscal, economic, and demographic impacts for each proposal listed with averages over a five year range beginning FY2019 through FY2023.

1. Reduction of the top individual income tax rate from 6.9% to 6.0% for individuals with taxable incomes of \$80,000 or more.
REMI's baseline forecast shows an approximate net loss in state revenue totaling \$170 - \$180 million per year.
2. Option A individual income tax brackets.
REMI's baseline forecast shows an approximate net loss in state revenue totaling \$261.1 - \$276.1 million per year.
3. Option B individual income tax brackets combined with an Earned Income Tax Credit (EITC).
REMI's baseline forecast shows an approximate net loss in state revenue totaling \$194.9 - \$208.7 million per year.
4. Tax Foundation's tax reform package.
 - Lowering Corporate Income tax to 6%: \$32 million revenue loss in state revenue
 - Implement Single Sales Factor: \$9 million increase in state revenue
 - Repeal Throwback rule: \$24.5 million revenue loss
 - Repeal Franchise tax: \$29.3 million loss in revenue, expenditures, and production costs
 - Repeal Inventory tax: \$2.9 million increase in state revenue

The task force received written testimonies from the Tax Foundation by Nicole Kaeding [Handout #1] and the Institute on Taxation and Economic Policy by Lisa Christenson Gee [Handout #2], in response to REMI's dynamic scoring results.

Mr. Jeremy Horpedahl, Assistant Professor of Economics, University of Central Arkansas, was recognized and commented that REMI's dynamic scoring analysis aligns with Department of Finance and

Administration's analysis that the tax cuts will increase economic activity and employment and the fiscal impact to the state. Mr. Horpedahl said he is in agreement with the Tax Foundation's review stating that REMI's dynamic scoring models on capitol income tax cuts should be viewed skeptically as their results do not match the general consensus or expected directionality of the tax community.

Other Business

Representative Bob Johnson was recognized to present sample Arkansas Income Tax Returns [Attachment #1] using different income tax bracket scenarios for married filers in Arkansas; in addition to the tax penalty amounts to Oklahoma and Missouri. Representative Johnson said Arkansas' marriage penalty tax is similar to Oklahoma and Missouri's especially in the lower tax brackets. Married couples in Oklahoma each making \$50,000 or more do not pay a tax penalty. Missouri couples each making \$50,000 or more pay half a tax penalty compared to Arkansas. Representative Johnson recommended the task force study the state's current marriage penalty law.

The meeting adjourned at 12:10 p.m.