

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
NOVEMBER 8, 2017

The Tax Reform and Relief Legislative Task Force met Wednesday, November 8, 2017, at 9:00 a.m., in Room A-MAC, Little Rock, Arkansas.

Task Force members present: Senators Jim Hendren, chair, Jonathan Dismang, Bart Hester, Keith Ingram, Missy Irvin, 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, Scott Flippo, and Jimmy Hickey, Jr.; Representatives Bob Ballinger, Carol Dalby, Andy Davis, Charlotte V. Douglas, Grant Hodges, Steve Hollowell, Douglas House, David Meeks, Reginald Murdock, Aaron Pilkington, Johnny Rye, Nelda Speaks, Dan Sullivan, Dwight Tosh, Les Warren, Jeff Williams, and Carlton Wing.

Representative Jean called the meeting to order.

Discussion on Excise Tax Exemptions [Exhibit C]

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 excise tax exemptions as compared to other states. He said motor fuel tax, cigarette tax, and insurance tax generate the largest revenue source for the state, and combined, they generated \$791 million in revenue in FY2016, which equates to 8.4% of total tax collections. Mr. Bauer provided additional examples of significant contributors to excise tax collections in FY2016 that totaled \$1.3 billion. Compared with national rankings, Arkansas excise taxes were among the lowest with Kansas at 13.5%.

Mr. Bauer provided examples of Arkansas excise tax collections as compared to other states between FY2012 and 2016:

- Motor fuel tax collections — \$441 million, second highest among comparison states
- Insurance premium tax revenue — \$174 million, tied with Tennessee for second highest among comparison states
- Cigarette tax collections — \$175 million, third highest tax rate among comparison states
- Cigar and tobacco tax revenue collections — \$50 million, second highest among comparison states
- Alcohol taxes — \$29 million, fourth lowest beer tax, fourth highest liquor and third highest wine taxes among comparison states
- Soft drink tax revenue — \$45 million. Tennessee is the only state that levies a state tax on soft drinks
- Electronic games of skill tax revenue — \$42 million, which has doubled from FY2012, second lowest tax rate among comparison states
- Rental vehicle tax revenue — \$10.6 million, highest tax rate among comparison states
- Tourism tax revenue — \$13.6 million. Mississippi, Oklahoma, and Texas levy similar taxes but none tax both admissions charges and lodging like Arkansas' tax rate of 2.0% which is below the national median of 6%

Mr. Bauer will provide the following cost analysis/memorandum as requested by task force members:

- Compare fuel tax collections to the cost of maintaining roads and highways
- Compare alcohol tax collections to costs associated with health related issues being paid with Medicaid and state health care dollars
- Compare alcohol tax collections to the cost of rehabilitation and the harms related to alcohol use
- Compare tobacco and cigarette tax collections to costs associated with Medicaid and state health care payments from cancer and other health related issues
- Dollar amount the state is losing in excise tax collections due to cross boarder competitions such as individuals crossing over into border states to purchase cigarettes and alcohol and make for other purchases such as dining out, buying motor fuel and groceries
- Data regarding the magnitude associated with cross border states and develop tax option diversions
- Include Iowa in the list of benchmark states

Representative Jean requested DFA provide a chart on the dollar amount in excise tax collections in FY2016, and total amount allocated to special revenue, special earmarked, and general revenue.

Senator Hendren requested PFM to rank the state's excise taxes from 1 to 10 with regard to competitiveness and good policy; provide a list of excise taxes in other states that Arkansas does not have and should be reviewing; and list which excise taxes have not generated enough revenue to be imposed.

Next meeting dates are December 5, 2017, at 10:00 a.m., and December 6, 2017, at 9:00 a.m.

The meeting adjourned at 10:39 a.m.