EXHIBIT C-1

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
SEPTEMBER 26, 2018

The Tax Reform and Relief Legislative Task Force met Wednesday, September 26, 2018, at 10:00 a.m., in Committee Room A-MAC, Little Rock, Arkansas.

Task Force Members Present: Senators Jim Hendren, Chair; Joyce Elliott, Bart Hester, Missy Irvin, and Larry Teague. Representatives Lane Jean Chair; Jim Dotson, Kenneth B. Ferguson, Joe Jett, Bob Johnson, and Mathew Pitsch.

Other Legislators Present: Senators Alan Clark, Trent Garner, Jimmy Hickey, and Bill Sample. Representatives Fred Allen, Charlie Collins, Andy Davis, Trevor Drown, Charlene Fite, Ken Henderson, David Hillman, Steve Hollowell, John Maddox, Josh Miller, Reginald Murdock, Laurie Rushing, Johnny Rye, and Dan Sullivan.

Representative Jean called the meeting to order.

Consideration to Approve the August 22 and 23, 2018, Minutes [Exhibits C-1, C-2]

Representative Johnson made a motion to approve the minutes from the August 22, and 23, 2018, meetings and with a second by Senator Elliott the minutes were adopted without objection.

Presentation of Draft Legislation Regarding Sales Tax on Donated Items [Exhibit D]

Arkansas State Senator Alan Clark, was recognized to give a brief overview of his draft legislation to exempt local retailers from paying sales tax on items they donate to local charity events.

Mr. Paul Gehring, Assistant Commissioner of Revenue, Department of Finance and Administration (DFA), was recognized and explained that Senator Clark's draft legislation would have a revenue impact of $1.06 million in FY2018 and $1.59 million in FY2019.

Presentation on "2/4/5.9%" Income Tax Phase-In Plan [Exhibits E-1, E-2, E-3]

Mr. Richard Wilson, Assistant Director, Research Division, Bureau of Legislative Research (BLR), was recognized to present the Regional Economic Models Inc. (REMI) analysis [Exhibit E-1] regarding the governor's proposed phase-in plan which combines the current three income tax tables into a single table and restructures the brackets in two phases. The analysis was completed with the phase-one bracket enacted in FY2019 and the phase-two bracket enacted in FY2020. The phase-in plan changes the standard deduction from $2,200 for single taxpayers to $6,800 and from $4,400 for married taxpayers to $13,600. The analysis shows annual economic output increasing by an average of $193 million and employment increasing by an average of 1,501 jobs over a 5-year period beginning in FY2019 through FY2023. Of those 1,501 jobs, 90% comes from private non-farm sectors and 9.7% from the government sector. The analysis also shows an annual average net loss of $162.8 million in state revenue, which represents 5.8% recovery of the static state revenue loss. The phase-in proposal is similar to the Option A tax plan.

A written testimony by Ms. Lisa Christensen Gee, Senior Policy Analyst, Institute on Taxation and Economic Policy (ITEP), was submitted to the task force detailing ITEP's Microsimulation Analysis of the Governor's income tax phase-in plan [Exhibit E-2].

Ms. Nicole Kaeding, Special Projects Director, Tax Foundation, Washington, D.C., was recognized to present a comparison of the Option A plan and the governor's phase-in plan [Exhibit E-3].

Ms. Kaeding analyzed a number of sample tax returns using both plans based on the following assumptions: accounting for adjusted gross income (AGI), filing status as single or married filing separate returns, assuming no children, taking the standard deduction, and including the low-income tax cut effective date FY2019. Ms. Kaeding stated that both plans are largely progressive. Given the results of the revenue impacts and net tax changes, Ms. Kaeding recommended that the task force adopt the governor's phase-in plan.

Updated Fiscal Analysis of Combined Single Sales Factor and Throwback Rule [Exhibits F, F-1]

DFA representatives Mr. Paul Gehring Assistant Commissioner of Revenue, and Mr. Joel DiPippa, Senior Council, were recognized to present an overview of the throwback rule and how the state uses a single sales factor apportionment formula which includes property, payroll, and sales factors to apportion income of a multistate business. Mr. Gehring presented a revised fiscal impact and explained that in TY2013 through TY2016, enacting the single sales factor would have had an average revenue gain of $714,289, repealing the throwback rule alone would have had an average revenue loss of $24,145,624, and adopting both the single sales factor and the throwback rule would have had an average revenue loss of $57,221,479.

Discussion of Possible Phase-Ins and Tax Triggers [Exhibits G-1, G-2]

DFA representatives Mr. Paul Gehring, Assistant Commissioner of Revenue; Mr. Duncan Baird, Administrator, Budget; and Dr. John Shelnutt, Administrator, Office of Economic Analysis and Tax Research, were recognized. Dr. Shelnutt gave an overview regarding economic growth rates of revenues. The average annual growth rate over last five years totaled $100 million, while during non-recession years beginning FY2011 through FY2018 totaled $162 million, and net adjustment for tax policy changes totaled $146.9 million in new revenue each year. Dr. Shelnutt discussed factors regarding revenue volatility, tax trigger benchmarks, rainy day fund balances, and recession probabilities.
Mr. Baird gave an overview of FY2018 General Revenue expenditures. About 90% of General Revenue is allocated to six funds: Public School Funds, Department of Human Services, Department of Health, Department of Correction, Department of Community Correction, and Institutions of Higher Education. Entities that received greater amounts of incremental increases in general revenue funds are public schools, Medicaid, and public safety.

Mr. Larry Walther, Director, DFA, recommended that the task force begin designing a two-year or four-year tax plan budget, look at net available revenues, and decide on how to phase in the tax cuts rather than using tax triggers. He advised that when the phase-in date approaches, any necessary adjustments can be made moving forward with phasing in the tax cuts.

Ms. Nicole Kaeding, Special Projects Director, Tax Foundation, Washington, D.C., was recognized to present four comprehensive tax cut options and explained how she would prioritize the task force's tax cut package. Ms. Kaeding recommended the task force start with lowering the corporate income tax rate to 5.9% beginning FY2019, reduce the individual income tax top rate from 6.5% to 6.25% in FY2021, and then reduce to 5.9% by FY2023. Ms. Kaeding suggested the task force consider phasing-in or implementing tax triggers to mitigate revenue loss.

Mr. Richard Wilson, Assistant Director, Research Division, BLR, was recognized to present an organizational chart and budget plan listing the tax cut package including Option A and how to implement the tax cuts over time using a four-step plan (Handout #1).

The meeting adjourned at 2:45 p.m.