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MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
OCTOBER 29, 2018

The Tax Reform and Relief Legislative Task Force met Monday, October 29, 2018, at 10:00 a.m., in Committee Room A-MAC, Little Rock, Arkansas.

Task Force Members Present: Senators Jim Hendren, Chair; Jonathan Dismang, Joyce Elliott, Bart Hester, Larry Teague, and David Wallace. Representatives Jim Dotson, Kenneth B. Ferguson, Joe Jett, Bob Johnson, and Mathew Pitsch.

Other Legislators Present: Senators Alan Clark, Jane English, Trent Garner, Jimmy Hickey, and Bill Sample. Representatives Fred Allen, Bob Ballinger, Scott Baltz, Carol Dalby, Andy Davis, Trevor Drown, Jimmy Gazaway, Kim Hammer, Ken Henderson, Vivian Flowers, Reginald Murdock, Chris Richey, Johnny Rye, Dan Sullivan, and Dwight Tosh.

Senator Hendren called the meeting to order. Senator Hendren asked task force members to notify the co-chairs if they have subsequent recommendations to consider at the next meeting.

Consideration to Approve the September 26 and 27, 2018, Minutes [Exhibits C-1, C-2]

Senator Elliott made a motion to approve the minutes from the September 26 and 27, 2018, meetings, and with a second by Representative Jett, the minutes were adopted without objection.

Discussion on Arkansas Tax Credits

Department of Finance and Administration (DFA) representatives Mr. Paul Gehring Assistant Commissioner of Revenue, and Mr. Joel DiPippa, Senior Council, presented two follow-up letters to questions from previous tax reform meetings: clarification to inquiries (Exhibit D-1) and an explanation of the state's budget neutrality requirements for the Arkansas Works Program as a Section 1115 waiver (Exhibit D-1b). Mr. DiPippa gave an overview regarding state comparisons of assorted tax credits: Waste Reduction and Recycling Equipment Credit, Tourism Development Tax Credit, Historic Rehabilitation Tax Credit, Water Resource Conservation and Development Tax Credit, and Low Income Housing Credit (Exhibit D-1a). Mr. DiPippa said most of the tax credits mentioned are protected under the state's Income Tax Procedure Act's confidentiality provisions, but does not include the Tourism Development Tax Credit and the Equity Investment Tax Credit. DFA will provide more information regarding the two tax credits at a later meeting.

Mr. Kelly Linck, Chief of Legislative and InterGovernmental Affairs, Department of Human Services (DHS), was recognized and explained DHS utilizes Cost Sharing Reduction (CSR) payments to ensure budget neutrality of the § 1115 demonstration waiver. If insurance premiums exceed the payment amounts authorized under the waiver, then DHS can reduce CSR payments to insurance carriers in order to avoid triggering a breach of budget neutrality.

Arkansas Insurance Department (AID) representatives Mr. Allen Kerr, Commissioner; Mr. Ryan James, Public Information Officer; Mr. Booth Rand, Managing Attorney; and Ms. Courtney Traylor, Assistant Deputy Commissioner, Accounting, were recognized. Ms. Traylor presented a list of Insurance Premium Tax Credits from TY2011 through TY2017 (Exhibit D-3b). In TY2017, the Home Office Salary Tax Credits totaled $43.4 million. The USAble Mutual Insurance Company received the largest dollar amount of home-office tax credits totaling $21.5 million and Delta Dental Plan of Arkansas received $2.5 million. Companies that received the home-office tax credit added 474 employee positions, from 3,818 in TY2013 to 4,292 in TY2017. Ms. Traylor presented a scenario tax rate chart reducing the Property and Casualty premium tax rate from 2.5% to 2.25%; not including salary tax credits and life insurance premiums would result in $15 million in tax collections. Shifting the premium tax increase from Life, Accidental, and Health to cover Property and Casualty reduction will offset $6 million credited to the Fire Police Pension Fund.

Mr. Kerr explained life insurance companies were left out of the scenario because once the policy is written the rates are set and cannot change.

Mr. James gave a presentation regarding other states' effective insurance premium tax rates and collections (Exhibit D-3a). FY2018 Arkansas Premium insurance collections totaled $209.5 million, tax credits totaled $62.6 million, reducing the premium tax rate from 2.5 % to an effective premium tax rate of 1.89 % on life, health, and accident after tax credits are factored in.

Arkansas Economic Development Commission (AEDC) representatives Mr. Mike Preston, Executive Director; Mr. Kurt Naumann, Director, Strategic Planning and Research; and Mr. Kenneth Burleson, General Counsel, were recognized to present an overview of their proposed recommendations to the task force: reduce the corporate tax rate and adopt a single sales formula to offset incentives and promote economic development as well as eliminate the throwback rule. AEDC also provided more information on the Equity Investment Tax Credit, Tourism Development Tax Credit, and New Market Tax Credit projects (Exhibit D-4a).

Mr. Randy Zook, President and CEO, Arkansas State Chamber of Commerce/Associated Industries of Arkansas, was recognized to present his recommendations regarding business development as compared to other states, improvement of the workforce pipeline, Net Operating Loss/Carry Forward, and Tort Reform.

Ms. Nicole Kaeding, Director of Federal Projects, Tax Foundation, Washington, D.C., was recognized to present a summary regarding the ineffectiveness Insurance Premium Tax Credits have on job growth and development. Ms. Kaeding suggested the task force use the revenues spent on the tax credits to lower taxes elsewhere and maximize economic growth (Exhibit D-6).

<u>Presentation of Draft Bills</u>

Ms. Joi Leonard, Administrator, Bureau of Legislative Research (BLR), was recognized to present an overview regarding the task force's tax recommendations in the form of draft legislation (Exhibit E). Draft legislation from the September 27, 2018, meeting was also provided to task force members.

<u>Presentation of Summary Proposals for Tax Triggers or Phase-ins</u>

Bureau of Legislative Research (BLR) representatives Mr. Richard Wilson, Assistant Director, and Ms. Joi Leonard, Administrator, were recognized. Mr. Wilson presented the tax reform package using a two-step phase-in budget plan. Step one of the phase-in reduces the Personal Income Tax (PIT) rate from 6.9% to 6.1% effective January 1, 2020, with an estimated cost of $160 million and includes FY18-19 collection estimates and adjustment growth. Step two of the phase-in further reduces the PIT from 6.1% to 5.9%, Corporate Income Tax (CIT) from 6.5% to 6.25%, and revises CIT apportionment to Single Sales Factor and repealing the Throwback rule. A total $106 million fiscal impact would be allocated over FY22 and FY23 (Attachment #1).

Ms. Leonard presented information regarding Indiana's tax refund trigger (Exhibit F-1). Information regarding which states apply special fees on electric and hybrid vehicle was also provided to task force members (Handout #1).

Ms. Nicole Kaeding, Special Projects Director, Tax Foundation, Washington, D.C., was recognized to present her recommended tax reform package: adopt the governor's phase-in plan, move to single sales factor, repeal the throwback rule, expand net operating losses, lower the corporate income tax rate, and adopt available revenue increases and the 2/4/5.9/6.5% plan (Exhibit F-2).

The meeting adjourned at 2:45 p.m.