

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
AUGUST 22, 2018

The Tax Reform and Relief Legislative Task Force met Wednesday, August 22, 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, Larry Teague, and David Wallace. Representatives Lane Jean Chair; Frances Cavanaugh, Jim Dotson, Kenneth B. Ferguson, Joe Jett, Bob Johnson, and Mathew Pitsch.

Other Legislators Present: Senators Linda Chesterfield, Jimmy Hickey, and Bill Sample. Representatives Fred Allen, Bob Ballenger, Charles Blake, Charlie Collins, Andy Davis, Vivian Flowers, Justin Gonzales, Ken Henderson, David Hillman, Steve Hollowell, David Meeks, Reginald Murdock, Laurie Rushing, Johnny Rye, Danny Watson, and Jeff Williams.

Representative Jean called the meeting to order.

Consideration to Approve the July 27, August 6 and 7, 2018, Minutes [Exhibits C-1, C-2, C-3]

Representative Pitsch made the motion to approve the minutes from the July 27, August 6 and 7, 2018, meetings and, with a second by Senator Elliott, the minutes were adopted without objection.

Discussion on the Tax Reform and Relief Task Force Report [Exhibit D]

Bureau of Legislative Research (BLR) staff Ms. Jill Thayer, Legal Counsel, Ms. Joi Leonard, Administrator, Legal Research and Drafting Section, and Mr. Richard Wilson, Assistant Director, Research Division, were recognized. Ms. Thayer gave a brief overview of the draft final report. She summarized the task force proposals that were sent to Regional Economic Models, Inc. (REMI) for the production of dynamic scoring and task force discussions regarding the \$200 million tax cut package.

Mr. Wilson reviewed task force members' priorities regarding revenue increase proposals which are ranked as listed:

1. Collection of Sales and Use Tax by Remote Sellers
2. Repeal of the Capital Gains Tax Exemption over \$10 million
3. Repeal of the Income Tax Credit for Political Contributions
4. Creation of a Road User Fee for Electric and Hybrid Vehicles
5. Repeal of the Sales Tax Exemption for Magazine Subscriptions
6. Indexing Motor Fuel and Distillate Special Fuel Taxes

Representative Johnson made the motion to adopt the final report and, with a second by Representative Ferguson, the motion passed.

Discussion on Submission of Plan to REMI [Exhibit E]

Mr. Paul Gehring, Assistant Commissioner of Revenue, Department of Finance and Administration (DFA), was recognized to present an overview of the task force's income tax reduction proposals and revenue impacts as listed:

1. Option A: Reduces the number of individual income tax tables from three (3) to one (1), and the top marginal rate for individuals from 6.9% to 6.5%. This proposal would decrease revenue by \$276.4 million a year.

2. **Option B:** Reduces the number of individual income tax tables from three (3) to one (1) and the top marginal rate for individuals from 6.9% to 6.5%. This proposal, without a 10% Earned Income Tax Credit (EITC), would decrease revenue by \$125.7 million a year.
3. **Reduction of the Top Individual Income Tax Rate:** Reduces the top personal income tax rate from 6.9% to 6% but would not affect the rate in any other bracket. This reduction would affect approximately 162,000 taxpayers and decrease revenue by approximately \$180 million a year.

Mr. Gehring presented a new proposed phased-in plan. Under Phase One, those with taxable incomes up to \$8,000 a year would pay an individual income tax rate of 2%; \$8,000 - \$18,000 would pay a 4% rate; \$18,001 - \$65,000 would pay a 5.9% tax rate; and \$65,001 and higher would pay 6.5%. Under Phase Two, the rates would remain the same for individuals with up to \$18,000 in taxable income. But the top rate for those making at least \$18,001 would drop to 5.9%. There are no timelines for Phase One or Phase Two, and no triggers are built into this plan.

Representative Johnson made the motion to submit the administration's most recent income tax plan to Regional Economic Models, Inc. (REMI) for dynamic scoring. In addition, this plan will be sent to the Tax Foundation and to the Institute on Taxation and Economic Policy (ITEP) for analysis. The motion was seconded by Senator Irvin, and the motion passed.

Recession Outlook

Mr. Richard Wilson, Assistant Director, Research Division, BLR, presented a Non-Accelerating Inflation Rate of Unemployment (NAIRU) graph created by Moody's Analytics regarding how inflation corresponds with unemployment. The graph observes unemployment rates from FY1950 through FY2017. The theory states that if the actual unemployment rate is less than the NAIRU for a few years, the labor market tightens and wage inflation rises.

The meeting adjourned at 10:45 a.m.