

**MINUTES**  
**TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE**  
**NOVEMBER 7, 2017**

The Tax Reform and Relief Legislative Task Force met Tuesday, November 7, 2017, at 10:00 a.m., in Room A-MAC, Little Rock, Arkansas.

**Task Force members present:** Senators Jim Hendren, chair, Jonathan Dismang, Bart Hester, Larry Teague, and David Wallace; Representatives Lane Jean, chair, Frances Cavenaugh, Jim Dotson, Kenneth B. Ferguson, Joe Jett, Bob Johnson, and Mathew Pitsch.

**Other legislators present:** Senators Ronald Caldwell, Alan Clark, Stephanie Flowers, Trent Garner, Jimmy Hickey, Jr., Jason Rapert, Bill Sample, and Eddie Joe Williams; Representatives Charlie Collins, Andy Davis, Jana Della Rosa, Les Eaves, Jon Eubanks, Justin Gonzales, Michelle Gray, Ken Henderson, Steve Hollowell, Douglas House, Roger Lynch, John Maddox, Austin McCollum, Reginald Murdock, Aaron Pilkington, Marcus Richmond, Laurie Rushing, Johnny Rye, Nelda Speaks, Dan Sullivan, Jeff Wardlaw, Danny Watson, Jeff Williams, and Carlton Wing.

Senator Hendren called the meeting to order.

**Consideration to Approve Minutes from the October 3, 2017, Meeting [Exhibit C]**

Representative Ferguson made a motion to approve minutes from the October 3, 2017, Tax Reform and Relief Legislative Task Force meeting; with a second by Representative Pitch, the minutes were approved.

**Discussion on Sales Tax Exemptions [Exhibit D]**

**Mr. Randall Bauer, Project Manager, Mr. John Cape, Managing Director and Ms. Ashley Lewis, Analyst, PFM Group Consulting, LLC**, were introduced to give a presentation regarding the state's sales and use tax exemptions, how sales and use taxes are applied in different states, trends in broad-based consumption taxes, and how other states collect streamline sales taxes on tangible and intangible products and services.

Mr. Cape presented a FY2011 chart by the Arkansas Department of Finance and Administration, containing a list of exemptions that have significantly decreased the state's sales tax base annually:

- Gasoline or motor fuel on which the gasoline or fuel tax has been paid - \$325 million (22.57%)
- Food and food ingredients - \$176 million (12.21 %)
- Prescription drugs - \$143 million (9.89%)
- Sales to nonprofit hospital, sanitarium or nursing homes - \$104 million (7.18%)
- Feed used in commercial production of livestock or poultry - \$99 million (6.84%)
- Machinery and equipment used directly in manufacturing or processing - \$85 million (5.92%)

Mr. Cape pointed out sales taxes can be structured differently but the main goal is to keep a broad base and a low rate and never change it. Mr. Cape advised the task force to avoid exemptions that are administratively burdensome. He said combining income tax with sales tax creates balance. Broad sales tax can mitigate some of the income tax volatility while progressive income tax refundable credits can mitigate some of the sales tax progressivity. He advised the task force not to look at each of these sources in isolation but rather think about how taxing different components will fit together as they work to define a comprehensive tax policy.

Mr. Paul Gehring, Assistant Revenue Commissioner, Arkansas Department of Finance and Administration, said the state collects \$2.8 billion annually in individual income taxes. He said if all the sales tax exemptions were eliminated, the state could have a revenue stream of approximately \$1.4 billion annually which could allow a 50% reduction to individual income tax brackets. With the 50% reduction, the tax rates could be eliminated to 0% for individuals with an income bracket between \$0 and \$8,400, eliminating 123,000 taxpayers from the tax rolls. Or start the income tax rate at 1% for individuals with an income bracket starting at \$8,400 and gradually working up to a 3% rate, topping out at a 3.5% rate for individuals within an income bracket starting at \$35,100.

Senator Hendren requested PFM provide additional analysis and research identifying which sales tax exemptions are a policy issue, annual cost to the state and percentage. The task force will work with PFM to determine which exemptions are the best options in reducing revenue as compared to other states and have better economic return.

PFM will also prepare a cost-benefit analysis on sales tax exemptions by categories, develop broad-based parameters, and identify analytical methods, comparing what other states have done to broaden their tax base and collaborate with DFA. PFM will also identify specific service areas based on benchmarking that are worth considering for base-broadening.

Senator Hendren requested DFA provide the task force with a more current analysis of sales tax exemptions. DFA is also to compare revenue growth from the date when Amazon began collecting sales tax to 18 months prior to the date collections began, and present both analysis at a future meeting. E commerce has a seasonal effect during peak holidays compared to overall sales tax and retail sale collections.

Senator Hendren requested task force members to notify the co-chairs and staff regarding tax issues they would like PFM to research and discuss.

Senator Hendren announced that legislators from other states have been invited to speak at the December 5, 2017, meeting.

The meeting adjourned at 2:16 p.m.