

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB2276**

**Amendment Number: H1**

**Bill Subtitle: TO REQUIRE THE DEPARTMENT OF FINANCE AND ADMINISTRATION TO REPORT THE REVENUE IMPACT OF EACH TAX AND EACH TAX CREDIT, DEDUCTION, AND EXEMPTION.**

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### **Basic Change :**

**Sponsor: Representative Gonzales**

Engrossment 03/10/17 --- House Amendment 1 --- The bill would require the Department of Finance and Administration to produce annual reports regarding taxation in Arkansas. The information that would be reported includes:

1. A list of each tax credit, deduction, exemption, exclusion, or other incentive offered under state law;
2. An estimate of the revenue impact of each tax credit, deduction, exemption, exclusion, or other tax incentive; and
3. An estimate of the tax revenue generated by each tax administered by DFA, including an estimate of the revenue generated by each individual bracket under the Income Tax laws.

The reports would be developed annually and would reflect the statistical data for the most recent fiscal year with comparison to the previous fiscal year. The report would be submitted to the Legislative Council by November 1 of each year.

### **Revenue Impact :**

None.

### **Taxpayer Impact :**

None.

### **Resources Required :**

To prepare annual reports with comparisons to previous years including a new analysis for each tax credit, deduction and exemption each year, DFA would be required to have staff personnel assigned to this ongoing task or have the annual reports prepared through a contract arrangement with a third party economic analysis firm with the ability to do the analysis and produce the annual reports.

Tax returns submitted to DFA include summary information with the data being reported for most tax types not reflecting the amounts of exemptions claimed or deductions authorized. For sales and use tax purposes, in-state and out-of-state sellers report "taxable" sales after taking deductions or providing to customers the appropriate tax exemptions. DFA has no knowledge of the value of the exemptions provided by the sellers and like other states collecting sales taxes, Arkansas does not require sellers to calculate and report more than the minimal information required for tax remittance processing. In order for DFA to prepare a report in the format required, an economic analysis would be required using industry or economic census information factored to the economy in Arkansas. Other business tax types have the same limited data regarding the exempted transactions. Income tax filings have some specific data for certain personal exemptions and deductions but income tax returns do not reflect all of the various eligible deductions, exclusions or exemptions from income. To have an up-to-date report reflecting the specific annual financial costs for each tax credit, tax deduction and tax exemption, DFA

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will need staff personnel with sufficient educational backgrounds in state taxation and in economic statistical analysis to develop economic analysis models in order to provide the report data.

The dedicated staffing that would be needed to compile the necessary information on a fiscal year basis are the following:

Hiring of 1 economist and 1 statistician and one administrative assistant, \$250,000 per year.  
Computer programming, forms and instructions modification, \$50,000.  
Additional data entry costs, \$500,000 per year.

### **Time Required :**

It is not reasonable to have the report produced by November 1, 2017. Assuming DFA is able to add the needed staff, the report should be able to be produced no sooner than November 1, 2018 or 2019.

### **Procedural Changes :**

Develop procedures and methodologies for staff personnel to produce up-to-date annual reports reflecting the specific annual financial costs for each tax credit, tax deduction and tax exemption authorized in Arkansas law.

### **Other Comments :**

Revenue generated by each tax bracket for Individual income tax is based upon the calendar tax year and that information is not available until February of the following year. Current data available is for tax year 2015. Tax Year 2016 data will not be fully compiled until February of 2018.

Much of the detail data is not currently being captured in the Arkansas Integrated Revenue System (AIRS) and would require more data be captured as well as a statistician to compile data and an economist to project current costs and predict future costs, plus support personnel.

### **Legal Analysis :**

DFA can provide information based on its best efforts to approximate the cost of a tax benefit; however, specific information regarding most tax benefits is not available. Tax returns are designed to be easy to complete and require a minimum of reporting. Consequently, specific information on each tax credit, tax deduction, or tax exemption is not provided by the taxpayer to DFA. For example, a retail business does not report its exempt sales to DFA. That information is only available by auditing the retailer's records. Similarly, business expenses of various types are reported as a combined amount on a tax return. Also, taxpayers are not required to report exempt income on their tax return resulting in the actual amount being unknown. With regard to tax revenues, DFA currently provides the actual revenues generated by each tax type following the close of each fiscal year and the revenues for the prior fiscal year are also a matter of historical record. The DFA revenue forecast also includes a projection of anticipated tax collections. Consequently, it is unclear why this requirement is included in the bill.

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DFA has recently undertaken a review similar to that required by HB2276 and it is an extremely time consuming process. If enacted, HB2276 will affect DFA's abilities to provide taxpayer service and fulfill other statutory duties under state law.