

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
SEPTEMBER 27, 2018

The Tax Reform and Relief Legislative Task Force met Thursday, September 27, 2018, at 9:00 a.m., in Committee Room A-MAC, Little Rock, Arkansas.

Task Force Members Present: Senators Jim Hendren, Chair; Jonathan Dismang, 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 Breanne Davis, Trent Garner, Jimmy Hickey, and Bill Sample. Representatives Fred Allen, Carol Dalby, Trevor Drown, Jon Eubanks, Charlene Fite, Kim Hammer, Roger Lynch, Austin McCollum, David Meeks, Dan Sullivan, and Les Warren.

Senator Hendren called the meeting to order.

Presentation of Draft Legislation [Exhibit C]

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.

Senator Irvin made a motion to adopt the revised final report to reflect revisions made to the single sales factor and throwback rule's fiscal impact from the previous report. The motion was seconded by Representative Johnson, and the motion passed.

Discussion by Task Force on Recommended Phase-Ins/Triggers for Inclusion in Draft Legislation

Senator Hendren asked task force members to be prepared to discuss ideas at the next meeting on whether to implement a long term phase-in schedule and/or potential tax triggers. He said the task force chairs will work with BLR staff to consolidate the task force's recommendations into a plan for consideration.

Arkansas Tax Credits [Exhibits E-1, E-2]

Department of Finance and Administration (DFA) representatives Mr. Paul Gehring, Assistant Commissioner of Revenue, and Mr. Joel DiPippa, Senior Counsel, Office of Revenue Legal Counsel, were recognized. Mr. DiPippa presented an overview of assorted tax credits in the state: Waste Reduction & Recycling Equipment Credit, Waste Reduction & Recycling Credit for Qualified Steel Manufacturers, Tourism Development Act, Equity Investment Incentive Act, Historic Rehabilitation Tax Credit, Water Resource Conservation Tax Credit, and Low Income Housing Credit [Exhibit E-1]. These tax credits are administered by a state agency and have a trigger that reduces an individual's income or sales tax liability. DFA will work with the Insurance Department to provide further information regarding the Home Office Credit program.

Mr. Randy Zook, President and CEO, Arkansas State Chamber of Commerce/Associated Industries of Arkansas and Mr. Matthew Boch, Tax Attorney, Dixon Horne, PLLC and on behalf of Arkansas State Chamber of Commerce, were recognized. Mr. Zook explained the economic benefits of the Waste Reduction & Recycling Equipment program. He stated although it is the second highest tax credit in the state, it provides an economic incentive for companies looking to expand their operations and promote job growth.

Ms. Nicole Kaeding, Special Projects Director, Tax Foundation, Washington, D.C., was recognized to explain how other states are evaluating their most expensive tax credits to determine

whether they are a better economic benefit to the state as compared to lowering their tax rates. She stated that tax credits may provide some tax relief to targeted industries but do not increase tax revenue coming into the state, which makes tax rates higher for other tax payers.

Arkansas Insurance Department representatives Mr. Ryan James, Public Information Officer; Mr. Booth Rand, Managing Attorney; and Ms. Courtney Traylor, Assistant Deputy Commissioner, were recognized. Mr. James gave an overview of various tax credit investments for recruiting insurance industries as compared to the Arkansas Insurance premium tax that is provided to insurers whether in-state or out-of-state, including health maintenance organizations (HMOs) [Exhibit E-2]. He stated that property, casualty, life and health companies, including HMOs are taxed at 2.5% on direct premium income. The total dollar amount of premium taxes collected by the Insurance Department are transferred to General Revenue or other trust funds mandated by statute. The Insurance Department operates on fee collections and a fee trust fund appropriated by the legislature.

Insurer Premium Tax Credits to the 2.5% Arkansas Insurance Premium Tax collections for TY2017 totaled \$79,654,701 and are as listed:

- Arkansas Salaries Credit Allowance — \$60.5 million
- Arkansas New Market Jobs Credit — \$16.4 million
- Low Income Housing Tax Credit — \$1.4 million
- Arkansas Historic Rehabilitation Income Tax Credit — \$367,929
- Arkansas Life and Health Guaranty Association Credit — \$360,237
- Equity Investment Tax Credit — \$308,486
- Retaliatory Tax Credit, Retaliatory Fees Tax Credit — \$227,841
- Delta Geotourism Incentive Credit — \$0
- Coal Mining Income Tax Credit Act — \$0
- Arkansas Property and Casualty Insurance Guaranty Act Credit — \$0
- Affordable Neighborhood Housing Tax Credit — \$0

Insurer Premium Tax collections in FY2018 totaled \$223,030,661. It had a refund of \$10,979,709 bringing the total to \$212,050,952 and are as listed:

- Insurance Premium Tax — \$175,546,894
- Fire Protection Revolving Fund — \$ 13,515,406
- Arkansas Works Premium Tax — \$ 33,968,406

Mr. Kurt Naumann, Director, Strategic Planning and Research, and Kenneth Burlison, General Counsel, Arkansas Economic Development Commission (AEDC), were recognized. Mr. Naumann gave an overview regarding two insurance tax credits AEDC is currently involved in: the Equity Investment Tax Credit and the New Market Tax program. The Equity Investment Tax program provides a 33 $\frac{1}{3}$ percent tax credit to investors. The amount of credits under this program totals approximately \$3.5 million per year, with a \$6.25 million cap. It averages around 20 businesses per year, 550 jobs per year, and \$5,000 to \$7,000 per job. The New Market Tax program has sunset and will not be issuing new credits or receiving new applications. He stated that the New Market Tax programs are phased-in over a seven year period and equate to 58% of investment. Mr. Naumann will provide at the next task force meeting the number of businesses that were affected and the number of jobs and investment accrued. He will also provide information on the number of insurance companies AEDC has been involved with through their incentive programs.

Meeting adjourned at 11:26 a.m.