

EXHIBIT C



State of Arkansas Tax Relief and Reform Legislative Task Force

Excise Taxes Presentation

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Coverage Topics

- Excise taxes in theory and practice
- History of excise taxes
- Review of major excise taxes in Arkansas
- Comparison to other states



Excise Taxes in Theory and Practice



Excise Taxes Theory and Practice

- They apply to specific goods or activities – such as gasoline, tobacco or gambling – rather than general taxes based on income, wealth or consumption.
- They are generally applied to a unit of a good or service (as opposed to a general sales tax percentage applied to all purchased taxable goods and services).
- They are usually included in the final price of products and services, and thus are mostly hidden to consumers.
- However, examples of cross-border competition for products with excise taxes suggest consumers are aware of differing tax rates.
- May be used to seek to change consumer behavior or as a ‘revenue remedy’ for negative externalities associated with the taxed product.
- In practice, they are often raised when budget balancing needs arise.



Examples of Excise Taxes

- 'Big three' are alcohol, motor fuel and tobacco products.
- Additional prominent examples are excise taxes on insurance premiums, hotel/motel stays, rental cars, sugared beverages, marijuana, amusement/admissions.
- Less used include billboard advertisements, bingo games, boat rentals, cell phones, coin-operated laundromats, dry cleaning solvents, egg containers, electric vehicles, fireworks, fish feed, grocery bags, mobile homes, personal property rentals, snack food, tire sale, tire disposal, trading stamps, etc.
- New excise taxes often follow along with new types of consumer products and services.



Excise Tax Advantages/Disadvantages

- May be used to offset/reduce negative impacts of production or consumption.
 - “Pigouvian tax”
 - For example alcohol, cigarette/tobacco, sugared beverage taxes
- May be justified as a form of ‘user fee.’
 - Motor fuel taxes – many state constitutions restrict use to highway construction/maintenance
 - Hotel/motel and rental car taxes are often dedicated to local state/local economic development/tourism efforts
- Narrow tax base distorts efficient markets.
 - Average state cigarette tax rates would equate to a 50-100 percent sales tax rate
 - Studies show they can have a material impact on consumption (can be both good and bad)
 - “Narrow, penny-ante character of most excise taxes . . . is a hodgepodge of numerous excise taxes on all kinds of commercial transactions.”
- Many states increase excise taxes based on budget (rather than effective tax policy) reasons.



History of Excise Taxes



History of Excise Taxes

- They date back to the 1600s – notable pre-US example was the Stamp Act (1765) imposed by the English Parliament on all paper documents in the colonies.
- Samuel Johnson's 'A Dictionary of the English Language' defined an excise tax (in 1755), as "A hateful tax levied upon commodities, and adjudged not by the common judges of property, but wretches hired by those to whom excise is paid."
- First U.S. federal excise tax was on whiskey (1791) – made famous by the Whiskey Rebellion.
- Tax imposition often 'event driven.'
 - Gas tax: 43 states imposed between 1919-1925 (Ford model T mass production began in 1913).
 - Alcohol: 24 states between 1933-1935 (21st Amendment enacted in 1933)
 - More recently, rise of use of certain products trigger taxes (marijuana, e-cigarettes, plastic grocery bags).



Excise Taxes in Arkansas



Excise Taxes in Arkansas

- Major excise taxes in Arkansas, by revenue, include Motor Fuel Tax, Cigarette Tax, and Insurance Premium Tax.
 - These three combined for \$791 million in revenue in FY 2016
 - This equates to 8.4% of total tax collections
- Several other excise taxes are significant contributors to State revenue.
 - Excise tax collections in 2016 totaled \$1.3 billion
 - This accounted for 13.5% of total tax collections
- Other key excise taxes include:
 - Alcohol taxes
 - Cigar and tobacco tax Electronic games of skill tax
 - Rental vehicle tax
 - Soft drink tax
 - Tourism tax



Excise Taxes in Arkansas (Fuller List)

- **Alcohol Taxes**
 - Beer Tax
 - Imported Wine Tax
 - Liquor Tax
 - Mixed Drink Tax
 - One Percent Small Farm Winery Tax
 - Beverage Excise Tax
 - Three Percent Beverage Excise Tax
 - Wine Tax – 5 Cents per Case
- **Fuel Taxes**
 - Alternate Fuels Tax
 - Distillate Special Motor Fuels Tax
 - Dyed Distillate Gallonage Tax
 - Motor Fuel Tax
- **Gaming Taxes**
 - Bingo Tax
 - Dog Races Tax
 - Electronic Games of Skill
 - Horse Racing
- **Tobacco Taxes**
 - Cigar and Tobacco Tax
 - Cigarette Tax
- **Tourism-Related Taxes**
 - Long-term Rental Vehicle Tax
 - Rental Vehicle Tax
 - Short Term Rental Tax
 - Tourism Tax
- **Other Excise Taxes**
 - Residential Moving Tax
 - Soft Drink Tax
 - Insurance Premium Tax



Arkansas Relative to Other States

- Nationally, excise taxes account for 16.2 percent of all state tax collections.
- Excise taxes account for a lower percentage of total tax revenue compared to the benchmark states.

	Excise Tax as % of Total Taxes
Texas	27.3%
Louisiana	23.3%
Tennessee	20.2%
Mississippi	19.3%
Oklahoma	15.4%
Missouri	14.4%
Kansas	13.5%
Arkansas	13.5%
Median (excluding Arkansas)	19.3%

Source: Federation of Tax Administrators, 2016 State Tax Collection by Source



Major Excise Taxes in Arkansas and Comparison to Other States



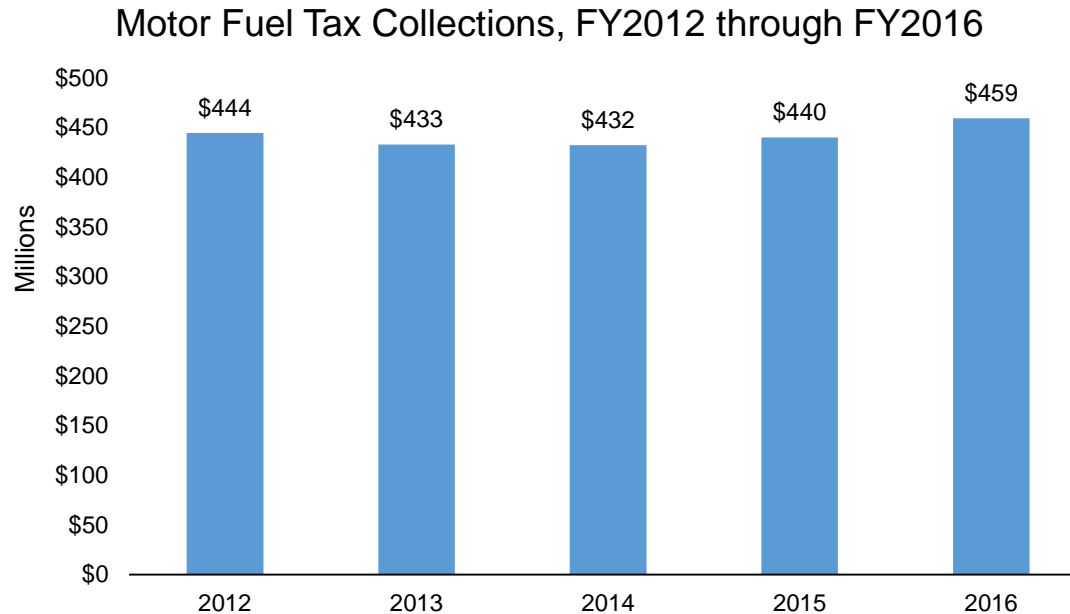
Motor Fuel Taxes

- Enactment:
 - Motor Fuel Tax enacted in 1921
 - Distillate Special Motor Fuel (Diesel) Tax enacted in 1941.
- Tax base:
 - Motor fuel is subject to the tax at a per gallon rate
- Tax rate:
 - \$0.215 per gallon of motor fuel
 - \$0.225 per gallon of diesel motor fuel
- Revenue Distribution:
 - 15% to cities
 - 15% to counties
 - 70% to Highway Department Fund
 - \$0.01 per gallon to the State Highway Special Construction Account
 - \$0.01 per gallon to the State Aid Street Fund



Motor Fuel Tax Revenue

- Over the last five fiscal years (2012 through 2016), Motor Fuel Tax Collections have averaged \$441 million.



Source: 2016 Arkansas Legislative Tax Handbook



Motor Fuel Tax Comparison

- Arkansas' per gallon tax rate ranks second highest among the comparison states.

Tax per Gallon			
State	Gasoline	Diesel Fuel	Gasohol
Kansas	\$0.240	\$0.260	\$0.240
Arkansas	\$0.215	\$0.225	\$0.215
Louisiana	\$0.200	\$0.200	\$0.200
Texas	\$0.200	\$0.200	\$0.200
Tennessee	\$0.200	\$0.170	\$0.200
Mississippi	\$0.180	\$0.180	\$0.180
Missouri	\$0.170	\$0.170	\$0.170
Oklahoma	\$0.160	\$0.130	\$0.160

Source: Federation of Tax Administrators, January 1, 2017



Motor Fuel Tax Changes

- Since 2013, 24 states have increased gas taxes.
 - Response to aging roads and bridges infrastructure, reduce federal assistance
 - Also because of base erosion (improved gas mileage, increase in alternate fuel vehicles, particularly electric cars, CNG not subject to motor fuel taxes
 - Many states are adding annual registration or other fees to counter-act this
- Arkansas' motor fuel tax rate has remained unchanged since 2001.

Year	Gasoline Tax per Gallon	Diesel Tax per Gallon
1921	\$0.010	-
1923	\$0.030	-
1923*	\$0.040	-
1927	\$0.050	-
1931	\$0.060	-
1941	\$0.060	\$0.065
1965*	\$0.075	\$0.085
1973	\$0.085	\$0.095
1979	\$0.095	\$0.105
1985	\$0.135	\$0.125
1991	\$0.185	\$0.185
1999	\$0.195	\$0.205
2000	\$0.205	\$0.225
2001	\$0.215	\$0.225



Insurance Premium Tax

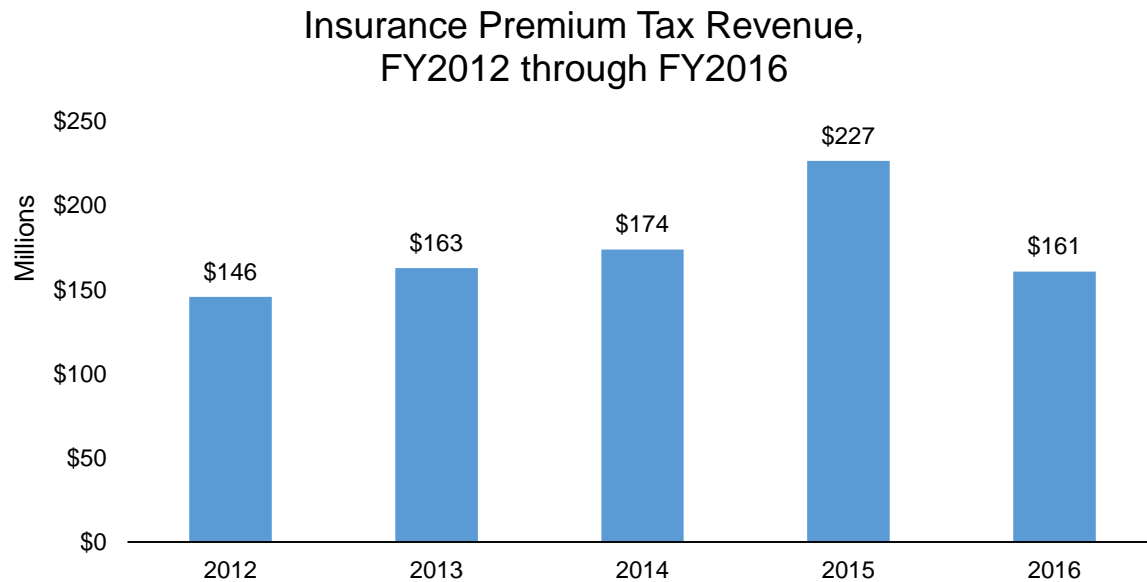
- Enacted in 1873
- Tax base:
 - Insurers' net premium receipts on policies written in the State
- Tax rate:
 - 2.5%
 - National average is 2.08%

Note: Tax rate is 3% for fire protection services. Additional 0.5% is used to offset training expenses for fire fighters



Insurance Premium Tax Revenue

- Over the last five fiscal years (2012 through 2016), Insurance Premium Tax Revenue has averaged \$174 million.



Source: 2016 Arkansas Legislative Tax Handbook



Insurance Premium Tax Comparison

- Arkansas has the 10th highest rate nationally and is tied for second among the comparison states.

State	Rate
Mississippi	3.0%
Arkansas	2.5%
Tennessee	2.5%
Oklahoma	2.3%
Kansas	2.0%
Missouri	2.0%
Texas	1.6%
Louisiana	Varies based on type of policy/value

- State rate is important for out-of-state taxation of Arkansas-based insurance companies.
 - All states apply ‘retaliatory taxes’ to non-domestic insurance companies if their home state premium tax rate is higher than the in-state rate.
 - Supreme Court has upheld these taxes as not violating the Equal Protection or Interstate Commerce Clause if purpose is to discourage other states from imposing higher taxes on a state’s domestic insurers.



Example of Retaliatory Tax Calculation

- Connecticut Domestic Insurer Writing Policy In Iowa

	Connecticut	Iowa
Insurance Premium Tax Rate	1.75%	1%
Premium Amount	\$1,000,000	\$1,000,000
Premium Tax	\$17,500	\$10,000
Assessments	\$1,000	\$3,000
Fees (Department of Insurance)	\$1,250	\$1,000
Total	\$19,750	\$14,000
Retaliatory Tax		\$5,750
Total Iowa Tax Liability		\$19,750

Source: NCSL Task Force on State and Local Taxation, August 19, 2014



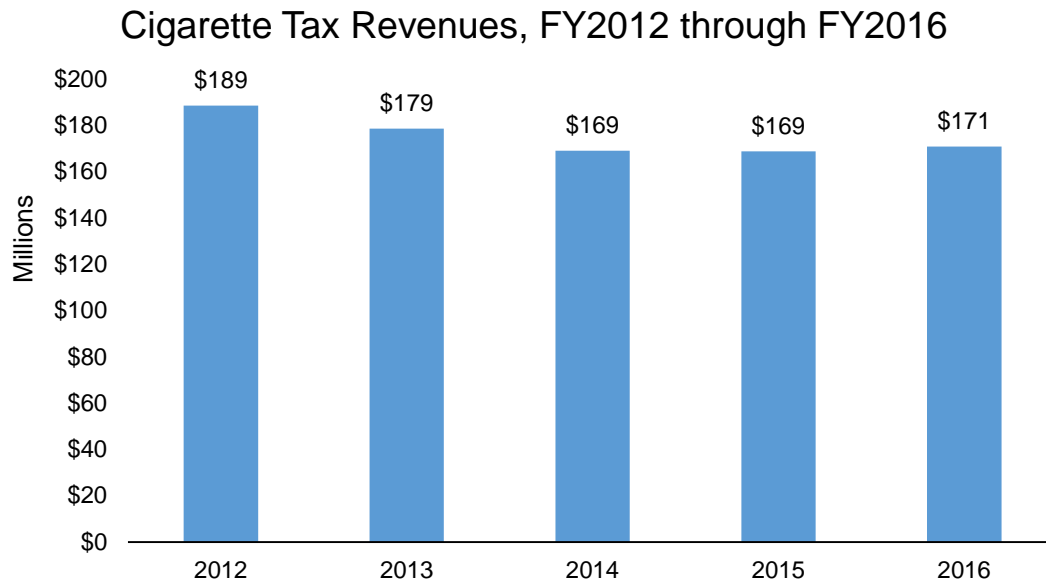
Cigarette Tax

- Enacted in 1929
- Tax base:
 - Cigarettes
 - Based on a standard pack
- Tax rate:
 - \$1.15 per pack of 20 cigarettes
- Distributed to multiple funds and sources



Cigarette Tax Revenue

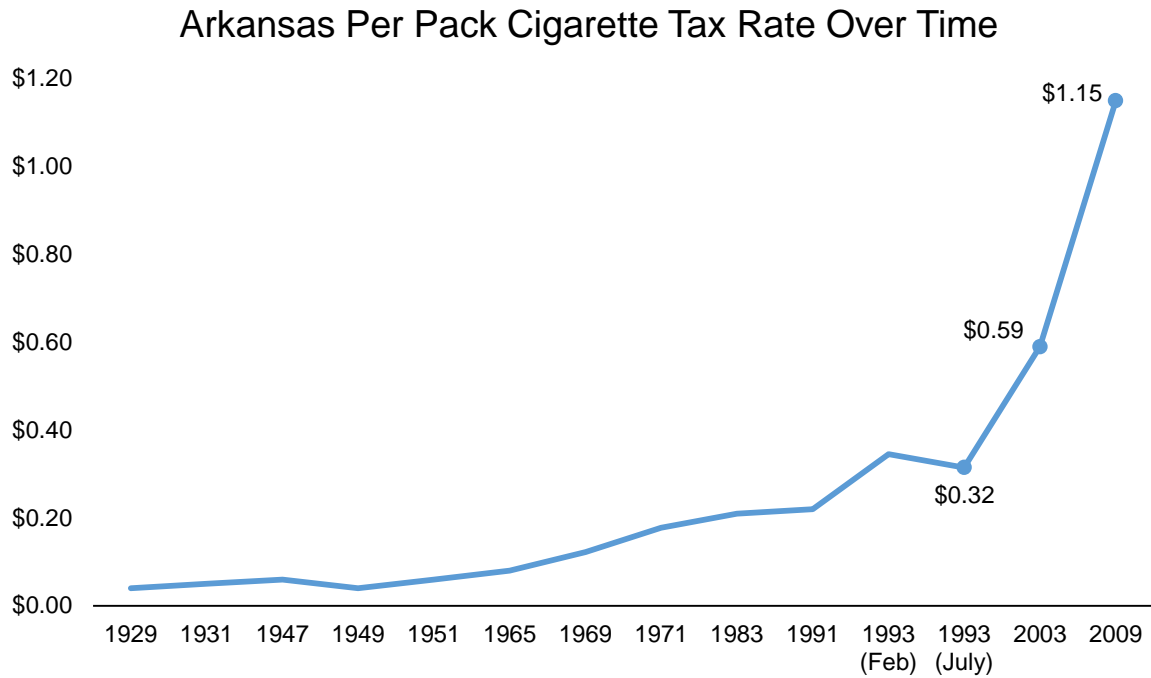
- Over the last five fiscal years (2012 through 2016), cigarette tax collections have averaged \$175 million.



Source: 2016 Arkansas Legislative Tax Handbook



Cigarette Tax Rate Changes

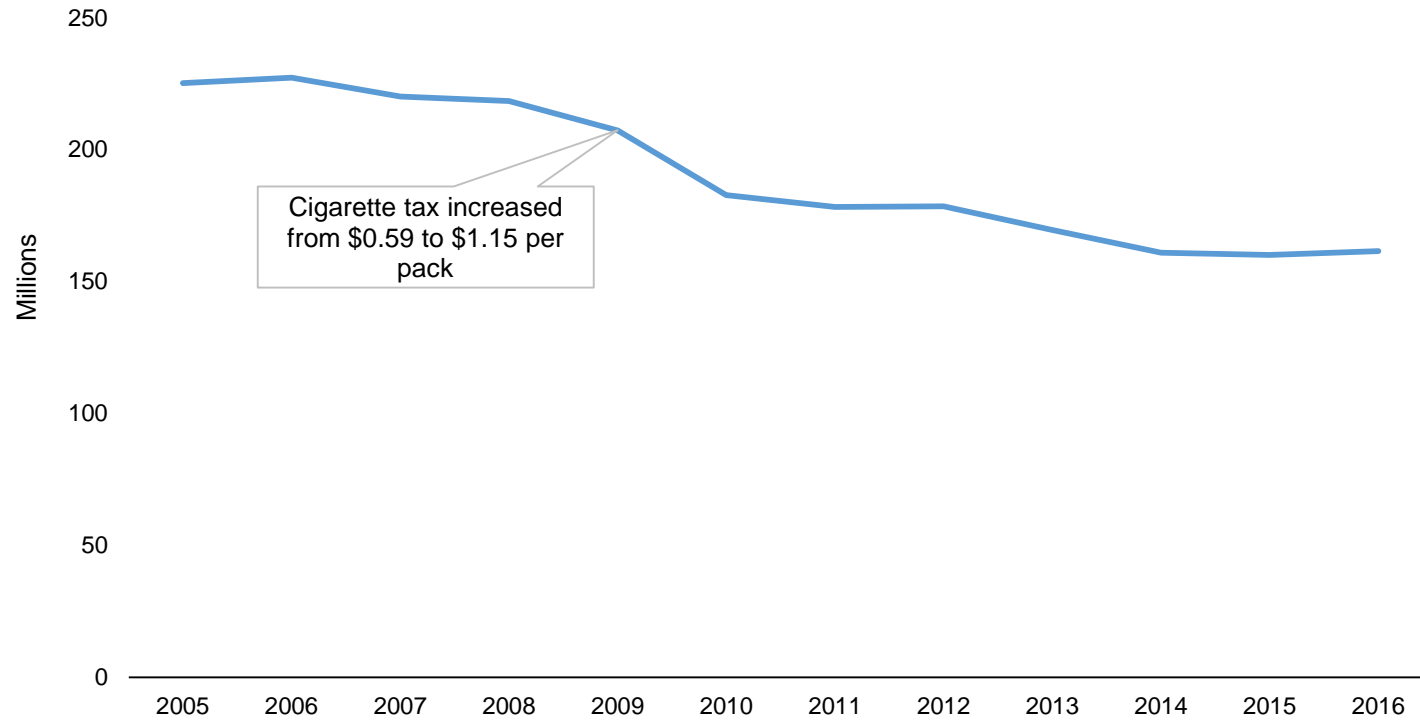


Source: 2016 Arkansas Legislative Tax Handbook



Cigarette Stamp Volume

Arkansas Cigarette Stamp Volume, 2005 to 2016



Source: Arkansas Department of Finance and Administration



Cigarette Tax National Context

- A total of 37 states have increased cigarette taxes since 2007.
- The median value of increases since 2007 is \$0.47
 - Arkansas raised its cigarette tax by \$0.56 in 2009.
 - During that same timeframe, benchmark states raised their taxes as well.
- Cigarette tax increases have even been accomplished in major tobacco growing states.
 - North Carolina combined \$0.40 in 2005, 2006 and 2009
 - Georgia \$0.25 in 2003
 - Kentucky combined \$0.57 in 2005 and 2009
 - Tennessee \$0.42 in 2007
 - Virginia \$0.175 in 2004
- Arkansas' cigarette tax is still below the national median of \$1.53.



Cigarette Tax Comparison

- Arkansas has the third highest tax rate in the comparison group.

State	\$/per pack
Texas	\$1.41
Kansas	\$1.29
Arkansas	\$1.15
Louisiana	\$1.08
Oklahoma	\$1.03
Mississippi	\$0.68
Tennessee	\$0.62
Missouri	\$0.17

Source: Federation of Tax Administrators, January 1, 2017



Cigar and Tobacco Tax

- Enacted in 1969
- Tax base:
 - All products containing tobacco for consumption, excluding cigarettes
- Tax rate:
 - 68% of the manufacturer's selling price
 - This rate has been changed 6 times since 1969.

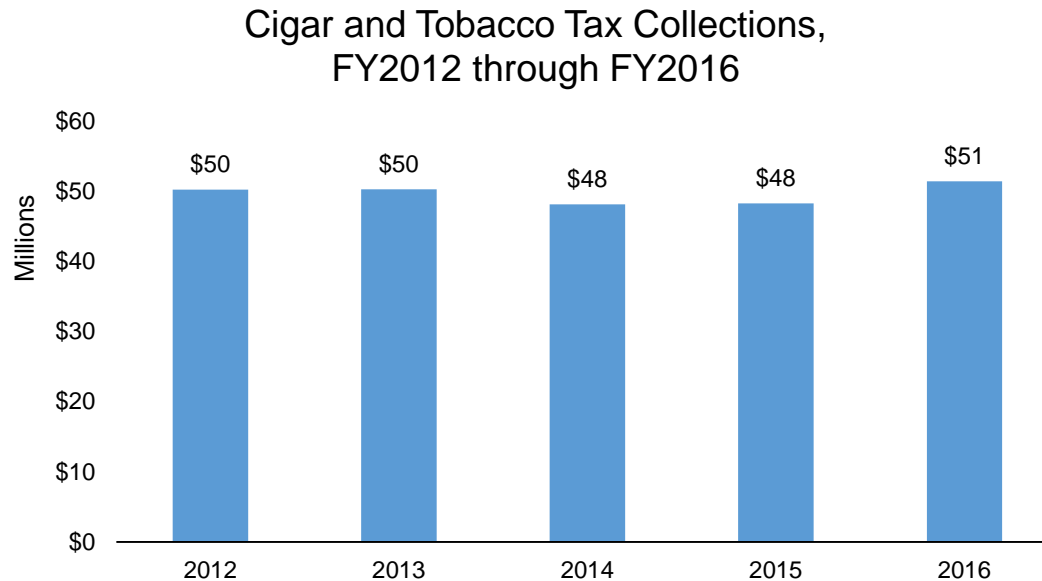
Year	Rate
1969	15%
1977	16%
1992	25%
1993	23%
1997	25%
2003	32%
2009	68%

Source: 2016 Arkansas Legislative Tax Handbook



Cigar and Tobacco Tax Revenue

- Over the last five fiscal years (2012 through 2016), Cigar and Tobacco Tax collections have averaged \$50 million.



Source: 2016 Arkansas Legislative Tax Handbook



Cigar and Tobacco Tax Comparison

- Rate and calculation varies considerably.
- State guidance on calculations also varies.

State	Chewing Tobacco	Smoking Tobacco	Cigar
Oklahoma	60-80% of factory list price	60-80% of factory list price	\$1.20 per 10 cigars
Arkansas	68% of mfr. selling price	68% of mfr. selling price	68% of mfr. selling price; \$0.50 cap
Louisiana	20% of mfr. selling price	33% of mfr. selling price	8%-20% of mfr. selling price
Mississippi	15% of mfr. selling price	15% of mfr. selling price	15% of mfr. selling price
Kansas	10% of wholesale price	10% of wholesale price	10% of wholesale price
Missouri	10% of mfr. selling price	10% of mfr. selling price	10% of mfr. selling price
Tennessee	6.6% of wholesale price	6.6% of wholesale price	6.6% of wholesale price
Texas	\$1.22 per ounce	\$1.22 per ounce	\$0.01 to \$0.15 per 10 cigars

Source: Federation of Tax Administrators, January 1, 2017



Alcohol Taxes

- Enacted in the 1930s.
- Tax base:
 - Beer, liquor, and wine
- Tax rate varies by product.
- Taxed on volume (percent of total purchase price declines as price increases):

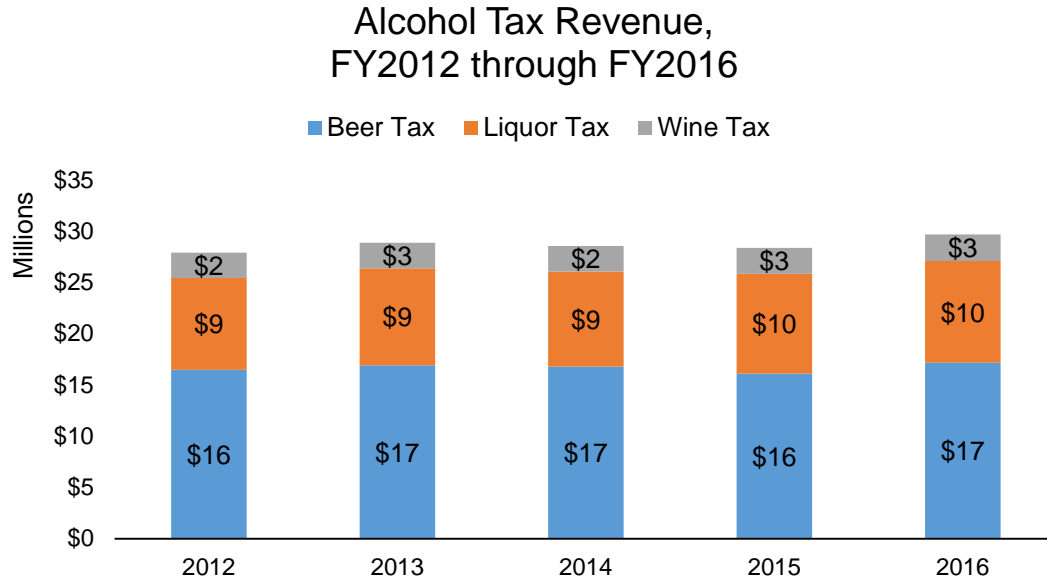
Product	Per Gallon Rate	Year of Last Rate Change
Beer	\$0.23	1983
Liquor	\$2.50	1983
Wine	\$0.75	1947

Source: 2016 Arkansas Legislative Tax Handbook



Alcohol Tax Revenue

- Over the last five fiscal years (2012 through 2016), revenue from alcohol taxes has averaged \$29 million.



Source: 2016 Arkansas Legislative Tax Handbook

Note: Shows total revenue from the beer tax, liquor tax, and imported wine tax



Alcohol Tax Comparison

- Arkansas has the fourth lowest beer tax, fourth highest liquor and third highest wine taxes among the comparison group.

Beer	
State	\$/Gallon
Tennessee	\$1.29
Mississippi	\$0.43
Louisiana	\$0.40
Oklahoma	\$0.40
Arkansas	\$0.23
Texas	\$0.20
Kansas	\$0.18
Missouri	\$0.06

Liquor	
State	\$/Gallon
Oklahoma	\$5.56
Tennessee	\$4.40
Louisiana	\$3.03
Arkansas	\$2.50
Kansas	\$2.50
Texas	\$2.40
Missouri	\$2.00
Mississippi	Sales controlled by State*

Wine	
State	\$/Gallon
Tennessee	\$1.21
Louisiana	\$0.76
Arkansas	\$0.75
Oklahoma	\$0.72
Missouri	\$0.42
Mississippi	\$0.35
Kansas	\$0.30
Texas	\$0.20

- On liquor, Mississippi's mark-up would place it above Arkansas for a 'bourbon to bourbon' comparison.

Source: Federation of Tax Administrators, January 1, 2017

*Revenue in states with control of liquor sales is generated from various taxes, fees, price mark-ups, and net liquor profits



Soft Drink Tax

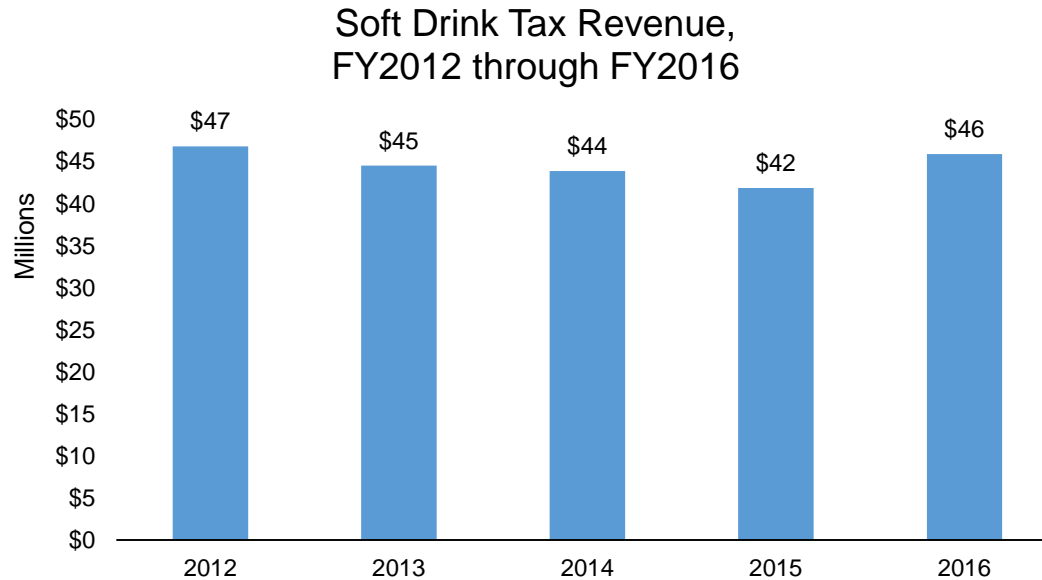
- Enacted in 1992
- Tax base:
 - Soft drink syrup or simple syrup, bottled soft drinks, and powders or other base products.
 - The tax does not apply to beverages with more than 10% natural fruit or vegetable juice, products used in preparing coffee or tea, infant formula, dietary or weight loss supplements, products containing milk or milk products, or products intended to be used for domestically mixing soft drinks.
- Tax rate:

Product	Rate
Soft drink syrup or simple syrup	\$2.00 per gallon
Bottled soft drinks	\$0.21 per gallon
Powders or other base products	\$0.21 per gallon



Soft Drink Tax Revenue

- Over the last five fiscal years (2012 through 2016), soft drink tax revenue has averaged \$45 million.



Source: 2016 Arkansas Legislative Tax Handbook



Soft Drink Tax Comparison

- Tennessee is the only other comparison group state that levies a state tax on soft drinks.
- That tax is 1.9% of gross receipts and only applies to bottled soft drinks.
- Several states (and local governments) outside the comparison group levy tax soft drinks.

State	What is Subject to Tax	Current Rate
Arkansas	Bottled soft drinks, syrup, and powders or other base products	Bottled soft drinks: \$2.00 per gallon Syrup: \$0.21 per gallon Powder/Base Products: \$0.21 per gallon
Tennessee	Bottled soft drinks	1.9% of gross receipts
Virginia	Soft drink wholesaler or distributors of carbonated soft drinks	\$50 to \$33,000, based on total gross receipts
Washington	Wholesale of syrup used to make carbonated beverages	\$1.00 per gallon
West Virginia	Bottled soft drinks, syrups and dry mixtures	Bottled soft drinks: \$0.076 per gallon Syrup: \$0.80 per gallon Dry mixture: \$0.01 per ounce

Source: State statutes



Electronic Games of Skill Tax

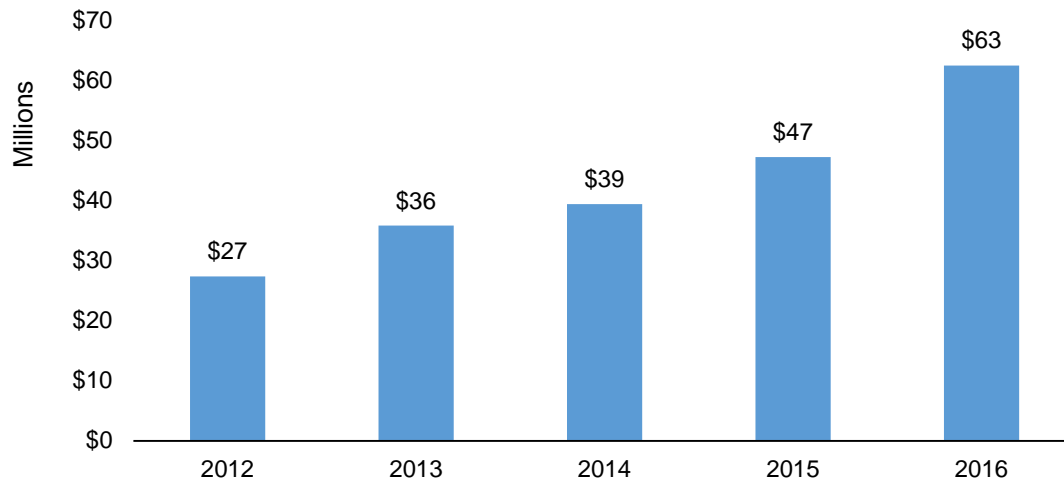
- Enacted in 2005.
- Cities and counties may permit, by local election, to authorize electronic games of skill at greyhound and horse racing tracks.
- Tax base:
 - Electronic games of skill means games played through any electronic device or machine that affords an opportunity for the exercise of skill or judgment where the outcome is not completely controlled by chance alone
- Tax rate:
 - 18% of net wagering revenues from electronic games of skill



Electronic Games of Skill Tax Revenue

- Over the last five fiscal years (2012 through 2016), electronic games of skill tax revenue has averaged \$42 million.
- Revenues have more than doubled since 2012.

Electronic Games of Skill Tax Revenue,
FY2012 through FY2016



Source: 2016 Arkansas Legislative Tax Handbook



Electronic Games of Skill Tax Comparison

- Arkansas has the second lowest tax rate among the comparison group.
- Comparison across states is difficult due to varying levels of gambling legalization.
 - Casinos are fully legal in Kansas, Louisiana and Mississippi.
 - Louisiana has a separate tax rate for racetrack casinos, so this rate is shown to improve comparability.

State	Rate
Kansas	22% of casino revenue
Missouri	21% of riverboat casino revenue
Louisiana	18.5% of racetrack casino revenue
Oklahoma	10-30% of racetrack casino revenue
Arkansas	18% of racetrack casino revenue
Mississippi	8% of casino revenue
Tennessee	Not legal
Texas	Not legal

Source: American Gaming Association, 2017 State of the States Report



Legalized Gambling Across the States

- States continue to expand gaming opportunities and locations.
- At least one casino is hosted in 40 states.
- Some indications that the market is reaching a saturation point
 - Between 2008 and 2015, inflation adjusted revenues from commercial casinos grew by more than \$1.3 billion in states with newly authorized casinos,
 - During the same time period, revenues declined by \$1.4 billion in states with established casinos - a net decline of 1.5 percent nationally.
- Legalized sports betting is the new ‘unknown territory.’
 - In 1992, Congress prohibited legalized sports betting outside of Nevada.
 - In 2012, New Jersey approved legalized sports betting and was sued by five professional sports leagues.
 - New Jersey lost in the US Court of Appeals, but in June 2017, the SCOTUS has agreed to hear the case.
 - Over a dozen other states introduced sports-related betting legislation in 2017.



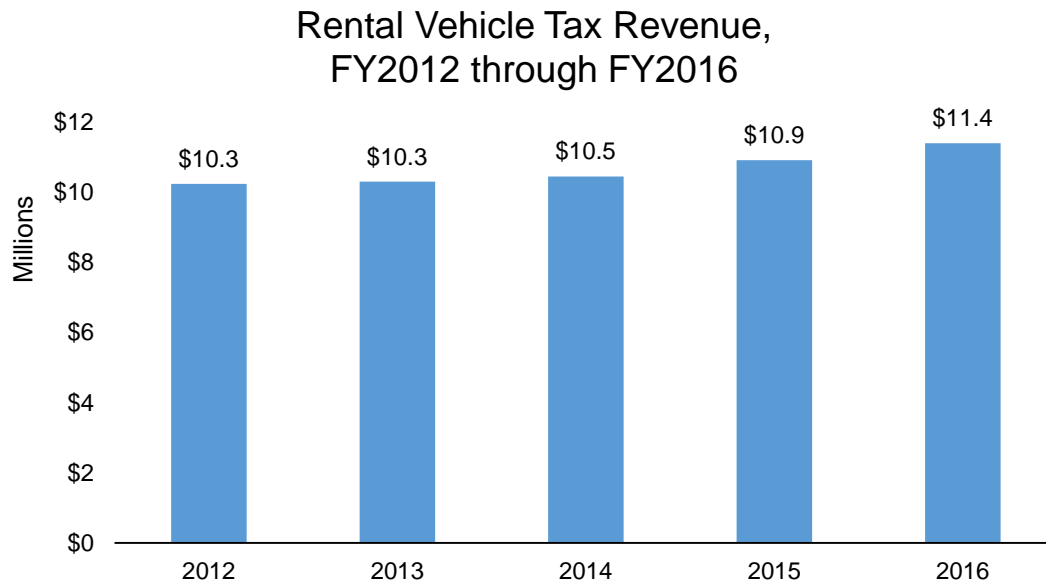
Rental Vehicle Tax

- Enacted in 1989.
- Tax base:
 - Gross receipts or gross proceeds derived from rentals of licensed motor vehicles for a period of less than 30 days
 - This tax is paid in addition to gross receipts tax
- Tax rate:
 - 10%



Rental Vehicle Tax Revenue

- Over the last five fiscal years (2012 through 2016), rental vehicle tax revenue has averaged \$10.6 million.



Source: 2016 Arkansas Legislative Tax Handbook



Rental Vehicle Tax Comparison

- Arkansas has the highest tax rate among the comparison states.
- More than 40 states levy a tax on rental cars.

State	Rate
Arkansas	10.0%
Texas	10.0%
Mississippi	6.0%
Oklahoma	6.0%
Missouri	4.0%
Kansas	3.5%
Tennessee	3.0%
Louisiana	3.0%

Sources: State statutes; National Conference of State Legislatures research, 2015



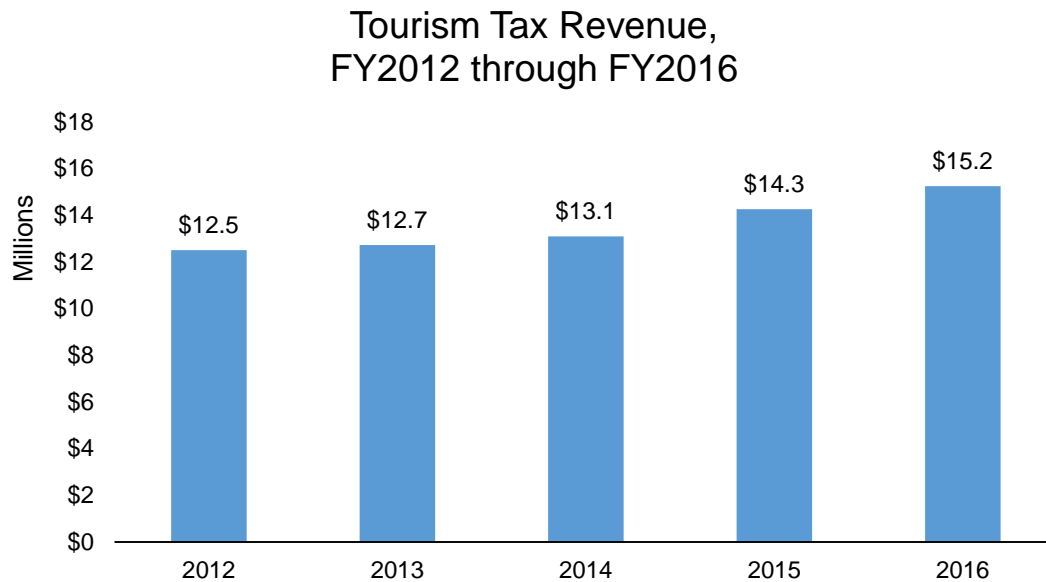
Tourism Tax

- Enacted in 1989.
- Tax base:
 - Gross receipts from hotel/motel accommodations, admission to tourist attractions such as theme parks, cruises, sightseeing tours, and music shows
 - School, college, or university events are not subject to tax
- Tax rate:
 - 2%



Tourism Tax Revenue

- Over the last five fiscal years (2012 through 2016), tourism tax revenue has averaged \$13.6 million.



Source: 2016 Arkansas Legislative Tax Handbook



Tourism Tax Comparison

- Three comparison states levy similar taxes but none tax both admissions charges and lodging like Arkansas.

State	Lodging Tax	Admissions Tax
Arkansas	2.0%	2.0%
Mississippi	-	7%
Oklahoma	-	1%
Texas	6.0%	-

- A total of 31 states levy a lodging tax. Arkansas' tax rate is well below the national median of 6%.

Source: State statutes; National Conference of State Legislatures



Other Excise Taxes

- Vapor/e-cigarettes:
 - As of January 1, 2016, four states, the District of Columbia, and three local jurisdictions have enacted taxes on vapor products (electronic cigarettes), but their methods and levels of taxation vary dramatically.
 - In 2015, at least an additional 23 states considered excise taxes on vapor products.
 - Kansas tax is \$0.20/ml and Louisiana is \$0.05/ml.

- Medical/recreational marijuana:
 - 29 states (including Arkansas) have legalized medical marijuana.
 - Taxes range from no tax or tax exempt to a high of a 37 percent excise tax in the State of Washington (Arkansas about average at 4 percent).
 - Recreational marijuana tax rates are much higher.

- Alternate transportation taxes – Oregon’s \$15 bike excise tax.



Other Excise Taxes (continued)

- Purchased meal taxes:
 - Four have statewide taxes (Maine, New Hampshire, Rhode Island, Vermont).
 - 15 States allow in specified places or local option (including Arkansas)
- Excise tax on fireworks
 - Legal in 28 states (including Arkansas) and most apply state sales tax
 - Some states add an excise tax (Georgia and Indiana 5 percent, Michigan 6 percent)
- Real estate excise tax (State of Washington) – example of difficulty of classification: most would classify it as a property tax



Emerging Excise Taxes

- Ride-sharing services (such as Uber and Lyft)
 - Depending on how it is structured, could be either a general sales or excise tax
 - Some states are now doing so – Pennsylvania assesses a 1.4 percent tax on all rides
 - Other states imposing tax are Maryland, Massachusetts, Nevada and South Carolina

- Alternatives to traditional hotels and motels (occupancy taxes for Airbnb-type businesses)
 - Airbnb already captures occupancy taxes (either state or local) in 38 states (including Arkansas)
 - For Arkansas, this includes both sales tax and the 2 percent tourism tax



Summary

- Excise taxes are an important (but sometimes controversial) revenue source.
 - Individual rates can have distorting effects
 - Can be more regressive than sales taxes
 - However, may serve a pigouvian tax purpose
- Arkansas excise taxes tend to follow regional trends.
 - Revenue-wise, most are stable but not growing
 - Hotel/motel (via the amusement tax in Arkansas) is perhaps one that is below most benchmarks
- As the 'New Economy' matures, it will be important to monitor avenues for addressing the tax base, particularly for new types of services.



Questions and Discussion