State of Arkansas
Tax Reform and Relief Legislative Task Force

Interim Report

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Project Background

In recent years, Arkansas has enacted a variety of measures that make tax law changes that provide various forms of tax relief related to major state taxes. These recent changes have primarily touched on sales and use and individual income taxes, the state's two largest sources of general fund revenue.

In 2014, the State exempted certain business inputs and activities from the sales and use tax, primarily related to farm machinery, timber harvesting and machinery repair/replacement. These exemptions reduced estimated general fund revenue by $29.2 million. Also in 2014, the State enacted reductions to individual income taxes associated with active duty military pay, changes to tax rates and brackets and changes to taxation of capital gains. These changes were projected to reduce general fund revenues by $55.9 million in FY2015. In 2015, the Legislature and Governor Hutchinson approved the Middle Class Tax Relief bill, which made additional individual income tax rates reductions that were estimated to reduce individual income taxes by $22.9 million in FY2016 and $90.3 million in FY2017.

In 2017, Governor Hutchinson and the Legislature, through the Tax Reform and Relief Act, committed to providing an additional $50 million income tax reduction to 1.3 million taxpayers in FY2019. Additionally, this legislation created a 16-member Tax Reform and Relief Legislative Task Force (Task Force) charged with studying the State's tax system and recommending ways to:

- Modernize and simplify the Arkansas tax code;
- Make tax laws competitive with other states to attract business;
- Create jobs; and
- Ensure fairness to all individuals and entities affected by the tax laws.

In June 2017, the Arkansas Bureau of Legislative Research issued a Request for Proposal (RFP) to provide tax reform consulting services for the Task Force. In August 2017, after vendor interviews with the Task Force, PFM Group Consulting (PFM) was retained. To assist the Task Force, PFM is attending monthly Task Force meetings and providing overviews and analysis on key tax topics as well as additional written summaries on a monthly basis. PFM is also providing answers to research requests or data inquiries by members of the Task Force and other assistance. This summary is a key project deliverable, and PFM will also provide a final written report in 2018.

To assist the Task Force, the PFM project team has conducted research specific to the State or Arkansas economy, budget and tax structure, benchmarked peer states, conducted detailed interviews with multiple internal and external stakeholders and subject matter experts and reviewed relevant data and information.

To date, the project team has presented to the Task Force and provided reports on the following issue areas:

- State tax structure
- Sales and use taxes
- Excise taxes
- Property taxes
- Tax reform efforts across the U.S.

In subsequent months, the Task Force will examine, among other topics, the State's individual and corporate income tax structures, impact analysis related to sales and use tax exemptions and other tax incentives, and the impact of federal tax changes (which the project team expects will be signed into law before the end of the year). These analyses are being conducted in order to prepare members to make tax reform recommendations to the Legislature in advance of the 2019 legislative session.

State Tax Structure Overview

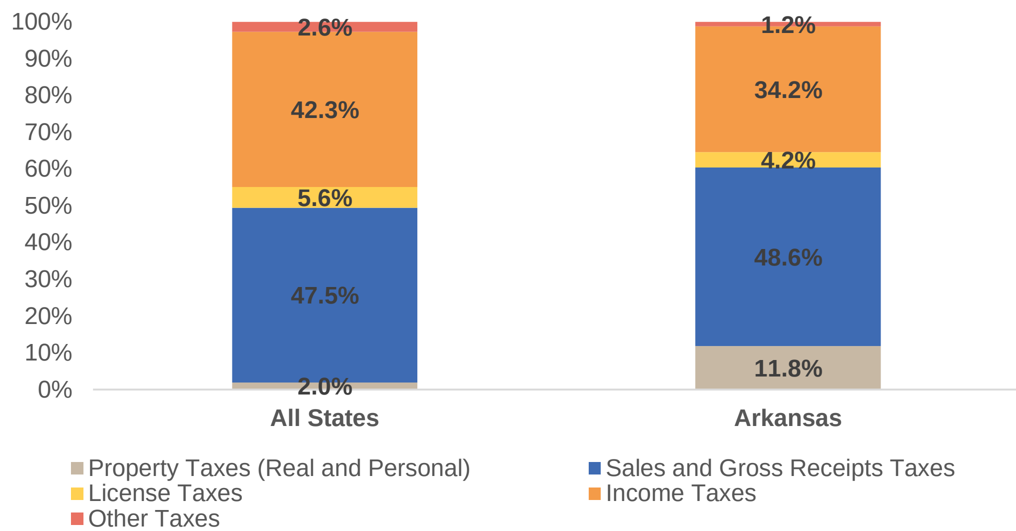
State Taxes in Theory and Practice

For the better part of the last 50 years, most state tax structures have generally been focused around three key taxes: sales and use, personal income and corporate income taxes. Commonly referred to as the tax components of a "three-legged stool," each differs in what it taxes and how it impacts economic activity. All three taxes are paid by businesses and consumers, and each helps to balance the advantages and disadvantages of other tax types. For the State of Arkansas, the sales and use tax is the largest of the three, and the corporate income tax is the smallest – and declining.

The share of each by state varies considerably, especially between the sales and individual income taxes. It is notable that when state taxes are combined with local tax revenues, the property tax replaces the corporate income tax as one of the 'Big Three' revenue sources.

As shown in the following table, when compared to other states, Arkansas has a similar reliance on sales and gross receipts taxes. It is notable that while the State of Arkansas has a relatively lower reliance on income taxes, it has a higher reliance on real and personal property taxes.

Figure 1: State Tax Revenues by Tax Category, 2016[1]

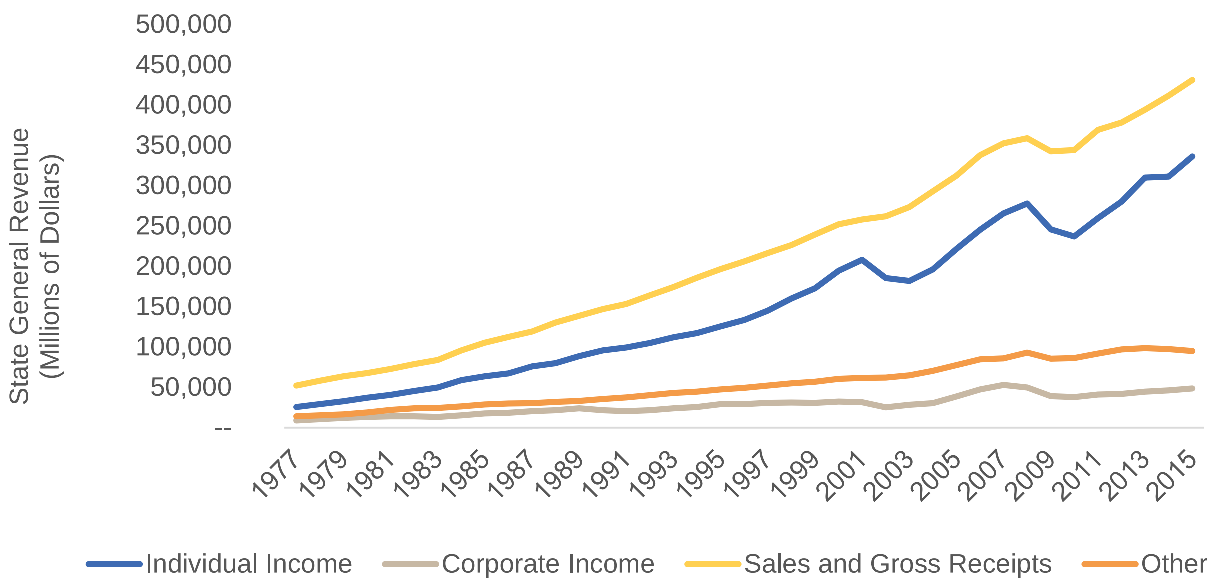


Source: U.S. Census Bureau 2016 Annual Survey of State Government Tax Collections by Category

The following chart displays the aggregate increase in all states' general revenue collections over the past four decades. While sales and gross receipts and individual income taxes have increased significantly, corporate income taxes and other tax revenues have remained relatively flat.

[1] "Other Taxes" category includes death and gift, severance, documentary and stock transfer, and other taxes not elsewhere classified.

Figure 2: State Tax Revenues by Tax Category, 1977-2015



Source: Tax Policy Center, State & Local Government Finance Data Query, 2017

Key Tax Structure Issues

Across the nation, nearly every state has had to deal with tax structure fall-out related to 'the Great Recession.' For most states, FY2007-08 marked the peak year for nominal general fund revenue collections, with several years of reduced collections occurring after that. While the National Bureau of Economic Research (NBER) determined that the last recession began in December 2007 and ended in June 2009,[2] revenues have been slow to rebound in most states. While circumstances differ from state to state, there are some key themes that have emerged or come into greater focus in recent years. Among them are:

- **Mix of consumption/income taxes.** In a number of states, the mix of consumption taxes (primarily broad-based general sales and use taxes) versus income taxes has been trending to greater use of consumption taxes. Among the states where this has been proposed or enacted are Georgia, Kansas, Maine, Missouri, Oklahoma, Ohio and North Carolina.

- **Base erosion for key revenue sources.** This has been particularly notable for the sales and use tax, where legislated exemptions and the rise of digital commerce have contributed to a situation where sales tax as a share of personal income has been declining for over 50 years. Base erosion has also been an issue for other taxes – for example, aggressive corporate income tax planning and a move by many states to a single sales factor for income apportionment has also reduced its taxable base and/or share of revenue.

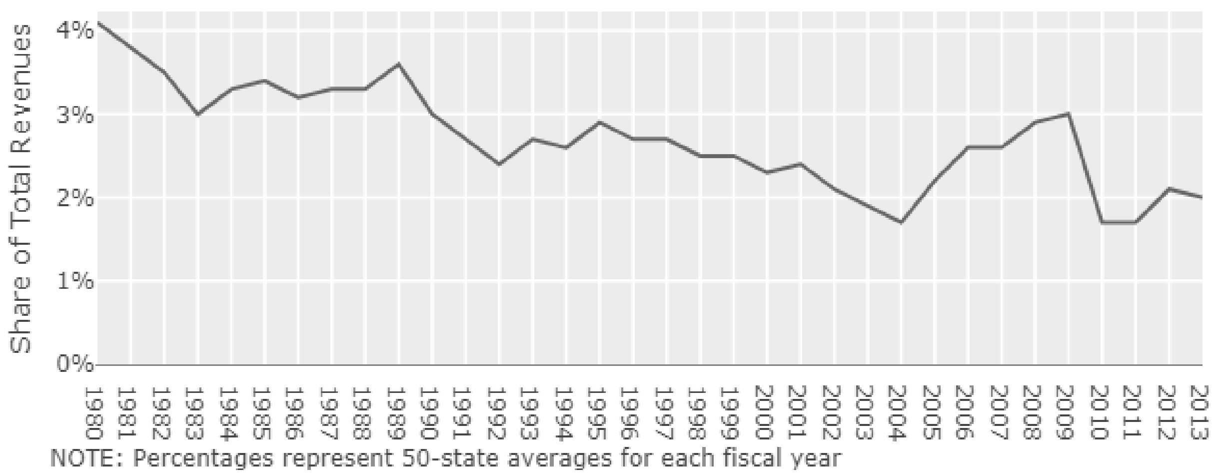
- **Heightened volatility.** In each of the past two recessions, the depth of the percentage decline in state revenue was much more pronounced than in previous post-World War II recessions. This has made it difficult for states to accurately forecast projected revenues during economic downturns. One survey

[2] National Bureau of Economic Research, U.S. Business Cycle Expansions and Contractions, accessed electronically at http://www.nber.org/cycles.html.

found that in FY2009, the collective margin of error by states in forecasting individual and corporate income and sales taxes amounted to a $49 billion shortfall, with a median error of a 10.2 percent overestimate.[3]

- **Decline of the corporate income tax as a share of total state tax revenue.** On average, states' reliance on corporate income taxes has gradually declined over the past few decades. Nationally, Census data suggests inflation-adjusted net corporate income revenues have grown on average at about half the pace of total revenues over the past two decades. In contrast, most sources of revenue increase over time as population and demand for services expand.[4]

Figure 3: Corporate Income Tax Share of Total State Revenues



Source: Governing calculations of Census data

- **Federal tax changes' impact on major state taxes.** For administrative simplicity, many states tie their tax codes to the federal tax code in a variety of ways. Because of this conformity, changes made to federal definitions impact the revenue that states collect (which, depending on the state and federal change, can either increase or decrease state tax revenue).[5]

These trends, coupled with the severe economic downturn from December 2007 to June 2009, help to explain why the 50 states collectively increased net revenue through tax law changes in each year from 2002 to 2010. While net state tax cuts exceeded tax increases in 2011, the long-term budget outlook for state and local governments is generally considered to be challenging. A model of state and local operating balances maintained by the US Government Accountability Office (GAO) suggests that state and local budget deficits as a percentage of GDP will grow from the years 2015 through 2060 (the entire window of the model).[6]

[3] "State's Revenue Estimating: Cracks in the Crystal Ball, Pew Center on States and Rockefeller Institute of Government, March, 2011, accessed electronically at http://www.pewtrusts.org/~/media/assets/2011/03/01/003_11_ri-states-revenue-estimates-report_v1040711.pdf
[4] "How States' Dependence on Corporate Taxes Has Declined," Governing Magazine Online, January 2016, accessed electronically at http://www.governing.com/topics/finance/gov-state-corporate-income-tax-revenues.html
[5] "Federal Tax Reform: The Impact on the States, The Tax Foundation, March 2017, accessed electronically at https://taxfoundation.org/federal-tax-reform-the-impact-on-states/
[6] The current GAO outlook, from its 2016 update, notes that Fiscal sustainability presents a national challenge shared by all levels of government. GAO simulations of long-term fiscal trends in the state and local government sector—published since 2007—have consistently shown that state and local governments face persistent and long-term fiscal pressures driven largely by the rising health-related costs of expenditures on Medicaid and the cost of health care compensation for employees and retirees." Accessed electronically at https://www.gao.gov/fiscal_outlook/state_local_fiscal_model/overview

Consumption versus Income-Based Taxes

In recent years, several states (Georgia, Indiana, Kansas, Michigan, Oklahoma, Ohio and North Carolina, among others) have introduced and/or passed legislation that reduces the state's income tax rate applicable to individuals, corporations or both, while attempting to increase tax revenue from consumption taxes.[7] The following identifies key factors in contrasting and comparing these revenue sources:

- **In theory, consumption taxes are more economically efficient.** Nearly all will pay some tax, and there is no disincentive to work/earn more. Additionally, consumption taxes avoid taxing savings and capital investment necessary for economic growth.

- **In practice, consumption taxes also have some downside**. Depending on the base, these taxes can be regressive. Additionally, the erosion of the sales tax base creates issues related to horizontal equity and revenue sufficiency.

- **Income tax is more dynamic, which can be both a strength and weakness.** While income tax performs very well during times of economic expansion, it has proven very volatile during economic downturns. Additionally, some timing issues (such as realized capital gains) exist, making it hard to estimate.

- **Combining the two is the typical state approach.** Both consumption and income-based taxes have negative border effects. Imposing a broad sales tax can mitigate some of the income tax volatility, while a progressive income tax and refundable credits can mitigate some of the sales tax regressivity.

[7] New York Times – Governors Push Bigger Reliance on Sales Taxes (January 2013) cited from Deloitte – Trends in State Taxation: Consumption Tax versus Income Tax (Winter 2014). Available at https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-current-trends-in-state-taxation-consumption-tax-versus-income-tax-010915.pdf

Sales and Use Taxes

Sales and Use Tax Overview

Sales taxes are general taxes levied with a (mostly) uniform tax rate when a good or service is sold within a state's borders. Sales taxes are typically accompanied by a **use tax** that applies to the use, storage or other consumption of goods or services within the state when purchased out of state. Most states provide a credit against use tax for sales tax paid to another state.

There are several states with broad-based consumption taxes that get categorized as sales taxes but are structured differently – these states impose a form of business privilege tax (with varying names). While they may seem to operate similarly to basic state sales taxes, there can be different characteristics and impacts. These are often applied more broadly and can have a different impact on nexus (which is the standard for requiring a retailer to collect sales tax for a state on its sales to customers in that state). The general standard for nexus relates to physical presence in a state, but nexus under a business privilege tax can be considerably broader. This is critical for later discussions of Internet commerce. Examples of state business privilege taxes include:

- **Arizona's** transaction privilege tax (TPT): The TPT is a tax on the privilege of doing business in Arizona. Although the TPT is usually passed on to the consumer, it is technically a tax on the vendor.

  Business activities subject to the Arizona TPT include retail sales, restaurants/bars, hotel/motel, commercial leasing, advertising, amusements, personal property rentals, real property rentals, construction contracting, owner/builders, manufactured building, severance (mining, timbering), transportation, printing, publishing, utilities, communications, air/railroad, private cars/pipelines and use tax.[8]

- **Hawaii's** general excise tax (GET): The GET is a business privilege tax on gross proceeds of sales or income. The tax is imposed on the gross income received by the person engaging in the business activity. Gross income is the total of all business income before deducting business expenses. It includes any cost passed on to customers, such as the GET.[9]

  According to the Hawaii Department of Taxation, the two primary differences between the GET and a sales tax are (1) "the GET is a tax on the business for the privilege of doing business in Hawaii, whereas a sales tax is a tax on the customer that is collected by the business;" (2) "the GET is a tax on income from almost all business activities. A sales tax is a tax on the retail sales of tangible goods. Tangible goods are physical objects that you can touch such as furniture, books, clothing, or toys."[10]

  From this explanation, it should be clear that the Hawaii GET is an extremely broad-based consumption tax, which applies to food, most business-to-business transactions and nearly all professional services. Hawaii is more likely than most states to be able to accomplish this broad-based tax because of its geographic isolation from other states, a topic that will be discussed later in this summary.

  A final note about Hawaii's GET: the retailer may either itemize the GET on the customer's receipt or not. However, if the GET is not itemized it must be prominently noticed at locations in the store at the point of sale.

- **Pennsylvania's** business privilege tax (BPT): The BPT is levied by the municipalities and/or school districts in which businesses are located and is based on the gross receipts of the business.

[8] State of Arizona, Department of Revenue. Accessed electronically at https://www.azdor.gov/Business/TransactionPrivilegeTax.aspx
[9] State of Hawaii, Department of Taxation. Accessed electronically at http://files.hawaii.gov/tax/legal/brochures/general_excise.pdf
[10] Ibid.

History of the Sales Tax

The concept of a general sales tax pre-exists the U.S. In fact, the governments of ancient Egypt, Rome and Greece all had general sales taxes.

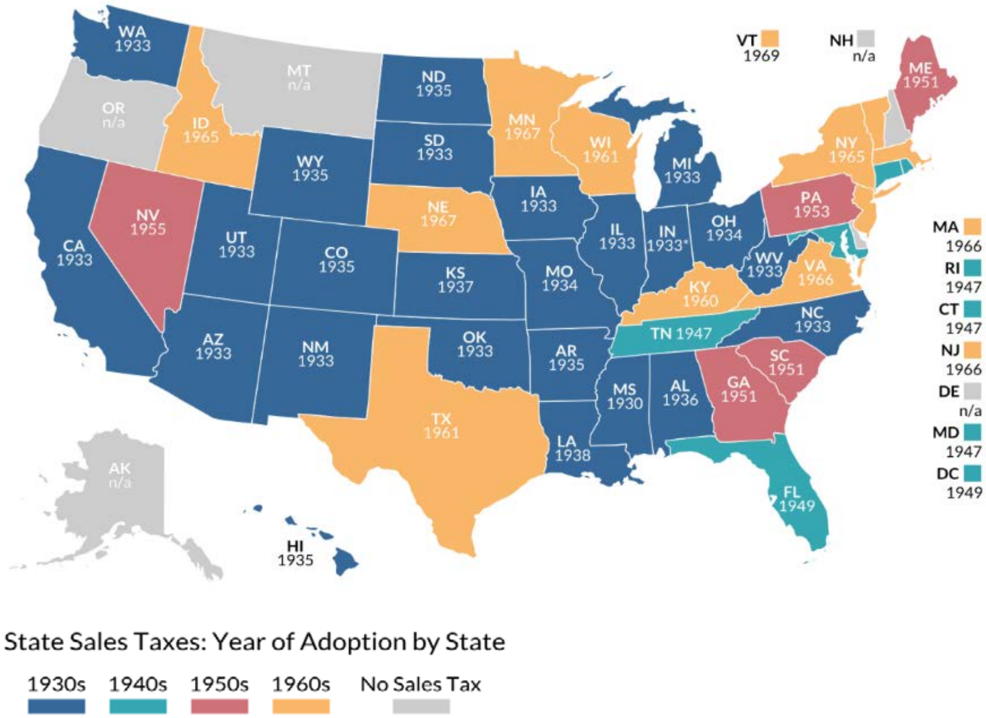
In the U.S., different sources cite differing beginning points for the sales tax among states. Some of this has to do with varying definitions of what exactly constitutes a state sales tax (which, from the previous discussion, is still an issue today). For example, Pennsylvania's BPT was introduced in 1821, as a tax on the gross receipts of local businesses and limited to commerce within Pennsylvania.[11]

According to some commentators, West Virginia enacted the first state sales tax in the 1920s.[12] From a differing perspective, the Tax Foundation suggests that the sales tax trend began with Mississippi in 1930 and continued rapidly throughout the Great Depression, when states were searching for cash as property and income tax revenues declined. Most sources agree that Kentucky, in 1930, was the first state to apply the tax broadly and solely on retail sales.

By the end of the 1930s, 22 states had implemented a sales tax. Six states and the District of Columbia added it in the 1940s, and five did so in the 1950s. The next decade brought twelve more states on board, and the last state to adopt a sales tax was Vermont in 1969. Today, only five states (Alaska, Delaware, Montana, New Hampshire, and Oregon) do not impose a statewide sales tax."[13]

[11] "A Short History of the Sales Tax in the United States, Avalara TrustFile, accessed electronically at https://trustfile.avalara.com/blog/a-short-history-of-sales-tax-in-the-united-states/
[12] See, for example, "Sales Tax 101: The History of the Sales Tax in the United States," TaxJar.com, accessed electronically at https://blog.taxjar.com/history-sales-tax-united-states/
[13] "When Did Your State Adopt Its Sales Tax?" The Tax Foundation, July 11, 2014, accessed electronically at https://taxfoundation.org/when-did-your-state-adopt-its-sales-tax/

Figure 4: State Sales Taxes – Year of Adoption by State[14]



Source: Tax Foundation, State Sales Taxes: Year of Adoption by State (July 11, 2014).

Trends in Broad-Based Consumption Taxes

The preceding map shows the enactment trend of states for sales and use taxes, which culminated in the 1960's. Many of these taxes were predicated on broad, largely monolithic bases of tangible personal property that were relatively straight-forward and easy to administer and collect. In the decades since, these taxes have been subjected to incremental changes based on specific policy concerns as well as changes in technology and consumer behavior. Today, sales and use taxes nationwide, and here in Arkansas, contain dozens exemptions and often struggle to keep up with the new ways Americans live and purchase goods and services.

The following identify trends that are having a material impact on sales and use tax base, rate and collections:

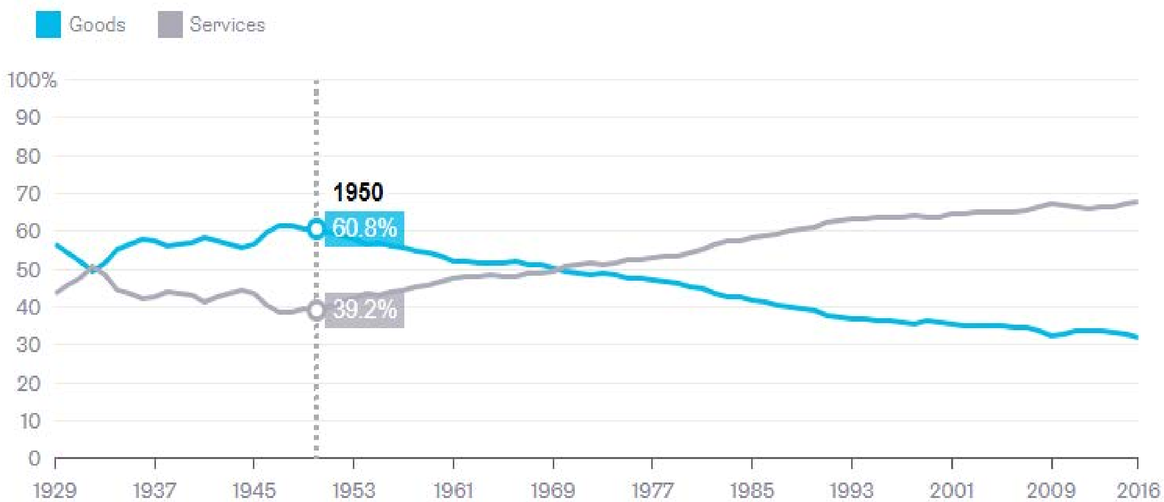
Trend 1: Changes in What We Consume: Tangible Goods versus Intangible Goods and Services

As has been mentioned, when most sales tax laws were enacted, the economy was based around consumption of tangible goods. Not surprisingly, most of these statutes applied the sales tax to the purchase of all tangible goods unless those goods were specifically exempted. On the other hand, services were a much smaller part of overall consumption; as a result, services were generally not subject to tax unless specifically enumerated. This presumption has made it difficult for state sales tax laws to keep pace with changes in the economy.

[14] Indiana adopted a gross income tax in 1933, but in 1963, it enacted a 2% retail sales and use tax. The gross income tax is not strictly comparable to the retail sales tax.

As shown in the following figure, in 1950, spending as a percentage of total personal consumption was focused on goods. At this point, however, services began to play a greater role, and by 1970, spending was split equally between goods and services. Now, consumption has shifted to mostly intangible goods and services (67 percent in 2015).

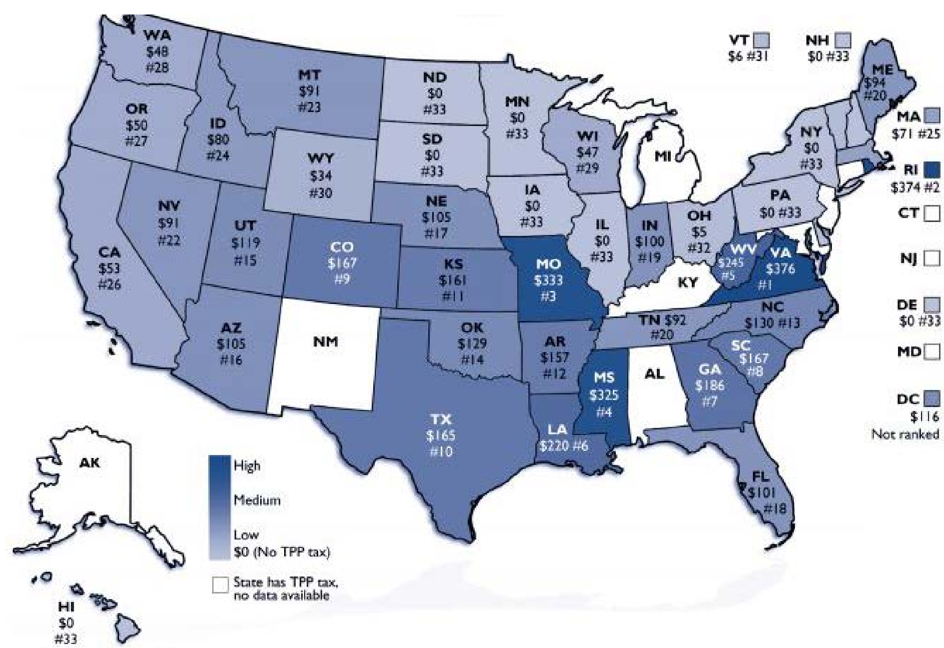
Figure 5: Spending as a Percentage of Total Personal Consumption



Source: U.S. Bureau of Economic Analysis, Bloomberg Analysis (April 17, 2017).

Tangible goods (also referred to as tangible personal property or TPP) is property that can be touched and moved – for example, equipment and furniture. The following figure displays each state's TPP tax collections per capita.

Figure 6: Tangible Personal Property Tax Collections per Capita, 2009



Source: Tax Foundation, States Moving Away from Taxes on Tangible Personal Property (October 2012)

Intangible goods, alternatively, do not have a physical presence. They, like services, are a more recent development in terms of commerce and consumption. Examples of intangible goods include digital products, e-books, online subscriptions and “virtual goods.” Digital products come in a variety of formats (e.g. audio, video, e-books delivered electronically without physical media). Digital products are not explicitly defined by each state; the Streamlined Sales Tax (SST) Project, which is a national effort by many states to better unify sales tax definitions and processes, defines specified digital products as “electronically transferred digital audio-visual works, digital audio works and digital books.”

This definition has been adopted by 12 of its member states: Indiana, Kentucky, New Jersey, Nebraska, Nevada, North Dakota, Rhode Island, Tennessee, Vermont, Washington, Wisconsin, and Wyoming. Sixteen other states define digital goods on their own terms, while the rest do not make reference to such products. The following table outlines the definition of “digital goods” used in each of the benchmark states.

Table 1: State Definitions of "Digital Goods"

State	Definition of "Digital Goods"
Alabama	Does not specifically define digital goods; tangible property is described as "personal property which… is in any manner perceptible to the senses."
Arkansas	SST member; only defines "digital audio-visual works" and "digital audio works."
Iowa	Defines digital goods in regulations: “Sales of items < delivered digitally or electronically include> artwork, drawings, photographs, music, electronic greeting cards, “canned” software … , entertainment properties (e.g., films, concerts, books, and television and radio programs), and all other digitized products.”
Kansas	Defines digital goods within its telecommunication services law: “Digital products delivered electronically, including, but not limited to, software, music, video, reading materials or ring tones.”
Louisiana	Includes “digital or electronic products such as “canned” computer software, electronic files, and “on demand” audio and video downloads within the category of taxable tangible property.
Mississippi	Not a SST member, but uses a similar definition: "“Specified digital products” means electronically transferred digital audio-visual works, digital audio works and digital books.”
Missouri	Does not specifically define digital goods for sales tax purposes
Nebraska	Uses SST definition.
Oklahoma	Defines digital products as those "delivered electronically include music, video, ringtones, and books.”
Tennessee	Uses SST definition.
Texas	Defines digital goods as tangible property. “Digital products, such as photographs and music are tangible personal property as defined in Section 151.009 of the Texas Tax Code.”

The constantly changing nature of digital goods and services is a significant challenge given current approaches to definitions of what is taxable. Tax legislation is complex and often requires a significant amount of time and effort to enact. As a result, many states have experienced significant lag times in seeking to ‘catch up’ with changes in commerce, particularly electronic commerce.

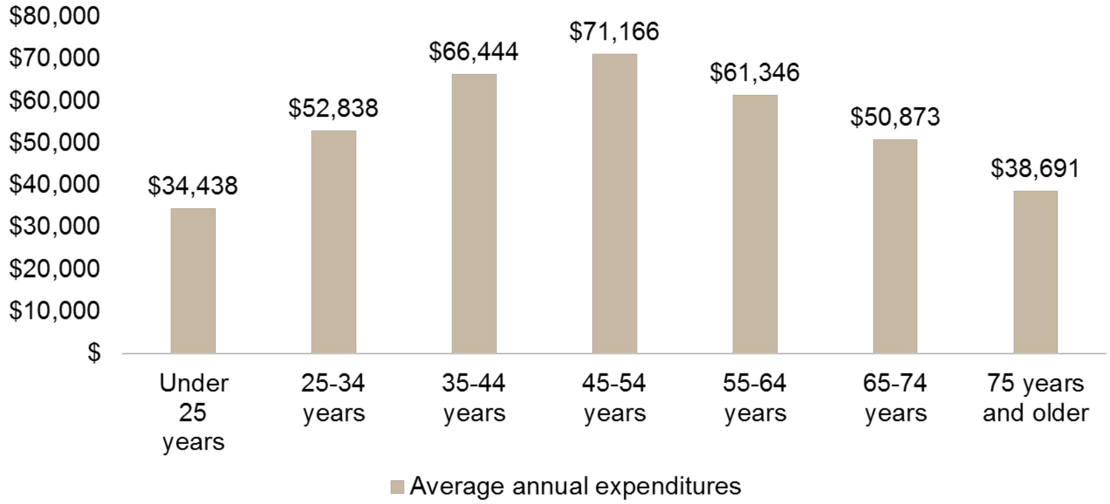
Trend 2: Changes in How Much We Consume: Older Populations Consume Less

The portion of the population over age 65 is increasing in size as a share of the population as a whole. The aging of the Baby Boomers into older age cohorts is contributing to the change, as are stable birth rates and longer average life spans.

An aging population can impact state revenues (and expenditures) in multiple ways. While these individuals are generally spending less of their income on taxable purchases, they are also able to shield more of their income from individual income taxes, and some of their sources of revenue are, in some states, exempt from tax.[15]

The following figures demonstrate the rise and fall of annual expenditures and sales tax revenue by age cohort:

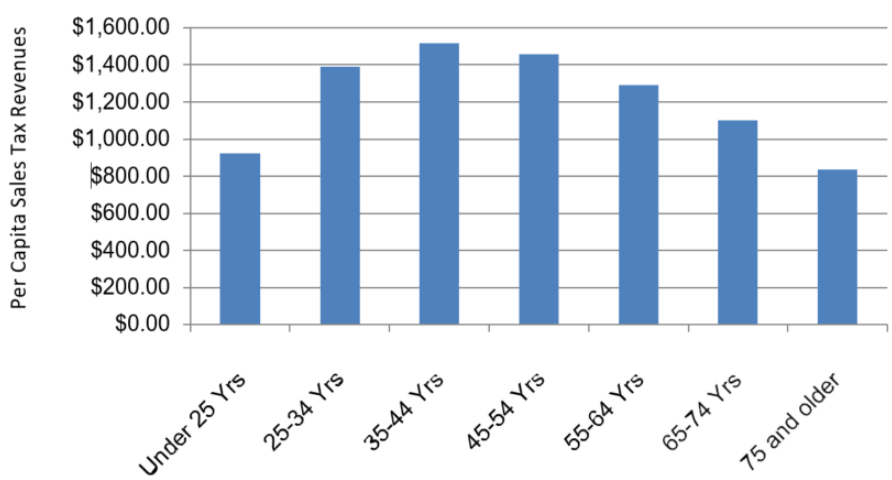
Figure 7: Average Annual Expenditures by Age Cohort



Source: U.S. Bureau of Labor Statistics Consumer Expenditure Survey, 2016

Nationally, the sales tax profile by age cohort indicates that the top age range for per capita sales tax revenues is 35-44 years of age – and steadily declines in each additional age cohort.

Figure 8: Sales Tax Revenue Profile by Age, 2010

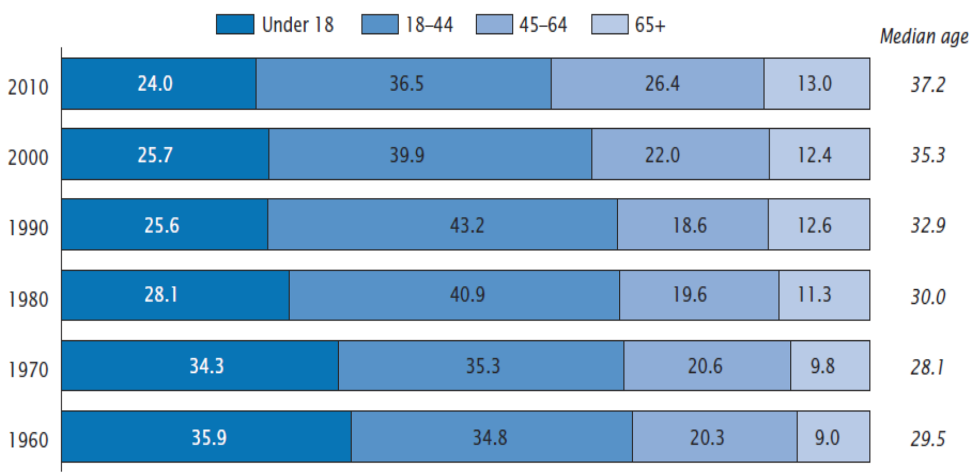


Source: U.S. Bureau of Labor Statistics Consumer Expenditure Survey, 2016

[15] For example, many states exempt all or a portion of social security payments from state individual income tax. Some states also exempt all or a portion of pension income from tax.

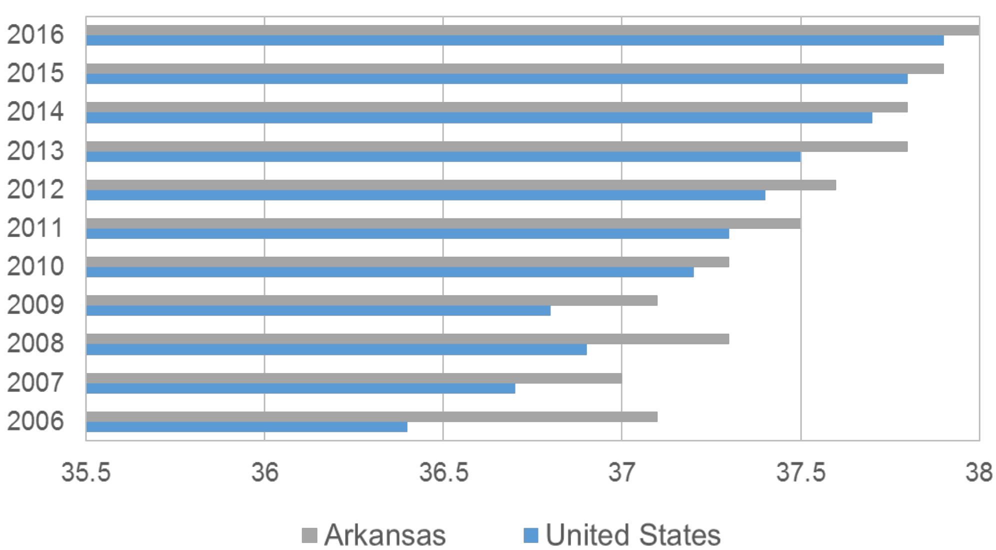
The median age in the U.S. has been steadily increasing; the 2010 Census set the median age at 37.2 years of age. At 38.0, Arkansas' median age is slightly older than the nation as a whole. The following graphs detail these changes over time:

Figure 9: Demographic Shifts in the United States



Source: U.S. Census Bureau, Age and Sex Composition, May 2011

Figure 10: Median Age in U.S. and Arkansas, 2006-2016



Source: U.S. Census Bureau, 2016

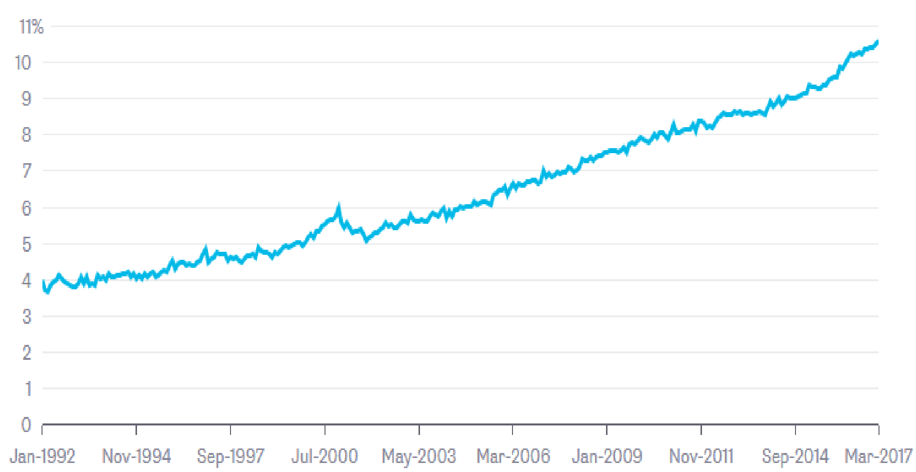
Trend 3: Changes to Purchases: the Move Away from 'Bricks and Mortar' Commerce

When sales taxes were first enacted, most purchases were done locally, and the requirement to collect sales taxes on those transactions was clear: in-state businesses are required, under every state sales tax statute, to collect the tax owed by the customer at the time of sale and to remit it to the state. However, over time, this basic model for sales tax collection has come under increasing pressure.

The first crack in the tax collection foundation occurred in the case of *National Bellas Hess v. Illinois Department of Revenue* (1966). In that case, the U.S. Supreme Court held that the Commerce Clause prohibits a state from imposing the duty of use tax collection and payment upon a seller whose only connection with customers in the state is by common carrier or by mail.[16] During the 1960s and beyond, consumers began valuing 'convenience' in shopping, as well as the ability to access vendors from other states. The rise in next day or two-day shipping services also assisted in creating additional demand for purchases from outside the typical local market. The Bellas Hess decision first alerted local retailers to this sort of competition, and there were efforts to get Congress to act to compel collection of sales taxes on catalogue and telephone sales.[17] However, these efforts were not successful.

During the latter part of the last century and into the present, electronic commerce (primarily sales over the Internet) has grown significantly. As shown in the following figure, non-store sales (which combines both catalogue and electronic commerce) as a percentage of total retail sales have increased significantly in recent years. In January 1992, the share was around four percent; today, the non-store portion is nearly 11 percent.

Figure 11: Non-Store Sales as a Percentage of Total Retail Sales



Source: U.S. Census Bureau, Bloomberg Analysis (April 17, 2017)

[16] National Bellas Hess v. Department of Revenue, 386 U.S. 753. The facts of the case, as presented in the U.S. Supreme Court's opinion, were that Bellas Hess was a mail order house with its principal place of business in Missouri, with no tangible property, sales outlets, representatives, telephone listing, or solicitors in Illinois, and did not advertise there by radio, television, billboards, or newspapers. It mailed catalogues twice a year to customers throughout the United States, including Illinois, supplemented by occasional "flyers." Orders for merchandise were mailed to appellant's Missouri plant, and goods were sent to customers by mail or common carrier. Appellee obtained a judgment from the Illinois Supreme Court requiring appellant to collect and pay to the State the use tax imposed by Illinois upon consumers who purchase appellant's goods for use within the State.

[17] The U.S. Congress has the Constitutional authority to regulate inter-state commerce.

Another important U.S. Supreme Court case, Quill v. North Dakota (1992) proved to be the Internet sales counterpart to Bellas Hess, as it held that e-commerce sellers without nexus (defined as physical presence) in a state could not be compelled to collect sales tax.

Trend 4: Sales as a Percent of Personal Income is Generally Declining

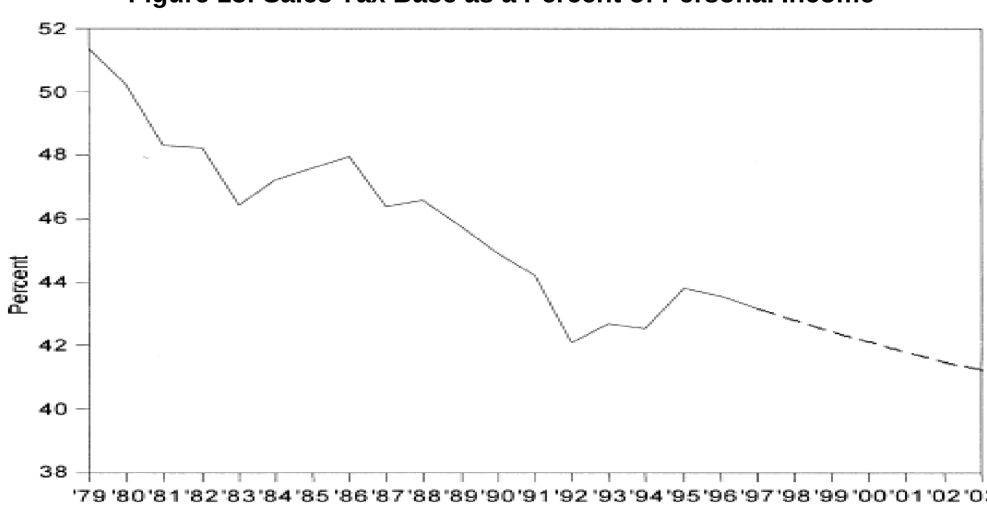
The following chart shows that, in 1977, state and local tax revenues were equal to approximately 10.8 percent of personal income. The rate has fluctuated significantly but trended downward in recent years; in 2015, the share as a percent of personal income was just over 10 percent.

Figure 12: State and Local Tax Revenue as a Percentage of Personal Income (1977-2015)

Source: Tax Policy Center, State & Local Government Finance Data Query System (2017)

Further, the **sales tax base** as a percent of personal income has been steadily declining for decades, as shown in the following chart.

Figure 13: Sales Tax Base as a Percent of Personal Income



Source: Donald Bruce and W. Fox, E-Commerce in the Context of Declining State Sales Tax Bases (2000)

Legislatively exempted goods are another reason for this reduction. While most states offer exemptions for common goods such as prescription drugs and food for off-premise consumption, some states extend exemptions to various other goods, including flags, newspapers, magazines, etc. Exempting goods from taxation is a further erosion to the tax base.

While some services have been added to sales tax bases, they have generally not been included in a broad-based fashion. Like goods, exempting services from taxation considerably reduces the overall size of the tax base. This erosion of the tax base, in turn, often necessitates sales tax rate increases.

Expanding the Reach of Taxes: Local Option Sales Taxes

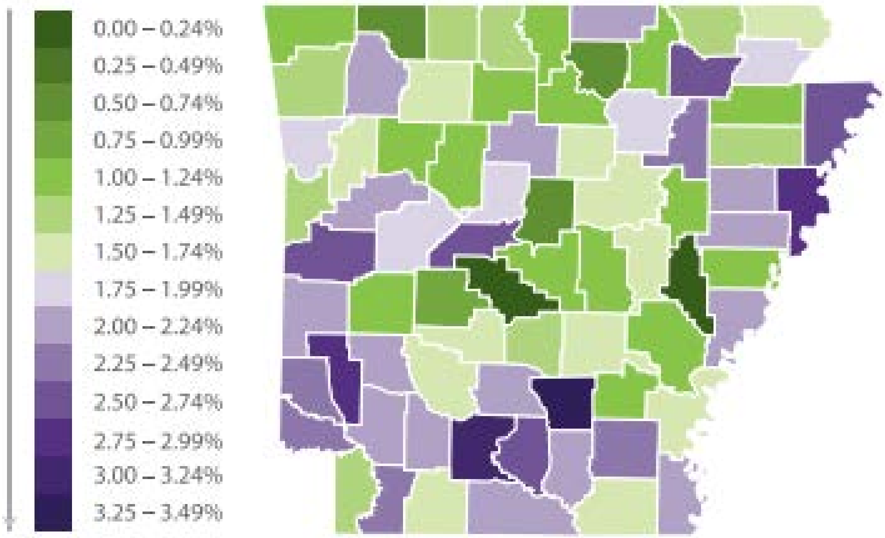
Many states permit local governments (primarily cities and counties) to levy local option sales taxes. These taxes are levied in addition to the state tax rate. While some states require a uniform local rate, many provide local governments the ability to set the local rate (sometimes within a specified range). When possible, the ability of local governments to set (or not set) a local option rate and/or set a varying rate can lead to significant uncertainty related to overall sales tax rates in a state. This can also make it difficult to make useful comparisons of state taxes without considering local taxes as well.

In most cases (but not always), the state collects both state and local sales taxes, and then remits the local portion to the appropriate local government or governments. Currently, 38 states collect sales tax at both the state and local levels. When the state collects all sales tax revenues, local government administrative costs are reduced. This is particularly evident when compared to the property tax, which is administered locally.

Arkansas granted local governments the authority to hold local option sales tax elections in 1981. In Arkansas, cities and counties can elect to levy (with voter approval) a local sales tax of up to 5.5 percent. The State collects the local sales and use tax and distributes it back to the cities and counties on a monthly basis. Currently, there are more than 300 local taxing jurisdictions in Arkansas (73 of 75 counties; the remainder are cities). Rates vary by city and county, and rates can change on a quarterly basis.

The following figure illustrates the variation among county sales tax rates.

Figure 14: Arkansas County Sales Tax Rates (in addition to statewide 6.5% sales tax and any city sales taxes)



Source: Arkansas Center for Research in Economics, Arkansas Local Sales Tax Elections, March 16, 2017

The following table illustrates the variation among city and county sales tax rates. The highest city sales tax rate is found in DeWitt, while four cities (Rudy, Beedeville, Pyatt and Marshall) levy a rate of 0.5 percent. A 1.0 percent rate is both the median rate and the rate that occurs most often (155 cities).

Counties also exhibit a great deal of variation. Cleveland County has the highest county rate at 3.25 percent, while three counties (Carroll, Faulkner and Izard) levy a 0.5 percent rate. The median county rate is 1.63 percent, while 2.0 percent is the most common rate (14 counties). **A full list of sales tax rates by city and county can be found in Appendices A and B, respectively.**

Table 2: Variation among City and County Sales Tax Rates

Local Tax Rates – **City**		
	Rate	**City**
Highest	3.50%	DeWitt
Lowest	0.50%	Rudy, Beedeville, Pyatt, Marshall
Median	1.00%	
Mode	1.00%	155 cities

Local Tax Rates – **County**		
	Rate	**County**
Highest	3.25%	Cleveland County
Lowest	0.50%	Carroll, Faulkner, Izard
Median	1.63%	
Mode	2.00%	14 counties

In addition to variation by city and county, the respective rates can change on a quarterly basis. The following table lists cities and counties with recent sales tax actions (effective July 1 and October 1, 2017).

Table 3: Cities and Counties with Recent Sales Tax Actions (effective July 1 and October 1, 2017)

July 2017				
City or County Name	Date	Rate	County	Recent Action
Damascus	7/1/2017	1.00%	Faulkner	Annexation
Dyer	7/1/2017	1.00%	Crawford	Annexation
Eureka Springs	7/1/2017	2.25%	Carroll	Decreased
Lamar	7/1/2017	2.00%	Johnson	Increased
Lonoke	7/1/2017	1.50%	Lonoke	Decreased
Pleasant Plains	7/1/2017	2.00%	Independence	Annexation

October 2017				
City or County Name	Date	Rate	County	Recent Action
Siloam Springs	10/1/2017	2.00%	Benton	Annexation
Bentonville	10/1/2017	2.00%	Benton	Annexation
Eureka Springs	10/1/2017	2.38%	Carroll	Increased
Plumerville	10/1/2017	2.00%	Conway	Increased
Mountainburg	10/1/2017	2.50%	Crawford	Annexation

There is an important factor to consider related to how the State administers local sales taxes and the impact of those local rates. State statute provides a rebate to local sales taxes to businesses on purchase invoices that exceed $2,500. All businesses are eligible to claim rebates on eligible businesses purchases, which must be a 'business expense.' To claim the rebate, the business must file a claim with the Arkansas Department of Finance and Administration.[18] This cap impacts local sales taxes in two ways: first, the amount of business expenses per invoice that are subject to local sales tax makes it difficult to do accurate comparisons of local sales tax burdens among other states. Second, it likely impacts on business behavior in legal ways that minimize the payment of local sales taxes.

Arkansas Sales Taxes in Comparison to Other States

As with most states, Arkansas has made multiple changes to its basic sales tax structure over the years since its initial enactment. While the initial tax rate was 2.0 percent, it has been expanded several times, which has included both increasing the rate and expanding the base. The following table displays a timeline for State of Arkansas key sales tax milestones.

[18] The State local tax rebate form can be accessed at http://www.dfa.arkansas.gov/offices/exciseTax/salesanduse/Documents/LocalTaxRebateClaimForm.pdf

Table 4: Arkansas Key Sales Tax Milestones

Year	Milestone	Sales Tax Rate
1935	**Act 233** - Temporarily applied a tax to the gross proceeds from all retail sales (May 1, 1935 - July 1, 1937); Exempted "all goods necessary to life."[19]	2.0%
1941	Levied 2% tax on gross proceeds or gross receipts derived from sales of certain tangible personal property.	
1957	**Act 19** - Rate increase approved by voter referendum.	3.0%
1983	**Act 63** - Rate increase as part of 1st Extraordinary Session of 1983.	4.0%
1983	Computer software and service, repairing and maintaining of computer equipment specifically enumerated (first enumeration).	
1987	Repeal of exemption on cigarettes (first exemption repeal).	
1991	**Act 3** - Rate increased by 0.5%.	4.5%
1997	**Act 156** - Initiated the Constitutional Amendment (Amendment 75) Conservation Tax of an additional 1/8 cent sales and use tax on all taxable sales of property and services.[20]	4.625%
2001	**Act 1492 of 1999 -** Increased sales tax by 0.5% upon voter ratification of Constitutional Amendment 79; effective 1/1/2001	5.125%
2001	**Act 1279 -** Uniform Sales and Use Tax Administration Act; first step towards streamlining.[21]	
2004	**Act 107 -** Rate increase of 7/8 percent as a special revenue, to be credited to the Educational Adequacy Fund.[22]	6.0%
2011	**HJR 1001** (Amendment 91) - Created a temporary 0.5% sales and use tax.	6.5%

As the prior table shows, the State of Arkansas currently levies a 6.5 percent sales or gross receipts tax on the sale of all tangible personal property at retail, unless there is a specific exemption listed in statute. The majority of these exemptions are found in Arkansas Code § 26-52. Additionally, services are taxable only if the service is specifically enumerated in State statute.

The consumer pays the tax, which the retailer then remits to the State. The retailer retains two percent of tax due up to $1,000 per month as a collection fee if remittance is on or before the due date. By way of reference, the maximum $1,000 retainage would occur at $50,000 a month in taxable sales.

[19] "All goods necessary to life" refers to meat, lard, sugar, soda, baking powders, salt, meal, butter fats, eggs, and all medicines necessary for the preservation of public health. Section 17 of the Act prohibited retailers from representing that they would assume/absorb the tax.

[20] Revenue from the conservation tax is considered special revenue and distributed as follows: 45% to the Game Protection Fund; 45% to the Department of Parks and Tourism Fund Account; 9% to the Department of Heritage Fund Account; and 1% to the Keep Arkansas Beautiful Fund Account.

[21] Authorized the DFA to enter agreements with other states in order to provide a mechanism with which to maintain a cooperative, simplified system for the application and administration of sales and use taxes. Arkansas became a full member of Streamlined Sales Tax on January 1, 2008.

[22] Increased the sales and use tax rate 7/8 percent effective March 1, 2004. The additional tax serves as a special revenue, and is credited to the Educational Adequacy Fund. This Act included the following service companies or business practices in to the tax base *for the first time:* Wrecker and towing services; collection and disposal of solid waste; cleaning parking lots and gutters; dry cleaning and laundry services; industrial laundry services; mini warehouse and self-storage rental services; body piercing, tattooing, and electrolysis services; initial installation labor services; pest control services; service of replacement of flooring; security and alarm monitoring services; boat storage and docking fees; furnishing camping spaces; locksmith services and pet grooming

For the State, statutory language refers to the sales tax as a “gross receipts tax,” which is levied on all sales of tangible personal property, not the property itself.

The following table provides a comparison of Arkansas and benchmark states, average local and combined state and average local sales tax rates. It is notable that the Arkansas rate is above average for both the state and combined state and average local rate. It is also notable, however, that the cap and rebate on eligible business purchases subject to tax ($2,500) cannot be readily captured in these comparison, and it is unclear to what extent this would reduce the ‘effective’ average local sales tax rate. **A full list of state and local rates across the U.S. can be found in Appendix C.**

Table 5: Average State and Local Sales Tax Rates

	State Tax Rate	Average Local Tax Rate	Combined State & Average Local Sales Tax Rate	Max Local Tax Rate
Mississippi	7.00%	0.07%	7.07%	1.00%
Tennessee	7.00%	2.45%	9.45%	2.75%
Indiana	7.00%	0.00%	7.00%	0.00%
Arkansas	**6.50%**	**2.84%**	**9.34%**	**5.125%**
Kansas	6.50%	2.18%	8.68%	4.00%
Texas	6.25%	1.92%	8.17%	2.00%
Iowa	6.00%	0.80%	6.80%	1.00%
Nebraska	5.50%	1.40%	6.90%	2.00%
Louisiana	5.00%	5.02%	10.02%	7.00%
North Carolina	4.75%	2.20%	6.95%	2.75%
Oklahoma	4.50%	4.36%	8.86%	2.25%
Missouri	4.225%	3.74%	7.97%	5.00%
Alabama	4.00%	5.03%	9.03%	7.00%
Median	**6.00%**	**2.20%**	**8.17%**	**2.75%**
Average	**5.71%**	**2.46%**	**8.17%**	**3.22%**
Rank	**9 of 13**	**9 of 13**	**11 of 13**	**11 of 13**

*** Average local tax rates are weighted by population.*

State and Local Sales Tax Rates and Border Effects

As with various excise taxes, there is a significant body of research and study that suggests that sales along state borders can be impacted by the respective states’ sales tax rates. As the preceding table indicates, the Arkansas state sales tax rate is higher than its neighboring states of Missouri, Oklahoma, Louisiana and Texas. Of course, local sales tax rates combine with the state rates, and in some cases (particularly for Louisiana) this will balance out Arkansas’ lower state sales tax rate. This also works both ways, as Mississippi’s average combined state and local rate is lower than Arkansas’ even though Mississippi’s state rate is higher.

In general, it is likely that there are instances where sales tax rates along the border with Missouri, Oklahoma, Mississippi and Texas and with nearby Kansas are lower in these states than in Arkansas. In these instances, there is a very real possibility that Arkansas businesses are losing sales (and the State is losing sales tax and other forms of revenue) to other states. One complicating factor for some state comparisons is the differing tax base among the states. As will be noted, Arkansas' preferential treatment of food provides some competitive advantage for those types of purchases, even when other states may have lower overall sales tax rates.

In general, research on sales tax differentials has found:

- There are multiple examples of significant differentials in per capita expenditures in border metropolitan areas where the difference in state and local sales tax rates are significant. For example, a study of the Tri-Cities Metropolitan Statistical Area (MSA) of Tennessee and Virginia found a significant transfer of retail sales from Tennessee to Virginia – understandable given the 9.5 percent sales tax in Tennessee and the 4.5 percent sales tax in Virginia.[23]

- An additional study using consumption data series for three metropolitan areas along the Tennessee border indicated that a one percent sales tax increase reduced sales by a percentage between 0.44 percent and 3.73 percent, depending on the area.[24]

- There is a limit to acceptable travel distance that is related to the tax/price differential. The analysis in a particular location will have to take into consideration factors that include the ease of travel, travel time, retail establishment numbers and density, etc. One study of border effects along five states in the Midwest (Illinois, Indiana, Ohio, Michigan and Kentucky) found that border effects for the benefited area extend from 2 to 3 miles from the border, while the disadvantaged area can be as much as 10 to 12 miles.[25]

- State and local sales taxes can also have an effect on employment on state borders. A recent study that used Quarterly Workforce Indicators data from the Longitudinal Employer-Household Dynamics program at the U.S. Census Bureau for all counties in 47 states found that sales tax changes have a detrimental effect on employment, payroll and hiring in border areas – but only in counties with substantial levels of cross-border commuting.[26]

- There are instances where the State of Arkansas may benefit from sales tax differentials, particularly because of the differential on the tax on food. The difference in tax treatment of food significantly favors the State of Arkansas in relationship to Mississippi, Oklahoma and Tennessee. Several studies have identified a strong impact on sales related to this tax differential. A 2015 study for the State of Kansas indicated that for every one percent increase in the tax rate differential, food sales volume in impacted areas dropped by nearly 9.8 percent a year.[27] A 1988 study for West Virginia estimated the reduction at 5.9 percent.[28]

[23]F. Steb Hipple, "Retail Sales and Sales Tax Losses from Tennessee to Virginia in the Tri-Cities Metropolitan Area 1996 and 2003," State of Tennessee Tax Structure Study Commission, November 6, 2003 The study found that retail spending in the MSA as a whole was equa to 74 percent of household income. In the Tennessee part, the retail share of income was 68 percent compared to 99 percent in the Virginia part. This translated to $354 million in the year studied in transfer of retail sales from Tennessee to Virginia, a loss of $49 million in household income and 2,309 jobs from Tennessee to Virginia. As a result, sales tax collections in Tennessee were lower by $34 million and Virginia's were higher by $16 million.

[24] William Fox, "Tax Structure and the Location of Economic Activity along State Borders," National Tax Journal, 1986, pp. 362-374.

[25] William Lilley III and Laurence J. DeFranco, "Impact of Retail Taxes on the Illinois-Indiana Border," Chicago Federal Reserve Bank workshop 'Designing State-Local Fiscal Policy for Growth and Development, July 17, 1996. The paper also noted that the authors found similar 10-12 mile disadvantaged areas in a study related to the States of Massachusetts and New Hampshire.

[26] Jeffrey P. Thompson and Shawn M. Rohlin, "The Effect of State and Local Sales Taxes on Employment at State Borders," Finance and Discussion Series, Divisions of Research and Statistics and Monetary Affairs, Federal Reserve Board, Washington, D.C., 2013, accessed electronically at https://www.federalreserve.gov/pubs/feds/2013/201349/201349pap.pdf

[27] Arwiphawee Srithongrung, "Sales Tax Rate Differentials and Cross-Border Shopping," 2015, accessed electronically at http://webs.wichita.edu/depttools/depttoolsmemberfiles/kpfc/Cross-Border-Shopping-White-Paper-FIN.pdf

[28] M. Walsh and J. Jones, "More Evidence on Border Tax Effect: the Case of West Virginia, 1979-1984," National Tax Journal, 1988, pp 261-265.

- In some instances, lower sales tax rates may be mitigated by other factors. A Tennessee study examined the effect of the opening of two new shopping malls in the late 1990s in Tennessee (with higher sales taxes) yet found a 15.9 percent decline in sales in neighboring counties, regardless of differing tax rates. In this case, the study suggests that large shopping destinations will provide a strong attraction for many shoppers who prefer the convenience of shopping in one location or multiple choices of stores over the singular purpose of paying lower sales taxes.[29]

- There has also been research that indicates that there are some normal political or policy 'brakes' that are applied to local option tax rates, both within states and at state borders. In these instances, local option rates tend to be influenced by the combination of state and local rates in relationship to closely adjoining areas.[30]

Estimating the impacts of cross border competition for Arkansas would require extensive study and modeling of many of the factors described in the preceding bullets. To be as accurate as possible, this modeling has to take into account consumer distance, mobility, demographics, types of shopping locations as well as state and local tax rates. It generally requires county-by-county data and relatively stable state and local sales tax rate differentials. While not possible at this point in time, some of the general known characteristics suggest that cross border competition is an issue for the State – however, in some cases, this differential (such as related to sales taxation of food) also works for the benefit of Arkansas businesses and tax collections.

State Taxation of Services

Prior discussion has touched on the shrinking sales tax base as services become an ever-larger portion of what is consumed in the state and nation. This has led to significant examination and discussion of alternatives to rebalance the sales tax as a broad-based tax on consumption.

It is no surprise that increased taxation of services has been approached (and on a case-by-case method sometimes adopted) as a method of broadening the tax base. The efforts to date can be split into six broad general categories of services:

- Services related to tangible personal property (e.g. carpentry, car repairs);
- Services related to real property (e.g. improvements to buildings and land; janitorial services);
- Business services (e.g. credit reporting agencies and credit bureaus, security services);
- Personal services (e.g. animal grooming, tanning salons, haircutting);
- Professional services (e.g. attorneys, physicians, accountants, other licensed professionals);
- Amusement and recreational events (e.g. park admission, sporting and entertainment events).

Sales taxes are most often levied on services that seek to improve or repair tangible personal property, and are often applied at the same rate as on goods. The two most commonly taxed services in this category are landscaping and lawn service.

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[29]Chervin, Edminston and Murray, "Urban Malls, Tax Base Migration and State Intergovernmental Aid," Public Finance Review, 2000, 309-334.

[30] David R. Agrawal, "Lost in America: Evidence on Local Sales Taxes from National Panel Data," Center for Economic Studies and Ifo Institute, August 2014, accessed electronically at http://www.cesifo-group.de/DocDL/cesifo1_wp4943.pdf. The author used national panel data of local option sales taxes and documented 'ten stylized facts concerning the time series patterns and spatial dynamics of local sales taxes. One of those facts is that local governments in states with low state tax rates set higher tax rates and have a greater degree of dispersion in their local rates. In the highest tax states, the standard deviation of local tax rates is less than 0.5, but in the lowest tax state it is over 1. The author also suggests that tax system competition includes local tax rates with an understanding of the combined tax rates.

The following map displays the state tax treatment of these service categories.

Figure 15: Service Taxability by State, 2017

Source: Avalara, Service Taxability by State, 2017

According to this survey, Arkansas taxed 42.9 percent of services available to be taxed and 100 percent of utility services available to be taxed. Similar to other states, Arkansas did not levy a sales tax on professional services provided by legal, medical or other licensed professionals. Only four states (Hawaii, New Mexico, South Dakota and West Virginia) are generally cited as broadly taxing professional services. There are arguments against taxing professional services based on horizontal equity grounds, as larger companies may be able to avoid the tax by integrating IT, legal, tax and other professional services into their operations while smaller businesses may not be able to do so. Many policymakers and commentators also suggest that it would be hard to subject this category to tax because of the powerful lobbying presence of these groups in most states.[31]

Arkansas also taxed the second highest percentage of amusement and recreation services, which consists of taxes levied on park admission, sporting and entertainment events. States that tax fewer amounts of other services are most likely to levy taxes on a greater number of admission/amusement services.

The following table compares service taxability among the benchmark states in 2007, the most recent year for which the Federation of Tax Administrators conducted a national survey on this topic area.[32] **A full list of services taxed by category and state can be found in Appendix D.**

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[31]As an example, the American Institute of Certified Public Accountants (AICPA) reported in 2013 that "In 2012, seven states (Arizona, California, Kentucky, Maryland, Michigan, New Jersey, and South Dakota) considered legislation to tax professional services, but thanks to great advocacy efforts by the state CPA societies and businesses, none of these states enacted the proposed tax." Accessed electronically at https://www.aicpa.org/advocacy/tax/statelocal/salestaxonaccountingservices.html

[32] The Federation of Tax Administrators is in the process of updating this report with updated data, which will include cloud computing and other online services. That survey is expected to be completed by the end of 2017, and this section will be updated once survey results are available.

Table 6: Services Taxed by Category and State, 2007[33]

	Utilities	Pers. Services	Bus. Services	Comp. Services	Admissions/ Amusements	Prof. Services	Fabrication, Repair & Installation	Other Services	Total
Alabama	12	2	6	3	10	0	1	3	37
Arkansas	**16**	**7**	**12**	**1**	**12**	**0**	**11**	**13**	**72**
Indiana	7	4	3	2	3	0	1	4	24
Iowa	13	15	18	1	14	0	13	20	94
Kansas	10	11	9	1	13	0	15	15	74
Louisiana	10	8	5	3	9	0	13	7	55
Mississippi	10	5	8	3	11	0	13	22	72
Missouri	8	1	2	2	10	0	0	3	26
Nebraska	14	9	14	3	12	0	13	12	77
North Carolina	10	4	5	0	9	0	1	1	30
Oklahoma	9	3	4	1	10	0	0	5	32
Tennessee*	11	10	7	3	12	0	13	11	67
Texas	12	10	14	8	12	1	10	16	83
Total Number of Services in Category	16	20	34	8	15	9	19	47	168
AR % of Total Services Taxed	100.0%	35.0%	35.3%	12.5%	80.0%	0.0%	57.9%	27.7%	42.9%

Source: Federation of Tax Administrators – Number of Services Taxed by Category and State, July 2007

Of course, the number of services that are subject to tax does not necessarily equate with the amount of tax on services that is collected. A state could have, for instance, nine taxed services that each raise less than $1 million and one that raises $20 million – in that case, a state gets more impact from taxing one service than from taxing nine others.

There has been little national research around the dollar amounts collected from state sales taxes on services. While the project team continues to analyze data available from other benchmark states for comparison with Arkansas, there is at least one of the benchmark states, Iowa, that does collect and report data on a broad category of services that it subjects to its sales and use tax. According to the Iowa Department of Revenue, for FY2017, the broad category of taxed services collected $316.0 million in state taxes. This represented 13.58 percent of all state sales tax collections for that year.[34] **A detailed listing of Iowa service-related tax revenues can be found in Appendix E.**

While it is likely that this will continue to be an area of great interest among states, to date, state in-roads in collection of sales taxes on services has been more on a case-by-case basis than in a comprehensive fashion. As noted in discussion of state efforts at comprehensive state tax reform, at least a couple of notable examples

[33] Categories and Services organized based on the best NAICS classification codes available when the survey was designed, and is representative of 2004 data.
[34] "Retail Sales and Use Taxes Annual Report Fiscal Year 2017," Iowa Department of Revenue, December 2017, accessed electronically at https://tax.iowa.gov/sites/files/idr/Fiscal%20Year%202017%20Annual%20Report.pdf

of Governors recommending broad-based base expansion – even when coupled with sales tax rate reductions – have not been successful. This will be discussed in the chapter on state tax reform efforts.

Online Sales and Nexus

State and local governments have been constrained in their ability to collect existing sales and use taxes on interstate sales, primarily because of the two previously identified U.S. Supreme decisions (Bellas Hess and Quill). The 1967 decision of *National Bellas Hess v. Illinois* ruled that a mail order reseller was not required to collect sales tax unless it had some physical contact with the state. As e-commerce grew in importance, the 1992 *Quill vs. North Dakota* decision applied this same restriction to remote sales over the Internet. Collectively, the decisions have resulted in the loss of hundreds of millions (if not billions) of dollars in sales and use tax revenue.

The first legislative efforts aimed at stanching the impact of these cases occurred at the federal level. However, after years of sustained effort (most notably via the Marketplace Fairness Act, which passed the U.S. Senate but not the U.S. House), more attention has turned back to individual state efforts. Another strategy focused on improving the overall environment for a national solution, such as states providing more consistency in legal definitions and administration of sales tax laws. This was the genesis of the Streamlined Sales Tax Initiative and Agreement.

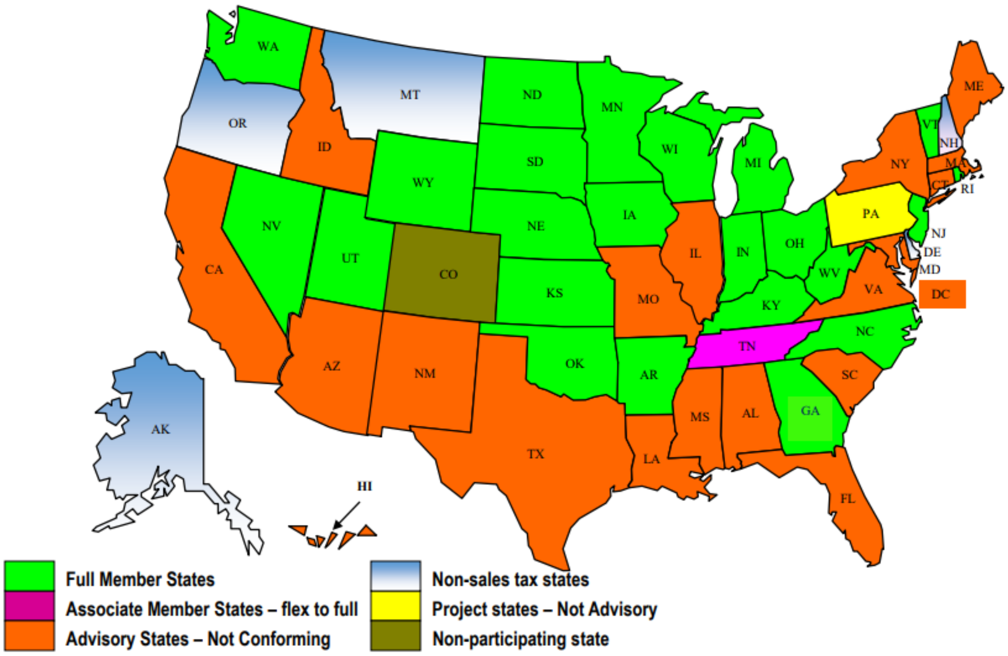
Streamlined Sales Tax (SST) Agreement

The Streamlined Sales Tax Agreement was initiated by the National Governors Association (NGA) and the National Conference of State Legislatures (NCSL) in 1999 in response to the Bellas Hess and Quill court decisions. The goal was to increase uniformity that would either lead to greater vendor voluntary collection or the reconsideration of the two Supreme Court decisions.

As of 2017, twenty four states participate in the program as full members (as shown in the following figure).[35] While this is a significant number of states, several major states do not, which limits the agreement's impact.

[35] The State of Tennessee is an associate member, meaning that it has achieved substantial compliance with the Terms of Agreement taken as a whole, but not necessarily each provision, measured qualitatively.

Figure 16: SSTA State Participation Status (as of January 1, 2017)



Source: Streamlined Sales Tax Governing Board, Streamlined State Status (January 1, 2017)

Among benchmark states, Alabama, Iowa, Kansas, Nebraska, North Carolina and Oklahoma (along with Arkansas) are full members of the SSTA. Tennessee is considered an associate member, as it has achieved substantial compliance with the Terms of Agreement taken as a whole, but not necessarily each provision, measured qualitatively. Five benchmark states (Alabama, Louisiana, Mississippi, Missouri and Texas) do not participate in the program.

Table 7: SSTA State Participation Status, Benchmark States

State	Participation Status	Join Date
Arkansas	Full Member State	1/1/2008
Alabama	No	N/A
Indiana	Full Member State	10/1/2005
Iowa	Full Member State	10/1/2005
Kansas	Full Member State	10/1/2005
Louisiana	No	N/A
Mississippi	No	N/A
Missouri	No	N/A
Nebraska	Full Member State	10/1/2005
North Carolina	Full Member State	10/1/2005
Oklahoma	Full Member State	10/1/2005
Tennessee	Yes; Associate Member State	10/1/2005
Texas	No	N/A

Source: Streamlined Sales Tax Governing Board, Streamlined State Status (Jan. 1, 2017)

In Arkansas, Act 1279 of 2001 adopted the Uniform Sales and Use Tax Administration Act, which authorized the Arkansas Department of Finance and Administration (DFA) to enter into agreements with other states in order to provide a mechanism with which to maintain a cooperative, simplified system for the application and administration of sales and use taxes. Arkansas become a full member of the program on January 1, 2008.

The SSTA is beneficial to states because it minimizes costs and administrative burdens on retailers that collect sales tax, particularly retailers operating in multiple states. The State of Arkansas has collected approximately $107 million through the SSTA. Conversely, the SSTA limits some state flexibility related to definitions and the treatment of sales taxes.

State Legislation Related to Nexus

While the SSTA has led to some voluntary collection of sales tax by out-of-state vendors without nexus, it has failed to achieve the 'critical mass' of state participation necessary to 'move the needle' on either voluntary collection or federal action. Given the lack of participation by major states like California, Florida, New York and Texas, it is likely that it will never be the vehicle to be a primary remedy for the revenue loss from the Quill decision.

As a result, state legislatures have resorted to a variety of statutory strategies to compel sales tax collection. Some of the first attempts related to creating nexus beyond mere physical presence. This was initiated by the State of New York in 2008, often referred to as the "Amazon tax." Under the New York State statute, a rebuttable presumption is created that a nonresident Internet seller has nexus with the State for sales/use tax purposes if (i) the nonresident has agreements with in-state companies whereby potential customers are referred to the nonresident, and (ii) the nonresident's gross receipts from customers under such an agreement exceed $10,000 during the previous four quarters. According to a report by the New York State Comptroller, since the law's inception, online retailers remitted $360 million in sales taxes (on over $4 billion in taxable online sales) as of February 2012.[36]

Since that first state foray – and the litigation that followed – other states have also considered and/or adopted similar legislation. The most prominent of these was California's enactment of its "Amazon Law," which eventually led its temporary repeal. Many states have enacted similar laws. It could be argued that the multiple state efforts to create 'Amazon nexus' has proven successful, as Amazon is (as of April 1, 2017) collecting sales tax on sales in all 50 states.[37] Additional attempts to create 'economic nexus' (where the amount of sales into a state alone creates sufficient grounds to require collection of the tax) have become popular, with many states enacting this type of statute.

During 2017, several states have passed economic nexus standards:

- The States of **Wyoming, North Dakota, Indiana** and **Maine** (March-April-May-June) each began imposing standards on sellers with $100,000+ in sales or over 200 separate transactions.

- **Ohio** (June) determined that "substantial nexus" exists if the seller has gross receipts in excess of $500,000 and if the seller uses in-state software to sell tangible personal property or services or enters into an agreement with another person to accelerate or enhance the delivery of the seller's website to others.[38]

[36] State Net Capitol Journal, "Online Sales Tax Push Continues Despite Disappointing Returns," March 8, 2013, accessed electronically at http://www.lexisnexis.com/legalnewsroom/corporate/b/business/archive/2013/03/08/online-sales-tax-push- continues-despite-disappointing-returns.aspx

[37] The alternative point of view is that Amazon has/is rethinking its business model and put more emphasis on speed and ease of delivery, which increases its need for multi-state 'on the ground' operations, which would trigger nexus under the physical presence standard anyway.

[38] Ohio Department of Taxation – Sales Tax Information Release ST 2017-02

- Similarly, **Rhode Island** (August) enacted provisions requiring any non-collecting retailer with in-state sales of $100,000 or more or engaged in 200 or more transactions with in-state customers to register for a sales tax permit and begin collecting and remitting sales tax or comply with detailed notice and reporting requirements. The bill defines a "non-collecting retailer" as any person meeting certain criteria, including using in-state software to make sales of tangible personal property or taxable goods or services.

- A new **Tennessee** rule provides that out-of-state dealers that engage in the regular or systematic solicitation of consumers in Tennessee through any means and make sales that exceed $500,000 to consumers in the state during the previous 12 months have substantial nexus with Tennessee.

Additionally, several states have passed marketplace sellers standards:

- **Minnesota** (June) expanded the definition of a "retailer maintaining a place of business in the state" to include having a representative such as a "marketplace provider" with sales over $10,000 into the state.

- **Washington** (July) now requires agents with sales of $10,000 and referrers with a physical presence in Washington or at least $267,000 in sales into state are required to either collect sales/use tax on sales to Washington consumers or follow the use tax notice and reporting requirements.[39]

Perhaps the most successful state strategy to date has been accomplished by the State of Colorado, which enacted a law focused on forcing retailers to either collect the tax or face significant paperwork requirements. The law, which survived court challenges (including the U.S. Supreme Court declining to review it), requires retailers that do not collect sales taxes to file a report with the State Department of Revenue on how much their Colorado customers have purchased and to inform customers that they may owe state taxes on the purchases. The law requires large online retailers to send customers a notice every time they buy something to explain that they may owe use tax; if the customer makes more than $500 a year in purchases, the retailer must also send them an annual summary of their purchases. The seller must also file an annual report with the State detailing customer name, billing and shipping addresses and the total amount spent each year.

This approach has become something of a national model. Those who advocate for this approach believe that it will better inform consumers of their obligation to pay use tax on their out-of-state purchases or lead to sellers voluntarily collecting the tax to escape the reporting requirements (for both them and their customers). States who have recently adopted Colorado-type reporting standards (all effective July 1, 2017) include:

- Legislation was passed in **Alabama** that allows the Department of Revenue to have the authority to require non-collecting vendors to notify Alabama customers of use tax obligations.

- In **Louisiana**, out-of-state vendors with sales greater than $50,000 annually must inform Louisiana customers at the time of the transaction that the sale is subject to use tax. Vendors must also provide an annual statement to their customers by January 31st of each year indicating the total purchases for the year. An annual report must be sent to the Louisiana Department of Revenue by March 1st in addition to customer notification.

- **Rhode Island** allows either/or of reporting or collection (see above).

[39] A referrer is a person that meets all of the following conditions: 1. Contracts or otherwise agrees with a seller to list or advertise for sale one or more items in any medium, including a web site or catalog; 2. Receives a commission, fee, or other consideration from the seller for the listing or advertisement; 3. Transfers, via telephone, internet link, or other means, a purchaser to a seller or an affiliated person to complete the sale; and 4. Does not collect receipts from the purchasers for the transaction.

Revenue Estimates from e-Commerce

The primarily research and analysis on lost revenue from e-commerce have been conducted by researchers from the University of Tennessee, most notably Professors William Fox and Donald Bruce, in a widely referenced 2000 study.[40] The estimates from that foundational study were updated in 2009, when they placed the estimate of lost state and local revenue at $11.4 billion for 2012.[41]

Because these loss estimates only covered e-commerce, another study team from the State of Washington updated the projections to include catalogue and phone sales. That analysis calculated the total state and local sales tax revenue loss at nearly $26 billion for 2015.[42]

However, there are those who argue the Fox/Bruce Internet sales tax loss estimates are over-stated. Some commentators have suggested that the estimates overstate the revenue loss, particularly because much of the sales tax not collected on e-commerce transition is business-to-business sales where it is likely that a substantial percentage of businesses will remit state use tax. For example, one analysis, done by Dr. Peter Johnson, senior economist for the Direct Marketing Association, suggested that the e-commerce losses for 2011 would not likely exceed $4.5 billion.[43]

To date, it has been difficult to determine new revenue collected with state statutes related to e-commerce. It is notable that, beginning April 1, 2017, Amazon is now collecting sales tax in all 50 states. However, Amazon is not voluntarily collecting sales tax revenue for its network affiliates. While Amazon's share of all U.S. e-commerce retail sales is estimated at 43 percent (and growing),[44] this would include revenue from its network affiliates that may not be voluntarily collecting sales taxes. That revenue may be equal to approximately half of Amazon's total sales revenue.[45]

It is also notable that other voluntary collections (such as vendors complying with the Streamlined Sales Tax Initiative (SSTI) influence total collections. DFA estimates that SSTI collections in Arkansas have totaled $107.5 million (since 2005). Finally, as the following figure shows, most e-commerce sales are business-to-business, and (as previously suggested), much is reflected in use tax collections.

[40] Donald Bruce and William Fox, "State and Local Sales Tax Revenue Losses from E-Commerce: Updated Estimates," Center for Business and Economic Research, University of Tennessee, September 2001, accessed electronically at http://cber.bus.utk.edu/ecomm/ecom0901.pdf

[41] William Fox and Donald Bruce, "State and Local Government Sales Tax Revenue Losses from Electronic Commerce," April 2009, accessed electronically at http://cber.utk.edu/ecomm/ecom0409.pdf

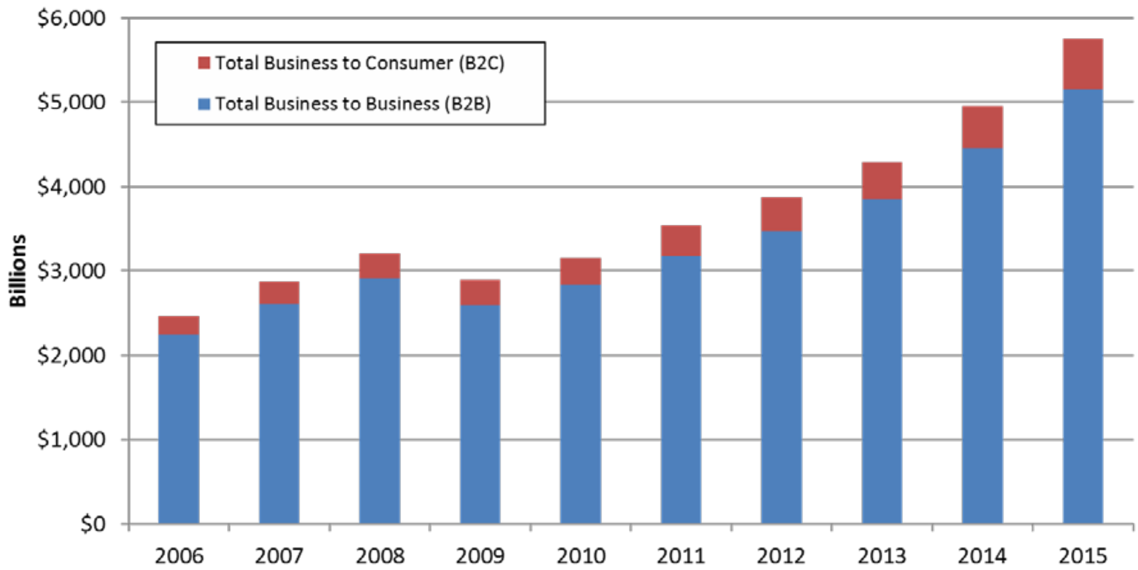
[42] "Uncollected Sales and Use Tax from Remote Sales: Revised Figures," National Conference of State Legislatures and International Council of Shopping Centers, March 2017, accessed electronically at https://www.reit.com/sites/default/files/Sales-Tax-Figure-March-2017-ICSC.pdf

[43] Peter A. Johnson, "A Current Calculation of Uncollected Sales Tax Arising from Internet Growth," The Direct Marketing Association, March 11, 2003, accessed electronically at http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.193.4216&rep=rep1&type=pdf

[44] Business Insider – Amazon Accounts for 43% of U.S. Online Retail Sales (February 2017). Available at http://www.businessinsider.com/amazon-accounts-for-43-of-us-online-retail-sales-2017-2

[45] According to one analysis, based on claims by Amazon, approximately half of the items it sells are from third-party vendors. See Chris Isidore, "Amazon to Start Collecting State Sales Taxes Everywhere," CNN.com, March 29, 2017, accessed electronically at http://money.cnn.com/2017/03/29/technology/amazon-sales-tax/index.html

Figure 17: Estimated Total E-Commerce Sales



Source: Dr. William Fox, Presentation to the NCSL Fiscal Leaders meeting, October 5, 2017

State Revenue Estimates Related to Amazon Sales Tax Collection

Amazon has been collecting state sales tax in the states for varying lengths of time. The following detail some of the actual or estimated collections associated with Amazon sales:

- Amazon began voluntarily collecting sales tax in **Iowa** on January 1, 2017. The State's Iowa Department of Revenue estimates that sales tax collections resulting from this change will range between $18.0 and $24.0 million on an annual basis.[46]

- Amazon began voluntarily collecting sales tax in **Utah** on January 1, 2017. According to one commentary related to early collections, the state will gain approximately $25 million of additional revenue for the year from this change.[47]

- A regional economics firm estimated that **Oklahoma's** lost revenue from Amazon sales in 2015 was Civic Economics estimates that if Amazon had been collecting Oklahoma sales taxes in 2015, it would've collected a total of $29 million (as well as an additional $27.6 million in local sales tax).[48]

Most of the states that are now seeing collections associated with Amazon voluntary collection have not provided official revenue estimates. There are a variety of reasons for this, including the relatively small number

[46] "Amazon to Collect Sales Tax in Iowa, Legislative Services Agency, Fiscal Update, December 22, 2016, accessed electronically at https://www.legis.iowa.gov/docs/publications/BL/850314.pdf

[47] "Ned Lenhart, "Utah Observed a 122% Increase I Sales Tax Collections, Thanks to Amazon," May 17, 2017, accessed electronically at http://ampersandaccounting.com/uncategorized/utah-observed-a-122-increase-in-sales-tax-collections-thanks-to-amazon-what-does-this-mean-for-third-party-sellers/

[48]"Gov. Mary Fallin: Amazon to charge sales taxes starting in March for customers in Oklahoma," Tulsa World, February 3, 2017. The article notes that "Dan Houston, who helped write the yearly study that estimates Amazon sales in every state, explained his firm comes up with the calculation based on the Seattle-based company's total U.S. revenue and using a weighted formula on purchasing power by state. Then, they use figures from the Tax Foundation to estimate the amount of money Amazon owes the states." Accessed electronically at http://www.tulsaworld.com/news/state/gov-mary-fallin-amazon-to-charge-sales-taxes-starting-in/article_7f8f08af-0758-546a-913e-b9c45bdf37f4.html

of months of actual collections, issues with determining the seasonality of sales figures and general caution about new revenue sources for which a baseline does not exist.

These concerns are well-founded. In most instances at least a full year (and preferably multiple years) of revenue collection data are necessary to make reasonably informed estimates of new revenue.

Additional Developments in Online Sales and Nexus

In September 2017, the South Dakota Supreme Court affirmed a decision restricting the state's ability to tax remote retailers and opened the door for potential U.S. Supreme Court reconsideration of a 25-year old opinion (South Dakota v. Wayfair, Inc.).[49]

Subsequently, the State appealed to the U.S. Supreme Court to resolve conflicting state decisions, citing a North Dakota Supreme Court ruling in the state's favor on a similar case. The general expectation is that the U.S. Supreme Court will grant certiorari.[50] Regardless of the outcome, it is likely that the decision will shape future state strategies (i.e. use of the Colorado or South Dakota approaches).

Additionally, a third approach to nexus is also possible and is being employed in a number of states: purchaser reporting. Under this approach, use tax is reported on state income tax forms. Twenty-five states currently provide the opportunity for taxpayers to declare use tax owed on the individual income tax. It is unclear, however, whether states are obtaining significant revenue from this approach. While it is likely that it is not a major revenue source, it also has some educational value, as the expectation is that as more taxpayers become aware of the requirement to pay the tax, overall voluntary compliance will grow.

Sales Tax Exemptions

Nearly all governments levying sales taxes provide categories of goods and services that are exempt from sales taxes, or taxed at reduced rates. As the most obvious example, the purchase of goods for further manufacture or resale is uniformly exempt from sales tax. Among other exempt items or categories, nearly all states exempt prescription drugs, the majority exempt food sold for off-premise consumption and many exempt agricultural supplies.

Many theories exist for determining what makes for an appropriate sales tax exemption from a 'good tax policy' perspective. According to the Tax Foundation, tax experts generally recommend that sales taxes apply to all final retail sales of goods and services but not intermediate business-to-business transactions in the production chain. In theory, these recommendations would result in a tax system that is not only broad-based but also "right-sized," applying once and only once to each product the market produces.[51]

There are, of course, some complications to this formula. For example, how should the inputs into a finished product (usually a service) that is not subject to sales tax be treated? Unless a government has an extremely broad-based consumption tax, there will be horizontal equity winners and losers if tax is not applied at any point in the production and sales chain.[52]

[49] Bloomberg BNA – South Dakota Supreme Court Strikes Digital Sales Tax Statute (September 14, 2017). Available at https://www.bna.com/south-dakota-supreme-n57982087951/
[50] Certiorari is a writ or order by which a higher court reviews a decision of a lower court.
[51] Tax Foundation, "State and Local Sales Tax Rates in 2017," January 31, 2017, accessed electronically at https://taxfoundation.org/state-and-local-sales-tax-rates-in-2017/
[52] Ibid.

Over the years, state legislatures have enacted a variety of tax exemptions designed to stimulate certain types of economic activity or to achieve other public purposes. Several categories of exemptions exist across the 45 states that impose a sales tax. These can be categorized as:

- **Prescription Medications**: 44 states exempt; 1 state imposes alternate rate
- **Gasoline**: 40 states exempt; 2 states impose alternate rates
- **Groceries**: 32 states exempt; 6 states impose alternate rates
- **Non-Prescription Medications**: 9 states exempt; 1 state imposes alternate rate
- **Clothing**: 7 states exempt

Additionally, several exemptions exist due to federal or state constitutional requirements. For example, states are prohibited by the U.S. Constitution's Commerce Clause from taxing the federal government. There are also federal statutes that prohibit the states from taxing certain federally-provided benefits, such as those for the Supplemental Nutrition Assistance Program (SNAP). States also vary in their treatment of charging sales tax on top of other excise taxes – and the majority of states do not do so.[53] The general rationale for not applying sales tax is that it is a form of "double taxation" that pyramids tax rates.

Although exemptions may be well-intentioned (often as a way to combat the regressive side of general sales taxes), they shrink the sales tax base. In fact, groceries and clothing, which are commonly exempted, made up 10 percent of personal consumption expenditures in 2016.[54] There is also a legitimate question as to whether it would be better to provide more targeted tax relief; after all, the exemption on food purchases applies equally to hamburger and beef tenderloin.

The following table displays the treatment of common exemptions in the benchmark states. Most comparable states tax clothing and non-prescription medication while exempting prescription medications and gasoline. The grocery exemption, however, has a high level of variation in state treatment. Of the 13 benchmark states, three (including Arkansas) offer a reduced rate while six fully exempt groceries. Four states offer no exemption. **A full list of common exemptions by state can be found in Appendix F.**

Table 8: Comparable State Treatment of Common Exemptions

State	State Sales Tax Rate	Groceries	Clothing	Prescription Medication	Non-Prescription Medication	Gasoline
Alabama	4.0%	Taxable	Taxable	Exempt	Taxable	Exempt
Arkansas	**6.5%**	**1.5%***	**Taxable**	**Exempt**	**Taxable**	**Exempt**
Indiana	7.0%	Exempt	Taxable	Exempt	Taxable	Taxable
Iowa	6.0%	Exempt	Taxable	Exempt	Taxable	Exempt
Kansas	6.5%	Taxable	Taxable	Exempt	Taxable	Exempt
Louisiana	5%**	Exempt	Taxable	Exempt	Taxable	Exempt
Mississippi	7.0%	Taxable	Taxable	Exempt	Taxable	Exempt
Missouri	4.225%	1.225%*	Taxable	Exempt	Taxable	Exempt
Nebraska	5.5%	Exempt	Taxable	Exempt	Taxable	Exempt
North Carolina	4.75%	Exempt	Taxable	Exempt	Taxable	Exempt
Oklahoma	4.5%	Taxable	Taxable	Exempt	Taxable	Exempt

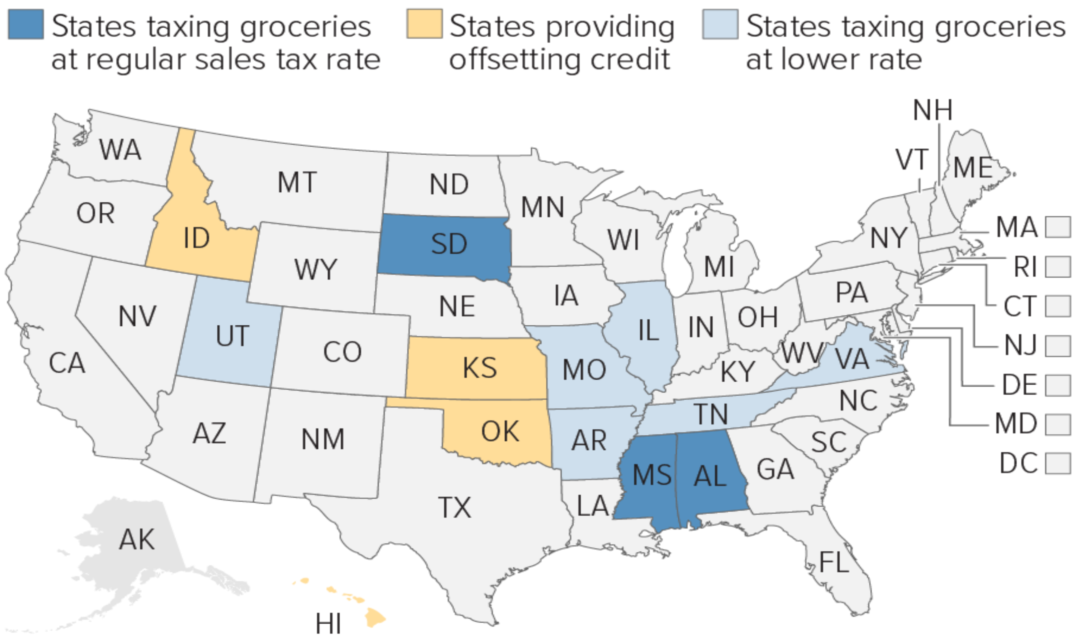
[53] There are notable exceptions, however. According to the Federation of Tax Administrators, there are multiple states that apply a sales tax on top of excise taxes for, among others, alcohol (39 in total, including Arkansas), cigarettes (Minnesota) and motor fuel (California, Florida, Hawaii, Illinois, Indiana, Michigan, New York, West Virginia).
[54] Tax Foundation, "Three Big Problems with Sales Taxes Today – and How to Fix Them," February 10, 2017, accessed electronically at https://taxfoundation.org/three-big-problems-sales-tax/

State	State Sales Tax Rate	Groceries	Clothing	Prescription Medication	Non-Prescription Medication	Gasoline
Tennessee	7.0%	5.0%*	Taxable	Exempt	Taxable	Exempt
Texas	6.25%	Exempt	Taxable	Exempt	Exempt	Exempt

Source: Tax Foundation (February 10, 2017)
**food sales are subject to local taxes*
***Louisiana sales tax rates will decrease*

In fact, this differing treatment exists across the United States, as shown in the following figure.

Figure 18: State Taxation of Groceries[55]



Source: CBPP analysis, as of March 1, 2017

Significant Arkansas Sales Tax Exemptions

In April 2012, the Arkansas DFA conducted an analysis of revenue estimates of various exemptions to the Gross Receipts Tax and the Compensating Use Tax. The analysis revealed that in FY2011 (the year upon which the estimates were based), the State had 101 sales tax exemptions totaling $1.4 billion. It is notable that the value of a particular exemption may vary widely from year to year depending on prices, industry activity and demographic trends. It is also notable that each exemption is considered independently and therefore, there can be overlap between individual exemptions – as a result, the sum of all the estimates ($1.4 billion) may not represent the combined value of all the State's sales tax exemptions or the value of the revenue gain that would occur if all the exemptions were eliminated.

[55] Most households in South Dakota pay the full sales tax rate for their groceries. South Dakota offers a limited sales or property tax rebate to low-income seniors and individuals with disabilities.

Of the State's 101 exemptions, the exemption of gasoline or motor vehicle fuel on which the gasoline or motor vehicle fuel tax has been paid is the largest. The value of this exemption was estimated at $325 million at the time of the 2012 analysis.

Other significant exemptions in Arkansas include the partial sales tax exemption on food and food ingredients ($176 million); the exemption of sales and purchases of prescription drugs by licensed pharmacists, hospitals or physicians, and oxygen prescribed by a licensed physician for human use ($143 million); and the exemption of sales to any hospital, sanitarium or not-for-profit nursing homes operated for charitable and non-profit purposes ($104 million).

The following table displays the number of Arkansas sales tax exemptions by category, as well as the associated dollar value of each. It is notable that since the time of the study, the State has approved 20 new and refined sales tax exemptions with an estimated annual impact of $102 million. **A full list of Arkansas' sales and use tax exemptions can be found in Appendix G**.

Table 9: Arkansas Sales Tax Exemptions by Category, 2011

	2011 Estimate	
Exemption Category	**#**	**$**
Motor Fuel	4	$380,197,104
Federal Government	5	$99,022,461
Media	5	$22,850,448
Low-Income Households	3	$24,412,222
Medical	3	$153,997,461
Agricultural	12	$241,721,902
Industrial Machinery or Equipment	5	$122,365,838
Energy	6	$26,222,230
Local Government Other than School Districts	7	$9,299,561
Non-Profit, Religious or Charitable Organizations	23	$107,486,597
Aviation or Aerospace	3	$25,418,495
School Districts and Other Educational Institutions	8	$15,743,304
Other	17	$212,577,035
Total	**101**	**$1,441,314,658**

Source: Arkansas DFA

Today, a great deal of interest surrounds the concept of "scoring" exemptions – and several best practices exist to provide guidance on how best to undertake this process.

- **Inventory and benchmarking.** Keeping a regular, update inventory is key. Exemptions should be separated by type (e.g. category, industry) and benchmarked to other states for insight regarding competition issues.

- **Qualitative rationales.** The reasoning for exemptions should be be clear and defensible. Some exemptions may exist in order to create efficient markets (e.g. pyramiding through taxing inputs or business-to-business services), while others may be viewed as "community resource" exemptions, such as for non-profit organizations.

- **Quantitative – an expectation of quantifiable economic activity**. Exemptions should be evaluated as economic incentives would be. Direct economic incentives can be modeled if data is captured (and should be). There also may be an opportunity to identify indirect and induced effects, but the timing of additional economic impact can be problematic.

- **Exemption budgets.** Some states have established budgets for exemptions that can vary from year to year.

Case Study: Kansas Review of Sales Tax Exemptions

In 2010, the State of Kansas conducted a performance audit to determine if the State had sales or property tax exemptions that should be considered for elimination. The study notes that “a number of legitimate reasons exist for allowing certain entities or transactions not to be taxed” – and those legitimate reasons generally fell into three categories:[56]

- **Exemptions required by federal law or state constitution.** The State had six exemptions required by federal law relating to interstate commerce or to purchases made under certain federal programs. These exemptions accounted for an estimated $33.6 million in foregone revenues.

- **Exemptions that tax policies suggest need to be exempt from taxation.** The State identified several exemptions that are necessary to avoid double taxation or taxing governmental entities. In total, 21 of the State’s 99 sales tax exemptions fit in the category and represented an estimated $3.7 billion in foregone revenues.

- **Exemptions enacted as a matter of public policy**. These exemptions cover a variety of entities or type of sale or activity. Together, the accounted for an estimated $835 million in foregone revenues. These exemptions included agricultural, business, consumer, charitable, religious and benevolent exemptions, as well as exemptions for services, educational entities and healthcare-related exemptions.

After categorizing all exemptions, the State noted that some, particularly within the public policy category, provided unequal treatment for similar types of taxpayers. Further review yielded additional exemptions that auditors believed may be inconsistent with good tax policy principals, may cause unfair competition between entities, or have a significant impact on the State’s tax base. As a result, the audit concluded that the Legislature should review exemptions meeting any of the following criteria:

- Exemptions made for specifically named organizations or narrowly-defined activities;
- Exemptions made for non-profit entities, but not their counterparts;
- Exemptions for “purchases made on behalf of” and “sales by;”
- Exemptions that significantly erode the state and local tax base.

Kansas provides exemptions for some non-profits, but not all of them; current exemptions only partially cover charitable and educational organizations. Thirteen exemptions account for approximately 96 percent of the total cost of sales tax exemptions to the State. Additionally, exemptions for “purchases made on behalf of” and “sales by” were a relatively new phenomenon; the State found that this practice reduced control over whether the purchaser is related to an organization’s purpose ad could lead to abuse.

[56] Report of the Special Committee on Taxation to the 2016 Kansas Legislature

Applying the Kansas Method to Arkansas Exemptions

If Arkansas were to undertake a similar review process, the same methodology could be used. The first step would be to categorize the exemptions:

- **Exemptions required by federal law or state constitution.** For example, Arkansas exempts purchases legally made with food stamps or the Special Supplemental Food Program for Women, Infants and Children (WIC) ($46 million).

- **Exemptions that tax policies suggest need to be exempt from taxation.** For example, Arkansas exempts gasoline or motor vehicle fuel on which the gasoline or motor fuel tax has been paid to avoid double taxation ($325 million).

- **Exemptions enacted as a matter of public policy**. For example, Arkansas exempts the sale of the first 500 kilowatt hours of electricity per month to each residential customer whose household income does not exceed $12,000 per year ($3 million).

Arkansas could then work to identify exemptions for review, using the same basis Kansas utilized:

- **Exemptions made for specifically named organizations or narrowly-defined activities.** For example, Arkansas exempts sales to 15 individually named non-profit or charitable organizations ($640,000).

- **Exemptions made for non-profit entities, but not their counterparts.** For example, Arkansas exempts sales to any hospital, sanitarium or non-profit nursing homes operated for charitable and non-profit purposes ($104 million).

- **Exemptions for "purchases made on behalf of" and "sales by."** For example, Arkansas exempts churches and charitable organizations not engaged in business for profit ($600,000).

- **Exemptions that significantly erode the state and local tax base**. The following table provides a list of the top 10 exemptions for foregone revenues in Arkansas. These 10 exemptions total $1.1 billion and account for more than 75 percent of total FY2011 estimated foregone revenues. While some exemptions fall into categories that would exempt them from review (e.g. gasoline tax would not be reviewed because tax policies suggest it needs to be exempt from taxation in order to avoid double taxation), others may be prime candidates for review.

Table 10: FY2011 Exemptions that Significantly Erode the State and Local Tax Base

Exemption	FY2011 Estimate (millions)	% of Total FY2011 Estimate
1. Gasoline or motor vehicle fuel on which the gasoline or motor vehicle fuel tax has been paid	$325	22.57%
2. Partial sales tax exemption on food and food ingredients	$176	12.21%
3. Prescription drugs	$143	9.89%
4. Sales to any non-profit hospital, sanitarium or nursing homes	$104	7.18%
5. Feedstuffs used in the commercial production of livestock or poultry	$99	6.84%
6. Sales of machinery and equipment used directly in manufacturing or processing	$85	5.92%
7. Sales of materials used in treating livestock and poultry for commercial production	$51	3.55%

Exemption	FY2011 Estimate (millions)	% of Total FY2011 Estimate
8. Purchases made with food stamps	$46	3.21%
9. Sales to the U.S. Government	$46	3.17%
10. Sales of dyed diesel	$41	2.86%
Total	**$1,116**	**77.40%**

Source: Arkansas DFA

Major Sales Tax Actions in Other States

Compared to the income tax, there have been fewer broad-based changes to state sales tax structures in recent years. Recent rate changes include:

- **Louisiana** increased its rate by 1.0 percent in 2016; the State expects to raise $272 million from this temporary tax, which is set to expire on June 30, 2018.
- **South Dakota** increased its rate by 0.5 percent in 2016.
- **Kansas** increased its rate by 0.35 percent in 2015.
- **New Jersey** decreased its rate from 7 to 6.875 percent for tax year 2017, and will reduce the rate to 6.625 percent for tax year 2018 as the second part of a phase-in.
- **Tennessee** reduced the rate on groceries to 4.0 percent effective July 1, 2017 (from 5.0 percent).

In recent years, the most prominent reforms relate to sales tax exemptions, including:

- Dozens of goods-specific exemptions have been enacted.
- Several states (including **Florida, Indiana** and **Iowa**) have focused on the category of manufacturing equipment and consumables.
- Some exemptions were eliminated (although fewer than added). For example, **West Virginia** eliminated the exemption on durable medical equipment purchased by health care providers (2016), and **Louisiana** is temporarily taxing items formerly exempt.

While some states have broadened the base to include selective services, there has been little major progress:

- In **Missouri**, voters amended the state constitution to prohibit a new state or local sales or use tax on any service or transaction not subject to the sales and use tax as of January 1, 2015.
- Plans by Governors to broadly tax services (including Governors Fallin in **Oklahoma**, Kasich in **Ohio** and Wolf in **Pennsylvania**) were not successful.

Summary

Today, the sales tax, as a broad-based consumption tax, continues to have positive attributes from an economic perspective. Relative to income-based taxes, consumption taxes are more economically efficient. Nearly all consumers will pay some tax, and there is no disincentive to work or earn more. Additionally, consumption taxes avoid taxing savings and capital investment necessary for economic growth.

However, the consumption landscape is more dynamic than ever before. A century ago, Sears Roebuck boasted a catalogue of over 10,000 product codes. Today, Amazon.com sells over 480 million Stock Keeping Units (or SKU's) in the USA. Amazon's product selection has expanded by 235 million in the past 16 months. That's an extraordinary average of 485,000 new products per day. Moreover, consumers today purchase more digital products and services than the simple array of tangible personal property the dominated the sales tax base when these laws were originally enacted.

As a result, these economic and demographic changes (coupled with consumer behavior and preference and the explosion of electronic commerce) are contributing to sales tax base erosion and impediments to collection that threaten revenue sufficiency. For states with a significant reliance on the sales tax, this has mostly led to rate increases, which exacerbate border effects and spur additional tax avoidance.

Against this uncertain backdrop, the Task Force must consider the future of Arkansas's sales and use taxes and their place in the State's overall portfolio of revenues. As discussed, pending court cases may clarify some of the collection/compliance issues that are largely beyond the State's control. The following are some possible strategies the State may wish to consider.

Possible Sales Tax Strategies

Base restructuring

From a macro perspective, The Task force might consider a modernization overhaul consisting by broadening the sales tax base by eliminating some exemptions and adding more services. This could result in additional State revenue, even with a reduced the rate. While attractive in theory, there are few examples of states that have successfully adopted this approach.

"Tailoring" the sales tax's adverse impacts with changes to other taxes.

A slightly less comprehensive approach than a complete overhaul would be to examine limited opportunities to expand or solidify the sales tax base and deal with adverse impacts in another tax source. For example, the exemption for food could be eliminated and a deduction or refundable credit could be added to the lower levels of income tax to offset the regressivity effect.

Increased Compliance

Compliance strategies such as changes to state nexus and/or reporting requirements; use tax reporting on individual income tax forms; and additional sales tax compliance auditors may be used to generate additional revenue from the existing rate and base structure. Increased compliance has the benefit of not imposing an additional tax or increasing an existing tax's base. However, as with virtually any compliance action, these changes may face push-back from taxpayers.

Cost-Benefit Analysis of Sales Tax Exemptions

The State may also benefit from performing cost-benefit analysis on its sales tax exemptions. To do this, the State should identify exemptions by categories and develop broad-based parameters, as the State of Kansas did in its recent evaluation. In order to develop cost-benefit analytical methods, additional tax data may be required.

Base-Broadening

Finally, the State may benefit from identifying specific services areas (based on benchmarking) that are worth considering for base-broadening.

Excise Taxes

Introduction

Excise taxes are levied on specific goods or activities such as motor fuel, cigarettes, alcohol, gambling or hotel room stays. In contrast with sales taxes that are applied as a percentage of a purchase, they are typically applied to a good or service per unit. In theory, excise taxes may be used to affect 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.

History of Excise Taxes

Excise taxes have a long and somewhat controversial history. The controversial nature is described by Samuel Johnson's 'A Dictionary of the English Language,' which in 1755 defined an excise tax 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." Another example of the controversial nature was the Stamp Act of 1765, which was imposed by the English Parliament on all paper documents in the American colonies. This was part of the complaint of 'taxation without representation' that led to the Revolutionary War and the ultimate independence of the colonies and creation of the United States.

The first U.S. federal excise tax was levied on whiskey in 1791, which was made famous by the Whiskey Rebellion. While that rebellion was unsuccessful, it demonstrated a general dissatisfaction with excise taxes that can still be an issue today.

Since then, states have imposed excise taxes on a wide variety of goods and services. Levying excise taxes is often 'event driven.' For example, the Ford Model T automobile began mass production in 1913, and the general availability and use of automobiles grew as a result. This led to a need for more and better highways across the nation. As a result, 43 states began levying a motor fuel tax between 1919 and 1925. Another excise tax trend was sparked by the 1933 repeal of the prohibition on the manufacture and consumption of alcohol. Two years following the repeal, 24 states had begun levying taxes on alcohol.

Today, excise taxes continue to be created and levied in response to new products and services. For example, e-cigarettes and vapor products and the legalization of medical and recreational marijuana are products that were not common or legal just five years ago and are now being taxed in several states.

While there are new sources of excise taxes, the three major excise taxes among the states are longstanding: motor fuel, alcohol, and tobacco products. Other prominent examples are excise taxes on insurance premiums, hotel/motel room stays, rental cars, sugared beverages, marijuana, amusements, and admissions. Less prominent excise taxes 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, and trading stamps, among others.

Advantages and Disadvantages

From a tax and public policy perspective, excise taxes are difficult to evaluate. There is a reasonable case that can be made for their use (or lack thereof). One advantage of excise taxes is that they have the ability to offset or reduce negative impacts of the production or consumption of goods and services. These taxes are often referred to as "Pigouvian" taxes, named after the British economist Arthur Pigou, who first raised the issue of taxing activities that had negative external effects that were not captured in market prices.[57] An example of this is the consumption of carbon-based fuels, where a byproduct that is created (air pollution) is not factored

[57] An interesting discussion of Pigou's theory can be found at https://www.economist.com/news/economics-brief/21726709-what-do-when-interests-individuals-and-society-do-not-coincide-fourth

into the price of the fuel. Other examples of this type of excise tax are alcohol, tobacco and sugared beverage taxes. Revenues from tobacco taxes, for example, are often used to offset healthcare costs associated with smoking and fund smoking prevention programs.

There are also disadvantages associated with excise taxes. Narrow tax bases associated with these taxes can distort efficient markets. It is generally accepted that taxes added to the price of a good or service will reduce consumption, and there is a significant amount of research devoted to price differentials created by differing state excise and general sales tax rates (which is often referred to as cross border competition or border effects). While the difference in general sales tax rates is often relatively small,[58] the difference in excise tax rates can be considerable, and this can have a notable effect on consumption within a given location.

Cigarette tax rates are an example of the impacts from significant variance in tax rates. The range in cigarette taxes is notable: the lowest state cigarette tax is $0.17 per pack in Missouri, while the highest is $4.35 per pack in New York.[59] Based on a state average price for a pack of cigarettes in New York ($6.10 before adding the state excise tax), the state cigarette tax would equate to a general sales tax rate of over 71 percent. By contrast, based on the state average price for a pack of cigarettes in Missouri, the state cigarette tax would equate to a general sales tax rate of just 4 percent.[60] This can have a material impact on state consumption but also on sales, particularly around state and local borders.[61]

Studies on cross-border competition have generally found that tax differentials can induce "border shopping," in which residents of a high-tax state travel to a bordering, lower-tax state to purchase goods. For example, in 1993, Michigan raised its cigarette tax from $0.25 per pack to $0.75 per pack, while Indiana's rate stayed at $0.155 per pack. Following the increase, cigarette retailers along Michigan's border with Indiana reported 40 percent declines in sales, while Indiana retailers on the border reported a 40 percent increase.[62] State excise tax differentials, especially on cigarettes, motor fuel, and alcohol, are commonly examined for cross-border shopping and State revenue impacts. **A list of several relevant studies can be found in Appendix H**.

In some instances, the impact on consumption from excise tax rates is considered acceptable and a justification for high rates. Some excise taxes (particularly those on alcohol, tobacco products and gambling) are referred to as 'sin taxes' that are applied to activities that may be considered to have negative social consequences or impacts. For some policymakers (and their constituents), reducing consumption of these goods or activities is considered a positive characteristic of the tax.

In other instances, excise taxes are considered to be something of a 'user tax.' This is particularly the case where the revenue derived from the 'user tax' is dedicated to a specific purpose that aligns with the tax. The most notable example is motor fuel taxes. In Arkansas, as in many other states, motor fuel taxes are dedicated to state and local roads and highway maintenance and construction. This is considered to be a logical way to tie these excise taxes to the roads and bridges that are necessary for the efficient operation of the motor vehicle transportation system.

While the discussion provides several reasonable rationales for excise taxes, their specific use (particularly related to the varying tax rates among states) raises the issue as to whether the actual practice of setting excise tax rates generally aligns with a rational or consistent theory of taxation. For example, one of the generally accepted rules of thumb of good tax policy is to tax the broadest possible base at the lowest possible rate; it

[58] According to the Federation of Tax Administrators, as of January 1, 2017, the range of state sales taxes is from a low of 4.00 percent to a high of 7.25 percent. Accessed electronically at https://www.taxadmin.org/assets/docs/Research/Rates/sales.pdf.
[59] According to the Federation of Tax Administrators, as of January 1, 2017. Accessed electronically at https://www.taxadmin.org/assets/docs/Research/Rates/cigarette.pdf
[60] Average price per pack of cigarettes taken from the Sales Tax Handbook, accessed electronically at https://www.salestaxhandbook.com/cigarette-tax-map
[61] The impacts and effects are discussed in the sections dealing with cigarette, motor fuel, alcohol and gaming excise taxes.
[62] Tax Foundation. "How Excise Tax Differentials Affect Interstate Smuggling and Cross-Border Sales of Cigarettes in the United States". 1998.

could be argued that excise taxes employ the exact opposite methodology – taxing a narrow base at an often extremely high rate.

There are other generally accepted theories of good tax policy that do not necessarily align with excise taxes in practice. One of these is the concept of horizontal equity. According to this principle, taxpayers with similar characteristics should be treated equitably. It can certainly be argued that the wide divergence in excise tax rates for different types of consumption does not align with an equitable tax structure. In fact, one commentary referred to the "narrow, penny-ante character of most excise taxes ... [as] a hodgepodge of numerous excise taxes on all kinds of commercial transactions."[63]

In practice, excise taxes have often been employed as a sort of ad hoc budget balancing tool and increases have often been driven by a need to raise revenue when state budget balancing proves difficult. In particular, economic downturns create significant revenue pressures on states, as broad-based revenue sources (such as income and sales taxes) often stagnate or decline at exactly the same time that demand for many government services (such as income-based health care) increases. Because their base is smaller than broad-based sales or income taxes, excise taxes are often viewed as more acceptable to the general public and policymakers if taxes must be raised. For example, cigarette tax increases have often been associated with recent national recessions. In 2001-2002, 24 states raised their cigarette tax; during the Great Recession and the year after it (2007-2010), 27 states raised their cigarette tax, and in several instances did so more than once.[64] In this (and the case of other excise taxes as well), it has been established that the tax increases were precipitated as much from a need for additional revenue as an adherence to principles of taxation.

Excise Taxes in Arkansas

Excise taxes are an important component of the overall state revenue structure for the State of Arkansas. In 2016, excise taxes imposed in Arkansas accounted for 13.5 percent of total tax revenue. As the following table shows, this is a somewhat smaller share of overall collections compared to the benchmark states. Arkansas ranks nearly last among comparison states in this category, tied with Kansas and higher only than Nebraska.

[63] Richard E. Wagner, "State Excise Taxation: Cart-and-Buggy Obsolescence in an Electronic Age," accessed electronically at http://mason.gmu.edu/~rwagner/Excise%20Taxes,%20Tax%20Foundation.pdf
[64] A listing of all cigarette tax increases from 2000-2017 can be found at https://www.tobaccofreekids.org/assets/factsheets/0275.pdf

Table 11: Comparison of Excise Taxes as a Percentage of Total Tax Collections, 2016

State	Percentage
Texas	27.3%
Alabama	25.3%
Louisiana	23.3%
Tennessee	20.2%
Mississippi	19.3%
Indiana	18.8%
Oklahoma	15.4%
North Carolina	15.1%
Iowa	14.9%
Missouri	14.4%
Kansas	13.5%
Arkansas	**13.5%**
Nebraska	11.3%

Source: Federation of Tax Administrators, 2016

Based on total revenue raised, major excise taxes in Arkansas include Motor Fuel Tax, Cigarette Tax, and Insurance Premium Tax. In FY2016, these three taxes combined for $791 million in revenue. This equates to 8.4 percent of total tax collections. Other excise taxes also contribute significantly to overall tax collections. The following table lists key excise taxes in Arkansas, by amount of revenue. Each will be discussed in further detail in the following pages.

Table 12: Key Arkansas Excise Taxes

Tax	Average Annual Revenue (FY2012-2016)
Motor Fuel Tax	$441,000,000
Cigarette Tax	$175,000,000
Insurance Premium Tax	$174,000,000
Cigar and Tobacco Tax	$50,000,000
Soft Drink Tax	$45,000,000
Electronic Games of Skill Tax	$42,000,000
Alcohol Taxes	$29,000,000
Tourism tax	$14,000,000
Rental Vehicle Tax	$11,000,000

Motor Fuel Taxes

As previously noted, motor fuel taxes are considered one of the 'big three' of excise taxes. They are applied in all 50 states, and some states also allow a local motor fuel tax. This excise tax is often considered a form of 'user fee' as the revenue is typically dedicated to the construction and maintenance of roads. In Arkansas, the average annual revenue (FY2012-2016) has totaled $441 million.

As background, in 1921, a one-cent per gallon tax on motor fuel was enacted in Arkansas. This is consistent with other states, as 43 states first imposed these taxes between 1919 and 1925. The tax is levied on distributors of motor fuel.

Distributors collect the tax from retailers, who include it in the sale price of motor fuel. The tax rate has changed several times since 1921 and was most recently set at $0.215 per gallon in 2001. In addition to taxing gasoline, the State imposed a tax on diesel motor fuel starting in 1941. A summary of how these rates have changed over time is shown in the following table.

Table 13: Motor Fuel Tax Rates Over Time

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

Revenues generated by motor fuel taxes are largely used to fund road and highway improvement projects. Per statute, the revenues are distributed as follows:

- 15 percent to cities,
- 15 percent to counties,
- 70 percent to the Highway Department Fund,
- $0.01 per gallon to the State Highway Special Construction Account,
- $0.01 per gallon to the State Aid Street Fund.

Since 2014, 24 states have increased their motor fuel taxes.[65] Rate increases have been made as a response to increasing infrastructure needs with no commensurate increase in federal assistance. Road and bridge infrastructure is aging in many states, adding to expenses typically paid for with motor fuel tax revenue. Simultaneously, rising fuel efficiency and alternative fuel vehicle use, such as electric cars, are eroding the tax base, creating further pressure to increase rates. In addition to increasing tax rates, many states are imposing annual registration or other fees to close the gap. Increases to the motor fuel tax are important because the tax is not a percentage applied to purchases and is not indexed for inflation.[66] As a result, over time, the nominal value of the revenue from the tax decreases, which makes it more difficult to keep up with rising maintenance costs. Arkansas has not increased its motor fuel tax since 2001; it is one of 14 states that have not increased its tax in the last 20 years.[67]

Arkansas ranks in the middle among comparison states on motor fuel tax rates. It should be noted that Tennessee's gasoline and diesel fuel tax rate each increased four cents as of July 1, 2017; the state plans to

*Special Session

[65] Moody's Investment Service. "States Raise Gas Taxes to Address Infrastructure Needs, a Credit Positive". 2017.
[66] Tax Foundation. "How Are Your State's Roads Funded". July 2017
[67] Appendix J shows a full listing of years since states last increased the gas tax

gradually increase its tax rate to $0.26 for gasoline and $0.27 for diesel by July 1, 2019.[68] **A table of all 50 states' motor fuel tax rates can be found in Appendix I1**.

Table 14: Motor Fuel Tax Comparison

State	Gasoline	Diesel	Gasohol
North Carolina	$0.343	$0.343	$0.343
Iowa	$0.307	$0.325	$0.290
Nebraska	$0.273	$0.273	$0.273
Kansas	$0.240	$0.260	$0.240
Tennessee	$0.240	$0.210	$0.240
Arkansas	**$0.215**	**$0.225**	**$0.215**
Texas	$0.200	$0.200	$0.200
Louisiana	$0.200	$0.200	$0.200
Alabama	$0.180	$0.190	$0.180
Mississippi	$0.180	$0.180	$0.180
Indiana	$0.180	$0.160	$0.180
Missouri	$0.170	$0.170	$0.170
Oklahoma	$0.160	$0.130	$0.160

Source: Federation of Tax Administrators, January 1, 2017; Tennessee rate as of July 1, 2017

Cigarette Tax

Cigarette taxes are also among the 'big three' of excise taxes in terms of total national collections. As previously noted, they are often referred to as 'sin taxes' where the tax may be considered a method to reduce overall consumption, and there is ample evidence from around the country that cigarette tax increases do reduce consumption, particularly among certain groups, such as children.[69]

Cigarette taxes are an important revenue source for the State of Arkansas. For the five year period from FY2012 to 2016, cigarette tax revenue has averaged $175 million a year.

Arkansas enacted its tax on cigarettes in 1929. The original tax rate was $0.04 per pack but has changed many times. The most recent change increased the tax to $1.15 per pack in 2009. The following table shows how the rate has changed over time.

Table 15: Cigarette Tax Rate Over Time (per Pack)

Year	Rate
1929	$0.04
1931	$0.05
1947	$0.06
1949	$0.04
1951	$0.06

[68] Tennessee Department of Revenue, Motor Fuel Due Dates and Tax Rates, accessed electronically at https://www.tn.gov/revenue/article/motor-fuels-taxes-due-dates-and-tax-rates
[69] U.S. Department of Health and Human Services, "The Health Consequences of Smoking: 50 Years of Progress. A Report of the Surgeon General," Centers for Disease Control and Prevention (CDC), National Center for Chronic Disease Prevention and Health Promotion, Office on Smoking and Health, 2014, accessed electronically at http://www.surgeongeneral.gov/library/reports/50-years-ofprogress/index.html

Year	Rate
1965	$0.08
1969	$0.12
1971	$0.18
1983	$0.21
1991	$0.22
1993 (Feb)	$0.35
1993 (July)	$0.32
2003	$0.59
2009	$1.15

Arkansas is one of 37 states that have increased cigarette tax rates since 2007. Arkansas increased its rate by $0.56 in 2009, which is $0.09 more than the median state increase since 2007. Over the same period, several comparison states also increased cigarette tax rates: Louisiana ($0.50 in 2015, $0.22 in 2016), Mississippi ($0.50 in 2009), Tennessee ($0.42 in 2007), and Texas ($1.00 in 2007).

Despite the significant increase in 2009, Arkansas' cigarette tax rate is still below the national median of $1.53 per pack.[70] However, it ranks fourth highest among the comparison group. **A table of all 50 states' cigarette tax rates can be found in Appendix I2.**

Table 16: Cigarette Tax Comparison

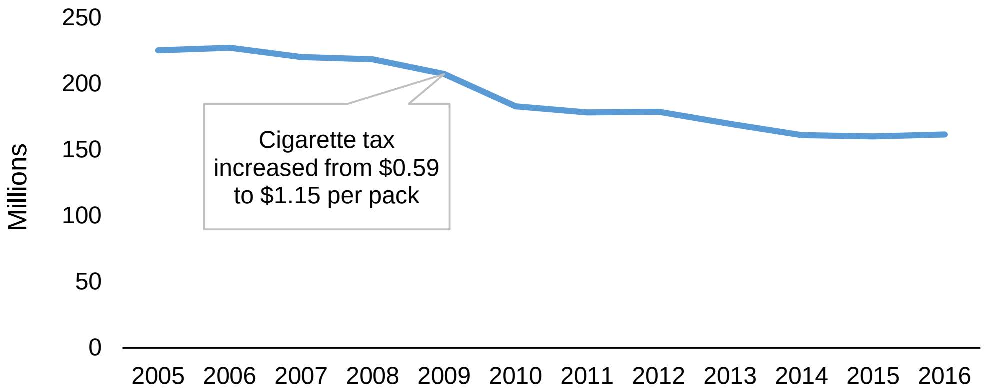
State	$/per pack
Texas	$1.410
Iowa	$1.360
Kansas	$1.290
Arkansas	**$1.150**
Louisiana	$1.080
Oklahoma	$1.030
Indiana	$0.995
Mississippi	$0.680
Alabama	$0.675
Nebraska	$0.640
Tennessee	$0.620
North Carolina	$0.450
Missouri	$0.170

Source: Federation of Tax Administrators, January 1, 2017

Increases in cigarette tax rates are commonly associated with declines in consumption. The U.S. Surgeon General has found tobacco tax increases prevent the initiation of tobacco use and promote quitting among current users. In many states, including Arkansas, cigarette volumes are tracked using revenue stamps. Data from the Arkansas Department of Finance and Administration on cigarette stamp volume shows that stamp volumes have declined since the 2009 increase, including a 5 percent decline from 2008 to 2009 and a 12 percent decline from 2009 to 2010.

[70] Federation of Tax Administrators, January 1, 2017

Figure 19: Arkansas Cigarette Stamp Volume, 2005 to 2016



Of course, some of the reduction in cigarette stamp volume is because individuals are crossing state borders (or going to the Internet) to purchase cigarettes that are not subject to Arkansas cigarette tax stamps. Nationally, the issue of evading higher cigarette taxes is well documented.[71] Besides these state-by-state studies, the Tax Foundation has done significant research on the extent of border competition (which they include in their definition of cigarette tax 'smuggling'). According to the Tax Foundation, inbound smuggling rates can be as high as 57 percent (not surprisingly, in New York, which has the highest state cigarette excise tax). The Tax Foundation estimates Arkansas' in-bound tax smuggling rate at 8 percent, which ranks the State 25th among the 47 states included in the study.[72]

This possibility is supported by the fact that despite the decline in cigarette tax volume, Arkansas currently has the second-highest rate of adult smoking among all states, at 23.6 percent.[73] The Center for Disease Control estimates the annual medical costs incurred from smoking in Arkansas to be over $1.2 billion.[74] Medicaid costs caused by smoking in Arkansas are estimated to be $293.1 million, annually.

Arkansas is notable among the states in attempting to decrease some of the motivation for crossing the state border to purchase cigarettes in states with a lower excise tax. The most notable example is the State of Missouri which has, as previously noted, the lowest cigarette excise tax in the nation – and nearly a dollar per pack lower than the tax in Arkansas. In 2009, when the State last increased its cigarette tax (from $0.59 to $1.15 per pack) the legislation provided for a lower tax rate for cities located near bordering states with lower cigarette tax rates. This lower rate only applies to adjoining cities separated by the state border with an Arkansas population of 5,000 or more.[75]

Insurance Premium Tax

While not considered one of the 'big three' excise taxes, insurance premium taxes are an important source of revenue for the State of Arkansas (and most other states). Insurance premium taxes are levied in 49 states (Oregon is the only state without one). They are typically levied on gross receipts, although a smaller number

[71] See Appendix H for a listing of several relevant studies.
[72] "Cigarette Taxes and Cigarette Smuggling by State," Tax Foundation, 2017, accessed electronically at https://files.taxfoundation.org/legacy/docs/FF421.pdf
[73] Centers for Disease Control and Prevention, Behavioral Risk Factor Surveillance System, 2016
[74] Centers for Disease Control and Prevention. (2014). *Best Practices for Comprehensive Tobacco Control Programs*
[75] It is notable that the lower rate also applies to any Arkansas store within 300 feet of the state line, regardless of the area's population. In all instances, an additional three cents is added to the neighboring state's excise tax rate to e resulting rate is lower than Arkansas' rate.

of states base them on company income. For the period from FY2012 to 2016, insurance premium taxes in Arkansas have averaged $174 million per year.

Arkansas first enacted an insurance premium tax in 1873. The tax is levied on insurance companies (underwriters) based on premiums written in the state. In Arkansas (as in most states) insurance companies pay the tax in lieu of other taxes (except for property taxes and taxes on purchase, use or ownership of tangible personal property). In Arkansas, the tax is generally 2.5 percent of premiums. An additional 0.5 percent is levied on property and casualty insurers providing fire and casualty coverage.[76]

Most revenue from the tax is distributed to general revenues. However, some revenue from the tax is distributed to special revenues. Premium tax collected under the Health Care Independence Act and Arkansas Health Insurance Marketplace Act are distributed to the Health Care Independence Program Trust Fund. The additional 0.5 percent levied on property and casualty insurers providing fire and casualty coverage is deposited in the Policemen's and Firemen's Pension Relief Fund, the Fire Protection Premium Fund, and the State Police Retirement Fund. Taxes collected on workers compensation premiums are distributed to the Workers' Compensation Fund, Second Injury Fund, and Death and Permanent Disability Trust Fund. In 2016, 36.7 percent of insurance premium tax revenues were distributed to these special revenue funds.

Arkansas' 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. The U.S. Supreme Court has upheld these taxes as not violating the Equal Protection Clause or Interstate Commerce Clause if the purpose is to discourage other states from imposing higher taxes on a state's domestic insurers.[77]

The following example shows how retaliatory taxes work in practice. In this case, a Connecticut domestic insurer writing a policy in Iowa owes retaliatory tax to Iowa because Connecticut's tax rate and associated industry fees and charges are higher. The Connecticut-based insurer must pay the State (in this case Iowa) the same amount of tax it would for a policy written in its home state.

Table 17: Retaliatory Tax Example

	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

[76] The additional 0.5 percent is deposited in the Fire Protection Revolving Fund to offset fire fighter training expenses

[77] Western and Southern Insurance Co v. State Board of Equalization of CA, 51 U.S. 648, 101 S. Ct. 2070, 68 L. Ed. 2d 514, (1981).

Among all states, Arkansas' rate is the 10th highest nationally and ranks second highest among the comparison states; the national average is 2.08 percent. **A table of all 50 states' insurance premium tax rates can be found in Appendix I3.**

Table 18: Insurance Premium Tax Rate Comparison

State	Rate
Mississippi	3.0%
Arkansas	**2.5%**
Tennessee	2.5%
Oklahoma	2.3%
Kansas	2.0%
Missouri	2.0%
North Carolina	1.9%
Texas	1.6%
Indiana	1.3%
Iowa	1.0%
Nebraska	1.0%
Alabama	Varies by insurance type[78]
Louisiana	Dollar amount based on volume[79]

Source: National Association of Insurance Commissioners, Retaliation Guide, December 2016

Cigar and Tobacco Tax

As with the cigarette tax, the tax on cigars and tobacco is often considered to be a 'sin tax.' While it does not raise as much revenue as the cigarette tax, it has been a relatively stable revenue source for the State. In the period from FY2012 to 2016, it has averaged $50 million in State revenue per year.

The State began taxing tobacco products other than cigarettes in 1969. All other products containing tobacco for consumption are subject to the cigar and tobacco tax. The current tax rate is 68 percent of the manufacturer's selling price, with a cap on the amount of tax paid per cigar of $0.50. As shown in the following table, the rate has increased over time.

Table 19: Cigar and Tobacco Tax Rate

Year	Rate
1969	15%
1977	16%
1992	25%
1993	23%

[78] 1.6% for accident and health and BC/BS
2.4% for life insurance
3.6% for property and casualty, fire, risk retention group, title and marine insurance
4.0% for independent insurance

[79] Louisiana's premium tax is a dollar amount based on volume. Life, accident and health or service insurance: $140 for $7,000 or less in premiums received, plus $224 for each additional $10,000 ($140 on $7,000 = 2 percent; $224 on $10,000 = 2.24 percent. Fire, marine, transportation, casualty, surety, and workers' compensation: $185 for $6,000 or less in premiums, plus $300 for each additional $10,000; $185 on $6,000 is roughly 3 percent

- Fire: 0.25% fireman training, 1.25% fire damage, and 2% premium tax
- HMOs: 5.5%

Year	Rate
1997	25%
2003	32%
2009	68%

The rate and calculation of tobacco taxes varies considerably across states. A summary of comparison state taxes is shown in the following table. **A table of all 50 states' tobacco tax rates can be found in Appendix I4.**

Table 20: Cigar and Tobacco Tax Rate Comparison

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**
Iowa	50% of wholesale price	50% of wholesale price	50% of wholesale price
Indiana	24% of wholesale price	24% of wholesale price	24% of wholesale price
Louisiana	20% of mfr. selling price	33% of mfr. selling price	8%-20% of mfr. selling price
Nebraska	20% of wholesale price	20% of wholesale price	20% of wholesale price
Mississippi	15% of mfr. selling price	15% of mfr. selling price	15% of mfr. selling price
North Carolina	12.8% of wholesale price	12.8% of wholesale price	12.8% of wholesale 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
Alabama	$0.02 to $0.08 per ounce	$0.02 to $0.08 per ounce	$0.03 to $0.405 per 10 cigars

Source: Federation of Tax Administrators, January 1, 2017

Soft Drink Tax

Soft drink taxes have recently become more prevalent among city and county governments across the country. Besides raising revenue, it can be argued that the purpose of the tax is to improve the health of citizens by reducing consumption of sugary soft drinks (and thus a "Pigouvian" tax). The growth of sugar-based taxes has come with controversy as the costs and benefits of the tax are debated. Some recent research has found that sugary beverage taxes may reduce consumption. As one example, after Berkeley, California instituted a tax in 2015, sales of sugary drinks fell almost 10 percent, while sales of water and other unsweetened beverages rose over the same period.[80] However, especially when imposed by local jurisdictions, cross-border shopping has led tax revenues to fall short of expectations and reduce sales to the point of soda-industry job loss.[81]

In Arkansas, the soft drink tax has been a stable source of revenue in recent years. In the period from 2012 to 2016, the tax averaged $45 million in annual revenue.

[80] PLOS Medicine – Changes in Prices, Sales, Consumer Spending and Beverage Consumption One Year After a Tax on Sugar-Sweetened Beverages in Berkeley, California, US: A Before and After Study (April 2017).
[81] Philadelphia Business Journal – "With June Revenue In, Philadelphia's Soda Tax Falls Just Short of FY17 Projection." (July 24, 2017). Available at https://www.bizjournals.com/philadelphia/news/2017/07/24/philly-soda-tax-pbt-june-17-revenue.html;
New York Post – Philly's Soda Tax is Crushing the City's Beverage Business. March 7, 2017. Available at http://nypost.com/2017/03/05/phillys-soda-tax-is-crushing-the-citys-beverage-business/

Arkansas' soft drink tax was enacted in 1992. The State currently levies a tax on soft drink syrup at $2.00 per gallon, and bottled or canned soft drinks and powders or other base products at $0.21 per gallon. Starting January 1, 2018, the tax rates will be decreased to $1.26 per gallon for soft drink syrup and $0.206 per gallon for bottled or canned soft drinks and powders and other base products. All revenue generated by the tax funds Arkansas' Medicaid program. Notable exclusions from the tax base include:

- Beverages with more than 10 percent 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
- Products intended to be used for domestically mixing soft drinks

Among the comparison group, Tennessee is the only state to also levy a soft drink tax. However, Tennessee's tax differs in that it only applies to bottled soft drinks. In addition to Tennessee, three other states levy a soft drink tax. The following table is a summary of those state policies.

Table 21: Soft Drink Tax Comparison[82]

State	What is Subject to Tax	Current Rate
Arkansas[83]	**Bottled soft drinks, syrup, and powders or other base products**	**Soft Drink Syrup: $1.26 per gallon** **Bottled/Canned Soft Drinks: $0.206 per gallon** **Powder/Base Products: $0.206 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

In 2005, Arkansas allowed cities and counties to permit, by local election, electronic games of skill at greyhound and horse racing tracks. An electronic game of skill is defined as a "game 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." The betting public must be able to attain a better measure of success while playing the game by exercising skill or judgment than through pure luck. The tax applied to such games is 18 percent of net wagering revenues. Between FY2012 and 2016, the tax averaged $42 million in annual revenue.

The rise of legal forms of gambling among the states is a relatively recent phenomenon, and many states have expanded legal gambling as revenue problems related to economic downturns became prevalent. A December 2016 survey by the National Conference of State Legislatures noted that since 2001, casino gambling of some

[82] Tennessee code 67-4-402
Virginia Code 58.1-1702
Washington Revised Code 82.64
West Virginia Code 11-19-2
[83] Rates shown starting January 1, 2018

sort has grown from 9 to 24 states. In the last eight years, six states have legalized casino operations, two have legalized “racinos” (racetracks with casinos) and two have legalized lotteries. Currently, 40 states have at least one casino.[84]

At the same time, there is evidence that the rise in gaming may have created something of a saturation point, at least as it relates to casino revenue. 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.[85] A prominent report by Dr. Lucy Dadyan of the Rockefeller Center on Government from April 2016, titled “State Revenues From Gambling: Short-Term Relief, Long-Term Disappointment” makes the argument that gambling revenue plays a small role in state budgets (in the range of 2.0 to 2.5 percent of state own-source general revenues), with only a few states, including Nevada, Rhode Island, and West Virginia, having a more significant reliance on gambling as a revenue source.[86]

One area of possible growth in gaming in the U.S. relates to sports betting. Based on the 1992 Act of Congress, the Professional and Amateur Sports Protection Act (PASPA), most lawful sports betting is restricted to the State of Nevada and a handful of other states that have been grandfathered in. Under PASPA, Nevada is the only state allowed to offer wagering on single games, the most popular form. In recent years, a number of states have sought to break that federally-imposed monopoly.

In 2012, the State of New Jersey legalized sports betting. After the law was enacted, the major professional sports leagues in the U.S. sued to prevent the State from doing so. While New Jersey has most recently lost its case at the Federal Court of Appeals level, it appealed to the U.S. Supreme Court, and the Court agreed to hear the case. Filings for that case have been made, with many states supporting New Jersey’s efforts. The Court heard oral arguments on the case on December 4, 2017, and the Court is expected to rule on it in 2018. It is notable that over a dozen other states introduced sports betting-related legislation in 2017, and three states passed legislation.[87] It is likely that if New Jersey is successful in its appeal, there will be additional states that will seek to provide a state-sanctioned legal avenue for sports betting in their state.

In order to best compare Arkansas’ tax on electronic gaming at race tracks to peer states, the following table focuses on racetrack casino tax rates, where possible. Arkansas’ tax rate is relatively low but not far below rates imposed in comparison states.

Table 22: Electronic Games of Skill Tax Rate Comparison

State	Rate
Indiana	25-35% racetrack casino revenue
Iowa	22-24% of racetrack casino revenue
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

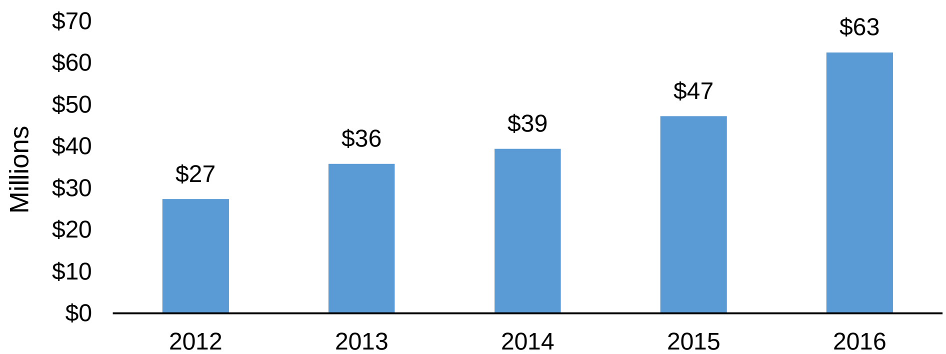
[84] “State of the States: The AGA Survey of the Casino Industry,” American Gaming Association, 2017, accessed electronically at https://www.americangaming.org/sites/default/files/research_files/2017%20State%20of%20the%20States.pdf
[85] Ibid.
[86]Lucy Dadyan, “State Revenues From Gambling: Short-Term Relief, Long-Term Disappointment,” Rockefeller Center on Government, April 2016, accessed electronically at http://www.rockinst.org/pdf/government_finance/2016-04-12-Blinken_Report_Three.pdf
[87] “State of the States: The AGA Survey of the Casino Industry,” American Gaming Association, 2017, accessed electronically at https://www.americangaming.org/sites/default/files/research_files/2017%20State%20of%20the%20States.pdf

State	Rate
Alabama	Not legal
Nebraska	Not legal
North Carolina	Not legal
Tennessee	Not legal
Texas	Not legal

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

While most excise taxes have shown little growth in recent years, the revenue from electronic games of skill is a notable exception. Revenue generated by the tax shows a strong upward trend in recent years. Since 2012, revenues have more than doubled.

Figure 20: Electronic Games of Skill Tax Revenue



Alcohol Taxes

Taxes on alcohol are another of the ‘big three’ of excise taxes. Similar to cigarette and gambling, these are often referred to as ‘sin taxes’ and may be seen as a way to reduce consumption. It is also another example of a “Pigouvian” tax, as it provides a source of revenue from goods with negative externalities.

Following the repeal of prohibition, Arkansas joined many other states in imposing taxes on beer, liquor and wine. These alcohol taxes combine to generate fairly consistent revenue for the State. From FY2012 to 2016, the tax averaged $29 million in annual revenue (Beer: $16.7 million, Liquor $9.5 million, $2.5 million).

- **Beer** is taxed at $0.23 per gallon. The tax is levied on beer having an alcoholic content of less than 5 percent. Beer having alcoholic content of 5 to 21 percent is defined as malt liquor and taxed at $0.20 per gallon. A 1 percent tax is also applied to retail beer receipts.

- **Liquor** is taxed at a rate of $2.50 per gallon. Liquor is defined as being distilled from the fermented juices of grain, fruits or vegetables and having alcohol content of more than 21 percent. Premixed liquor is taxed at $1.00 per gallon, while light liquor with alcohol content of 0.5 to 5 percent alcohol is taxed at $0.50 per gallon. A 3 percent tax is applied to all retail liquor receipts.

- **Wine** is taxed at $0.75 per gallon. Wine having alcohol content of more than 5 percent and no more than 21 percent is subject to this rate, while wine with alcohol content between 0.5 and 5 percent is taxed at $0.25 per gallon.[88] A 3 percent tax is applied to all retail wine receipts.

Relative to the comparison states, Arkansas ranks below the median in beer and liquor tax rates and slightly above the median for wine tax rates. **A table of all 50 states' alcohol tax rates can be found in Appendices I5-I7.**

Table 23: Alcohol Tax Comparison

Beer		Liquor		Wine	
State	**$/Gallon**	**State**	**$/Gallon**	**State**	**$/Gallon**
Tennessee	$1.29	Oklahoma	$5.56	Iowa	$1.75
North Carolina	$0.62	Tennessee	$4.40	Alabama	$1.70
Alabama	$0.53	Nebraska	$3.75	Tennessee	$1.21
Mississippi	$0.43	Louisiana	$3.03	North Carolina	$1.00
Louisiana	$0.40	Indiana	$2.68	Nebraska	$0.95
Oklahoma	$0.40	**Arkansas**	**$2.50**	Louisiana	$0.76
Nebraska	$0.31	Kansas	$2.50	**Arkansas**	**$0.75**
Arkansas	**$0.23**	Texas	$2.40	Oklahoma	$0.72
Texas	$0.20	Missouri	$2.00	Indiana	$0.47
Iowa	$0.19	Alabama	Sales controlled by State*	Missouri	$0.42
Kansas	$0.18	Iowa	Sales controlled by State*	Mississippi	$0.35
Indiana	$0.12	Mississippi	Sales controlled by State*	Kansas	$0.30
Missouri	$0.06	North Carolina	Sales controlled by State*	Texas	$0.20

**These states apply other forms of product mark-up and fees in lieu of a gallonage tax.*
Source: Federation of Tax Administrators, January 1, 2017

As with cigarette consumption, the harms associated with alcohol consumption are significant. In 2010, the Centers for Disease Control and Prevention estimated the economic cost of alcohol in Arkansas to be over $2 billion. The cost estimate includes losses in workplace productivity (72 percent of total cost), healthcare expenses for treating problems caused by excessive alcohol use (11 percent of total), law enforcement and other criminal justice expenses (10 percent) and costs from motor vehicle crashes related to excessive alcohol use (5 percent).

Tourism Tax

Tourism taxes are prevalent in many states, and there are several plausible rationales for imposing these taxes. First, they export some of the revenue burden, which can be considered fair because visitors consume state services that they otherwise may not support through taxes (such as the state individual income or personal property tax). In other cases, the taxes are viewed as a type of 'user fee' as the tax revenues are often dedicated to economic development or tourism efforts.

In 1989, Arkansas enacted a 2 percent tourism tax on gross receipts from hotel and motel accommodations, admission to tourist attractions such as theme parks, cruises, sightseeing tours and music shows. Revenue from the tax has averaged $13.6 million per year from FY2012 to 2016.

Five comparison states levy similar taxes but none tax both admissions charges and lodging, as Arkansas does. **A table showing rates for each state that levies a lodging tax can be found in Appendix I8.**

[88] These rates are applicable to imported wine only

Table 24: Tourism Tax Comparison[89]

State	Lodging Tax	Admissions Tax
Alabama	4.0%	-
Arkansas	**2.0%**	**2.0%**
Iowa	5.0%	-
Mississippi	-	7%
Oklahoma	-	1%
Texas	6.0%	-

Source: State statutes and National Conference of State Legislatures Research

Rental Vehicle Tax

As of 2015, more than 40 states levy a rental vehicle tax.[90] This tax is appealing to states as another way of raising revenue by targeting visitors rather than residents. However, research done as part of a 2004 study determined that the majority of car rentals in the United States take place at non-airport rental locations.[91] Another consideration in terms of taxation is car-sharing companies that have become popular among city residents who do not own personal vehicles. These developments suggest the tax may impact state residents more than may have been previously expected.

Arkansas' rental vehicle tax was enacted in 1989. The tax is 10 percent of gross receipts or gross proceeds derived from motor vehicle rentals for a period of less than 30 days, in addition to gross receipts tax. The tax rate consists of 5 percent for general revenues, and an additional 5 percent distributed to special revenues. Seventy-five percent of the special revenue is deposited in the Transit Trust Fund, while the remaining 25 percent is deposited in the Public School Fund.

Every state in the comparison group levies a rental vehicle tax; Arkansas' rate is the highest among the group. **A table of all 50 states' rental vehicle tax rates can be found in Appendix I9.**

Table 25: Rental Vehicle Tax Rate Comparison[92]

State	Rate
Arkansas	**10.00%**
Texas	10.00%
Mississippi	6.00%
North Carolina	6.00%
Oklahoma	6.00%
Indiana	4.00%
Iowa	5.00%
Missouri	4.00%
Kansas	3.50%

89 National Conference of State Legislatures. (2017). *State Lodging Taxes*. Electronically accessed at http://www.ncsl.org/research/fiscal-policy/state-lodging-taxes.aspx
Oklahoma Statutes 68-50101;
Mississippi Code 27-65-22

90 National Conference of State Legislatures. (2015). *Rental Car Taxes*.

91 Gale, William G. and Rueben, Kim. (2006). *Taken for a Ride: Economic Effects of Car Rental Excise Taxes*

92 National Conference of State Legislatures. (2015). *Rental Car Taxes*

State	Rate
Louisiana	3.00%
Tennessee	3.00%
Alabama	1.50%
Nebraska	-

Source: National Conference of State Legislatures, 2015

Other Commonly Assessed Excise Taxes

Several other excise taxes have become more prevalent in recent years among states.

- **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. Among the comparison group of states, Kansas and Louisiana tax vapor at $0.20/ml and $0.05/ml, respectively. To date, these taxes are not a significant revenue source in any state. However, as these products gain additional market share, it is likely that revenue will also increase.

  The health impacts related to e-cigarettes are still relatively unknown. As a result, their relationship to cigarettes and other tobacco products in terms of societal impacts is difficult to determine. This may also impact the willingness of some policymakers to determine reasonable and/or equitable excise tax rates for these products.

- **Medical and recreational marijuana.** While e-cigarettes and vapor products are still in the early stages of determining consumer demand, marijuana is a product where the market and demand is becoming better defined across the U.S. Its more prevalent legal use is as a prescription drug. To date, 29 states (including Arkansas) have legalized medical marijuana. There is wide variation in the legal uses of medical marijuana among the states, and, according to marijuana advocates, many of these state laws allow very limited use of the drug. Taxes range from no tax or tax exempt (generally based on the theory that prescription drugs are exempt from sales tax and thus should not be subject to a separate excise tax) to a high of a 37 percent excise tax in the State of Washington.[93] Among states that tax medical marijuana, the Arkansas tax, at 4 percent, is about average.[94]

  Recreational marijuana is legal in far fewer states, and, where legal, its tax rates are much higher than for medical marijuana. To date, marijuana for recreational use has been legalized in eight states and the District of Columbia. Colorado and Washington were the first states to permit it for legal sale, in 2014. They were followed by Oregon in 2015 and Alaska in 2016. More recently, it has been legalized in Nevada, Massachusetts, Maine and California.

  There are a variety of approaches and rates associated with the sale of recreational marijuana. Those rates range from 10 to 37 percent among states, and other taxes can be applied as well.[95]

  Recreational marijuana was not legal in any state just five years ago, so its growing acceptance is notable. To date, state adoption has generally been by voter initiative (Vermont's legislature legalized recreational marijuana but the Governor vetoed the legislation). The revenue that is being collected by

[93] It is notable that the State of Washington often has among the highest excise taxes among the states. One explanation for this is that the State does not have an individual income tax and must thus have higher other taxes to compensate.
[94] Lisa Rough, "Cannabis Tax Rates: A State-By-State Guide," June 22, 2017, accessed electronically at https://www.leafly.com/news/industry/marijuana-tax-rates-by-state
[95] "How High are Marijuana Taxes in Your State?" The Tax Foundation, June 1, 2017, accessed electronically at https://taxfoundation.org/marijuana-taxes-state/

the ‘early adopting’ states is significant. Last year, state tax revenue for Washington totaled $256 million and Colorado raised $200 million. Oregon revenues totaled $60 million for a partial year.

There is forecast of strong growth in overall marijuana sales in the years to come. According to a report from Arcview Market Research, the North American marijuana market (both recreational medical) had revenue of $6.7 billion in 2016, a 30 percent increase from the year before. Arcview projects that sales will grow at a compound annual growth rate (CAGR) of 25 percent through 2021, when the North American market is expected to top $20.2 billion.[96]

- **Alternate transportation taxes.** As with motor fuel excise taxes, alternate transportation taxes are sometimes viewed as user fees, because the revenue is dedicated to the construction and maintenance of roads and bridges. Using a similar approach, starting January 1, 2018, Oregon will impose a bicycle excise tax of $15 on each purchase of a bicycle of $200 or more. This new excise tax is the first of its kind among the states.

  The new excise tax is part of the State’s $5.3 billion transportation package, and the annual revenue generated by the tax (estimated at about $1.2 million) will be used to “expand and improve commuter routes for non-motorized vehicles and pedestrians, including bicycle trails, footpaths and multi-use trails.”

  It is not surprising that many bicycling enthusiasts are not supportive of the new tax (even if it only applies to higher-end bicycles and is dedicated to purposes associated with bicycling. One explanation is that it may well reduce sales of bicycles (which aligns with general theories of consumption and taxes). One Oregon bike retailer estimated that it would experience a reduction of $8,000 to $15,000 from its bottom line.[97] In the long run, however, this may well be a new approach to transportation user fees that might also apply to other alternate modes.

- **Purchased meal taxes.** These are typically additional taxes beyond general sales taxes. They can be justified as exporting a share of the tax burden, particularly when they are applied in cities or areas of a state that are frequented by tourists. In fact, in some states or cities, these taxes are targeted in this way. Sometimes they are earmarked for specific types of activities.

  Maine, New Hampshire, Rhode Island, and Vermont each have state-wide meal taxes. In 15 other states, including Arkansas, meal taxes are authorized in specified places or as a local option tax.

- **Excise tax on fireworks.** Consumer fireworks are legal in 28 states, including Arkansas. Most states that have legalized fireworks, including Arkansas, apply state sales tax to purchases. However, four states add an excise tax (Georgia and Indiana 5 percent; Michigan 6 percent; Pennsylvania 12 percent). The states that add an excise tax generally dedicate the revenue to fire and fire safety-related programs.

  Pennsylvania was the last state to enact this form of excise tax, in October 2017. The measure placed a 12 percent tax on the purchase price – on top of the state sales tax and any local sales tax. Seventy-five percent of the tax collected will be used for grants to emergency medical services. The remaining 25 percent will go to programs for training volunteer firefighters.

- **Real estate excise tax.** The State of Washington levies excise tax of 1.28 percent on the sale of real estate. This tax is an example of the difficulties with classifying taxes, including excise taxes. Most

[96] Melia Robinson, “The legal weed market is growing as fast as broadband internet in the 2000s,” Business Insider, January 3, 2017, accessed electronically at http://www.businessinsider.com/arcview-north-america-marijuana-industry-revenue-2016-2017-1
[97] “Oregon bike tax 'between $8,000 and $15,000 right off our bottom line,' local shop says,” KMTR TV, accessed electronically at http://nbc16.com/news/local/oregon-bike-tax-between-8000-and-15000-right-off-our-bottom-line-local-shop-says

states would likely classify this as a property tax, while Washington defines it in statute as an excise tax.

Emerging Excise Taxes

As the economy evolves and new products and services emerge, many state governments are moving to adjust tax bases and introduce new excise taxes.

- **Ride-sharing services (such as Uber and Lyft).** Five states have begun to tax such services statewide, while Maryland allows local jurisdictions to impose a fee.

Table 26: State Ride-Sharing Company Tax Rates[98]

State	Tax Rate
New York	4%
Nevada	3%
Pennsylvania	1.4%
South Carolina	1%
Massachusetts	$0.20 per trip
Maryland	Allows local fee of up to 25 cents per trip

- **Alternatives to traditional hotels and motels.** Taxes for Airbnb-type businesses are imposed by 18 states, and Airbnb collects occupancy taxes at either the state or local level in 38 states. As companies like Airbnb grow, tax revenues from traditional hotel and motel sources decline, making it important that state and local governments ensure these companies are part of the occupancy tax base. Arkansas' 2 percent tourism tax currently includes Airbnb-type services.

- **Daily Fantasy Sports.** To date, 12 states have legalized daily fantasy sports, including Arkansas. Arkansas is among four states that tax the industry. The rates in each state are shown in the following table.

Table 27: Daily Fantasy Sports Betting Tax Comparison

State	Tax Rate
New York	15%
Arkansas	**8%**
Mississippi	8%
Tennessee	6%

Source: Bloomberg BNA, August 2017

[98] The Pew Charitable Trusts. (2017). *Taxing the New Economy, Starting with Uber, Lyft*;
Institute on Taxation and Economic Policy. (2017). *Taxes and the On-Demand Economy;*
Nevada Revised Statutes, 372B.140;
South Carolina Code of Laws, 58-23-16;
Maryland Public Utilities Code 10-406;
Institute on Taxation and Economic Policy. (2017). *Taxes and the On-Demand Economy*.

Summary

Excise taxes are something of a ‘blunt instrument’ that can have more significant specific impact on an industry than the broad-based income, sales and corporate taxes. There are several logical explanations for their use, but there is usually market distortion associated with their application, as the rates and bases for the taxes vary considerably.

In many instances, it is a judgment call as to whether it is worthwhile or justifiable to impose a tax that may be designed to reduce consumption of a legal good or activity. A more theoretically sound case can likely be made for the tax when it is to correct for negative externalities, as espoused by the English economist Pigou.

There is abundant research that suggests that these taxes are also subject to border effects, and consumers will consider crossing state lines to purchase items if the excise taxes in other states are significantly lower. There is a strong body of research that suggests this is the case for, among other items, alcohol, cigarettes and motor fuel. Arkansas is unique among the states in reflecting this in its tax rates by lowering them in border cities where the neighboring state rate is lower for either cigarette or motor fuel tax rates.

It is also likely that the practical use of these taxes makes them regressive taxes. They often apply to goods or services purchased more often by low-income consumers. While it is true that many of these items are not necessities of life (for example cigarettes, alcohol or sugared beverages), their legal use by lower income individuals will still increase their overall tax burden compared to higher income individuals or households.

From a budget perspective. Arkansas excise taxes are a lower percentage of overall revenue than many of its peers, representing just 13.5 percent of total tax collections. Nonetheless, with the exception of certain natural resource severance taxes, Arkansas excise taxes currently appear to be following regional trends. Most rates are comparable to nearby states.

In terms of opportunities, compared to the group of benchmark, Arkansas’s hotel/motel tax (via the amusement tax) is perhaps one that is below most comparable states. Also worthy of consideration are cigarette, alcohol and transportation taxes. These are commodities related to activities where costs are rising. Lastly, the Legislature should consider updating existing laws to include new commerce activities such as ride sharing and non-traditional short-term occupancy.

In most cases, excise taxes are individual policy choices about the level of specific versus general taxation. They should be considered in the context of the State’s overall portfolio of revenue sources. Given other state competition issues, it makes sense to keep them generally in line with neighboring states to the extent this is possible. However, there are also outliers (such as Missouri’s extremely low cigarette tax rate) that can make that policy difficult to follow at the extreme ends of the range of state tax rates.

Property Taxes

Property Tax Overview

History of Property Taxes in the U.S.[99]

During colonial times, property taxes were one of five major taxes levied on American colonists. Property taxes were typically levied at fixed rates on specifically enumerated items (e.g. a flat rate per acre of land); only in rare instances were items taxed according to value.

By 1796, land was taxed in a variety of ways, but only four states taxed property by value, and no state constitution required that taxation be based on value or required that the rate on all kinds of property be uniform. It wasn't until 18 years later, in 1818, that Illinois became the first state to adopt a uniformity clause. Missouri followed in 1820, and in 1834 Tennessee replaced a provision requiring that land be taxed at a uniform amount per acre with a provision that land be taxed according to its value (ad valorem). Arkansas was the fourth state to enact a similar provision, in 1836 (its year of statehood). By 1900, 33 states had included uniformity clauses in new constitutions or had amended old ones to include the requirement that all property be taxed equally by value.

By the turn of the twentieth century, property tax provided 45 percent of own-source general revenue received by state governments. That share declined steadily as states adopted sales and income taxes. Today, property taxes serve as the key revenue source for local governments and are a relatively minor share of state revenues.

In Arkansas, there are more than 1,500 distinct units of local government layered within the network of counties, municipalities and school districts. On a per capita basis, this ranks in the middle among benchmark states at 53 local governments per 100,000 population. On the high end, Nebraska has more than 2,500 local governments, equal to 139 per 100,000 population, while North Carolina has 973, equal to just 10 per 100,000 population. Each state is uniquely structured, and this is not necessarily an 'apples-to-apples' comparison. Instead, it is a method to illustrate how many distinct taxing districts may exist within each state. **A full list of local governments by state can be found in Appendix K.**

Table 28: Local Governments by Type and State, 2012

State	County	Municipality	Town or Township	Special District	School District	Total Local Govts	Local Govts per 100,000 People
Nebraska	93	530	417	1,269	272	**2,581**	139
Kansas	103	626	1,268	1,523	306	**3,826**	133
Iowa	99	947	-	535	366	**1,947**	63
Missouri	114	954	312	1,854	534	**3,768**	63
Arkansas	75	502	-	740	239	**1,556**	**53**
Oklahoma	77	590	-	635	550	**1,852**	49
Indiana	91	569	1,006	752	291	**2,709**	41
Mississippi	82	298	-	439	164	**983**	33
Alabama	67	461	-	548	132	**1,208**	25
Texas	254	1,214	-	2,600	1,079	**5,147**	20
Tennessee	92	345	-	465	14	**916**	14
Louisiana	60	304	-	96	69	**529**	11
North Carolina	100	553	-	320	-	**973**	10

Source: U.S. Census Bureau 2012 Census of Governments

[99]The following discussion is excerpted from the Economic History Association: History of Property Taxes in the United States, accessed electronically at https://eh.net/encyclopedia/history-of-property-taxes-in-the-united-states/. Additional information can be found at this site.

Property Taxes Key Characteristics

At its most basic level, the property tax is a tax on an asset (often referred to as a tax on wealth). It is distinguished from taxes on consumption (such as the sales tax or other common types of excise taxes) and income (such as personal and corporate income taxes) in that 'ability to pay' is less clear with property taxes. By contrast, consumption taxes are generally paid at the time of purchase – and thus can be 'avoided' by not purchasing the good or service if the tax is too burdensome. Likewise, an income tax is calculated as a percentage of income, which suggests that the taxed probably has some means to pay the tax. On the other hand, owning property (particularly when owned for a long period of time) does not necessarily equate with an ability to pay a tax based on its current value.

As with most states, Arkansas' property tax is an *ad valorem* tax, which means it is based on the value of the property being taxed. Property taxes are collected from commercial and industrial establishments, utilities and farms as well as from homeowners and individuals. Property taxes are based on two kinds of property: real and personal property.

- **Real property** is all tangible, owned real estate that is fixed and not readily movable. This includes land and all structures and improvements made to that land, such as buildings, homes and barns.

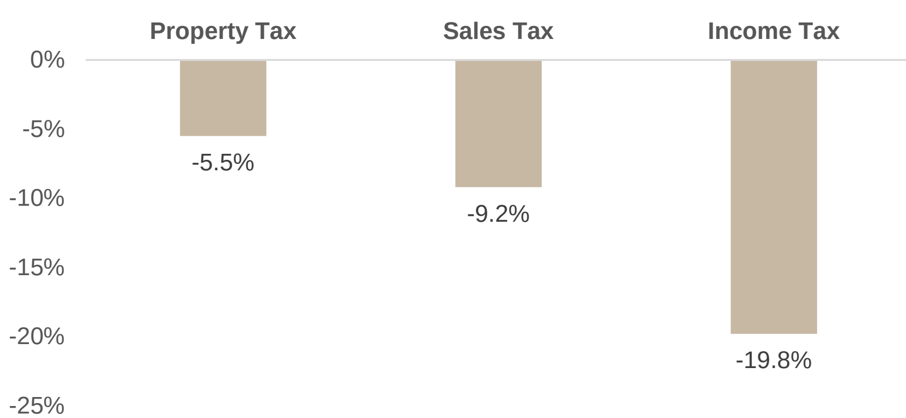
- **Personal property** is subject to ownership and tangible (like real property) but is movable and may be either animate or inanimate. Basically, it is everything that is subject to ownership, tangible and movable, excluding money. In Arkansas, items of household furniture and furnishings, clothing, appliances and other personal property used within a home are exempted from personal property tax by Amendment 71.

Property Tax Strengths and Weaknesses

As is often noted about other types of taxes, there is no such thing as a perfect tax – and property taxes are no exception. The following are key strengths of property taxation:

- **Property taxes are a historically stable revenue source.** Because property values generally change slowly, the property tax base provides a more reliable tax base than income or sales tax. As shown in the following figure, the property tax was the major tax least affected by the Great Recession.

Figure 21: % Change in Real Per Capita State-Local Tax Revenues During Great Recession (Peak to Trough)

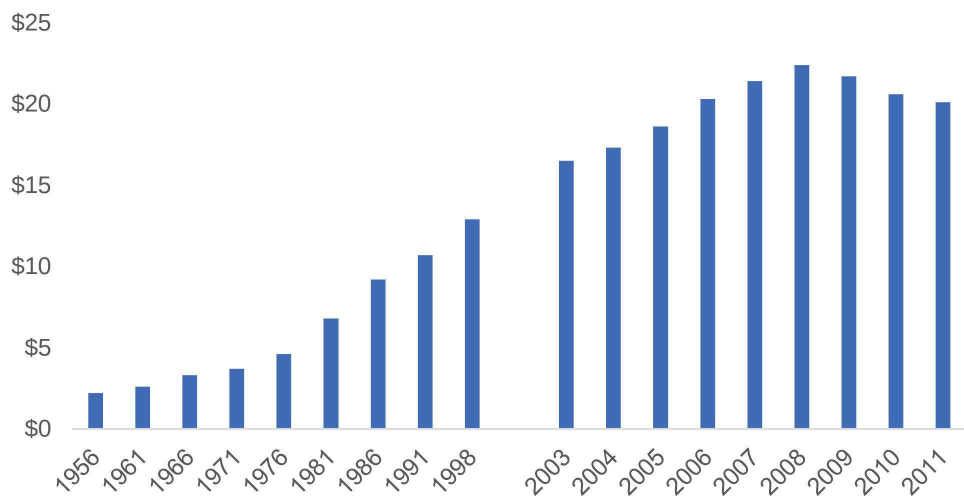


Source: U.S. Census Bureau, Annual Survey of State and Local Government Finances

Throughout recent history (with one notable recent exception), assessed values of real property have continually increased, even during recessionary periods. This helps explain why local governments have often had more stable levels of employment and spending than state governments, even during economic downturns. The years during the Great Recession were the first time that, nationally, assessed values declined in the aggregate.

The following table shows the dramatic effect of the Great Recession, which reversed over 60 years of continuous tax base expansion. It is likely that this decline is primarily due to the Recession's significant connection to downturns in the housing market.

Figure 22: Property Tax Base Nationwide, Calendar Years 1956-2011 (trillions of dollars)



Source: George Washington Institute of Public Policy - Tax Analysts Special Report: The Property Tax Base and the Great Recession (2013)

- **The property tax is taxed on mostly immovable fixed assets, which means it is difficult to evade the tax**. In fact, the property tax has the highest collection rate of any major tax, with high-performing local governments regularly collecting between 95 and 98 percent of taxes owed. In fact, Standard and Poor's bond rating checklist notes that a property tax collection rate of below 92 percent is a sign of fiscal uncertainty.[100]

- **Property tax systems are more open and visible than those for other taxes.** Property owners can examine their assessments and those of comparable properties and have the opportunity to appeal the assessment. Additionally, property owners receive a bill showing the entire tax liability – this is not the case with taxes that are collected in small amounts at the time of purchase (sales tax) or are withheld from pay throughout the year along with many other items (individual income tax).

- **Property tax is collected to provide local services that have a connection to the overall value of the property.** It is generally understood that areas with strong local services (which can include police and fire protection, parks and recreational opportunities, strong libraries and other amenities will be associated with strong property values. It is particularly notable that, many studies have shown a direct connection between the strength of local schools and property values/housing prices.[101]

[100]"Credit Overview: Municipal Ratings," Standard and Poor's, 1983.
[101] See, for example, John Clapp, Nanda Anupam and Stephen Ross. "Which School Attributes Matter? The Influence of School District Performance and Demographic Composition on Property Values." Journal of Urban Economics, 2008, and Theodore Crone,

Despite these advantages, the property tax is commonly considered to be "the most hated of all taxes." The following are often identified as weaknesses of the property tax:

- **Ability to pay can be an issue, particularly for property-rich, cash-poor taxpayers.** This creates political pressure on states to limit growth and/or provide forms of property tax relief.

- **Property taxes are generally due in large lump sums (most commonly once or twice a year).** This can create both animosity among taxpayers and cash flow issues that are often not the case for other taxes, which are paid in smaller increments over the course of the year.

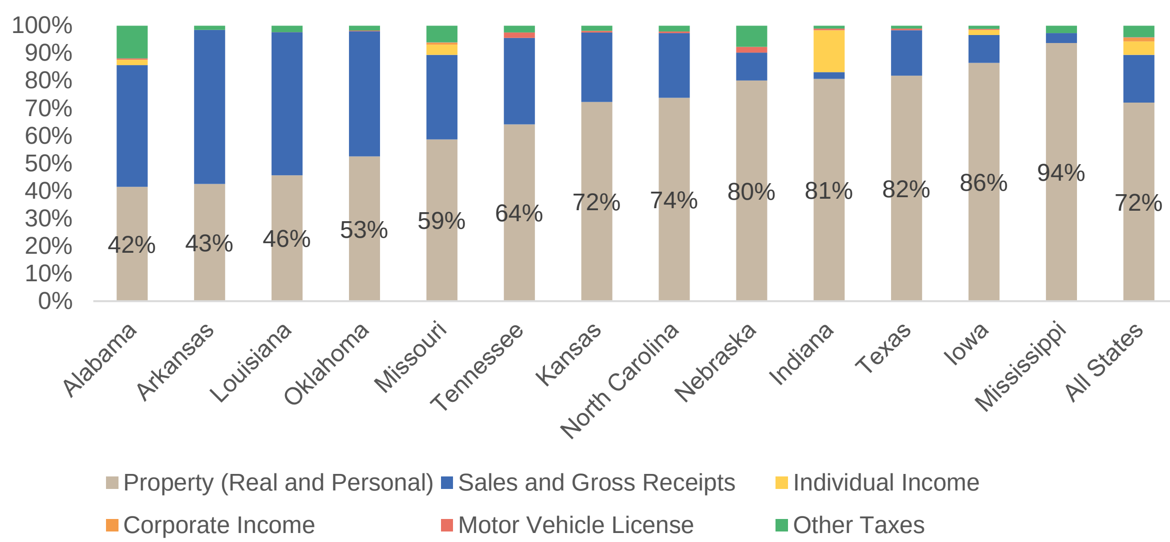
- **Property taxes are regressive by nature.** Regressive taxes are those that place a higher tax burden on lower-income taxpayers. In general, higher income households pay a smaller percentage of their income in property taxes than lower income households.

Property Tax Sources and Uses

Property taxes are a key revenue source for local governments, including school districts, county and city governments and, depending on areas of the country, other types of special districts providing services.

In Arkansas, 43 percent of all local tax revenues are derived from the property tax. Arkansas governments have a relatively low reliance on property taxes when compared to benchmark states; Only Alabama has a lower reliance on the property tax for local government revenue. On the other end of the spectrum, Mississippi local governments are almost entirely dependent upon property taxes. As the following figure shows, nationwide, property taxes make up nearly three quarters of all local tax revenues. **A full listing of local government tax revenues by state and source can be found in Appendix L.**

Figure 23: Local Government Tax Revenues by Source, 2015



Source: U.S. Census Bureau, 2015 Annual Survey of State and Local Government Finances.

"Capitalization of the Quality of Public Schools: What Do Home Buyers Value?" Working Paper Series, Federal Reserve Bank of Philadelphia, 2006.

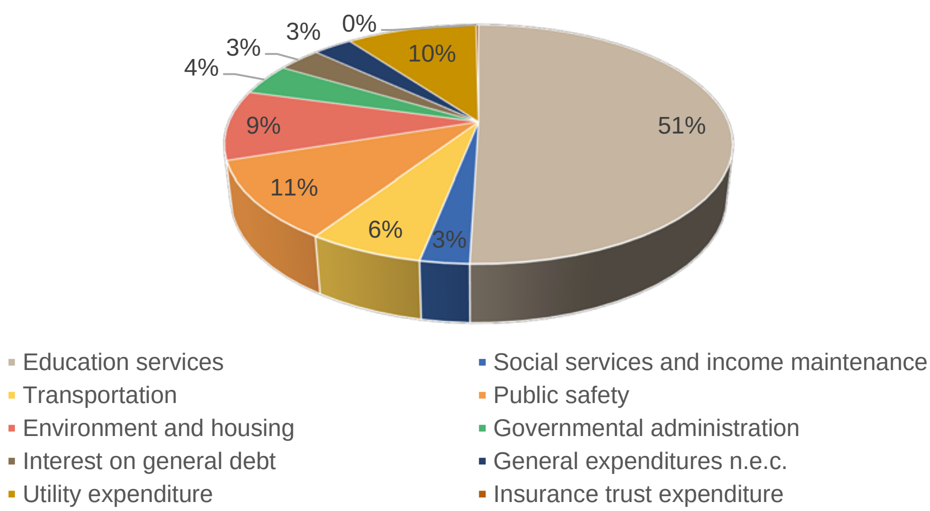
It is important to note that in the preceding figure, the U.S. Census Bureau considers the minimum 25 mills property tax levied by all Arkansas school districts to be a state property tax; the rationale is that because it is required by the State, it is part of overall state tax burden. This perspective is shared by the Tax Foundation. In its recent discussion of Arkansas property taxes, they wrote that "while property taxes in Arkansas are primarily a local function, there are good reasons to think of some real property taxes as state-level taxes, even though legally they are local taxes. Specifically, Amendment 74 to the Arkansas Constitution (narrowly approved by voters in 1996) requires all school districts to set a minimum 25 mills property tax. (Because Arkansas taxes based on 20 percent of assessed value, 25 mills is essentially equivalent to 0.5 percent of property's value.) The proceeds of this minimum property tax for school districts are then redistributed from the state to local school districts. Since local governments (school districts) are required by state law to collect this tax, it makes sense to think of it as a state-level tax."[102]

On the other hand, the tax is assessed and collected locally, and the State does not (and cannot) assess real property taxes. The Arkansas Department of Education considers the tax, for purposes of comparisons of state and local expenditures on K-12 education, to be a local source. PFM uses the Census Bureau definition because it allows state-to-state comparisons using a common source of reference.

As the key component of local tax revenues, property taxes fund a variety of services. Local governments use property tax and other revenues to finance education, roads, hospitals, libraries, public safety and the general operation of county and city governments.

In Arkansas, elementary and secondary education account for half of all local government spending, as shown in the following chart. This is generally the case in other states as well.

Figure 24: Arkansas Local Government Expenditures by Category



Source: U.S. Census Bureau, 2015 Annual Survey of State and Local Government Finances

Property Taxes in Arkansas and Comparison to Other States

Property taxes are levied by all of Arkansas' 75 counties, 502 municipalities and 239 school districts. As previously noted, Arkansas is one of the least property tax-reliant states. One reason for this low reliance is

[102] Tax Foundation – Property Taxes in Arkansas (December 5, 2017). Accessed electronically at https://taxfoundation.org/property-taxes-arkansas/

that state aid for K-12 education is a much greater contributor to local general revenue in Arkansas than the U.S. average. Additionally, as discussed in a prior chapter, most of the State's cities and counties levy sales taxes, which comprise a greater share of local revenue than in most states.

Median Property Taxes

One way to measure the use of the property tax is to compare median property taxes paid from state to state. Of course, property taxes may vary significantly from county to county and even from school district to school district, but this measure is a valid starting point for discussion.

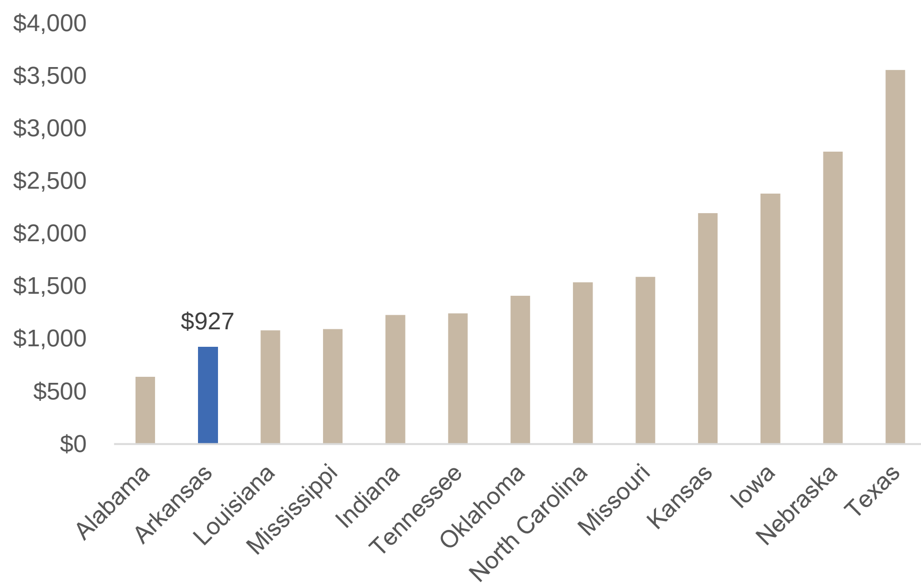
As shown in the following figure, property taxes are highest in the northeastern U.S. and some other large urban areas (such as in California and Illinois), where the median rate is consistently above $5,000 per year. Arkansas and several surrounding states (Oklahoma, Louisiana, Mississippi and Missouri) are among states with the lowest median property taxes (between $0 and $1,000 annually).

Figure 25: Median Property Taxes Paid

Source: Tax Foundation – Which Places Pay the Most in Property Taxes? (May 18, 2017)

The following table displays the 2016 median real estate tax paid for units with a mortgage in each benchmark state. At $927, Arkansas ranks low among comparable states, with only Alabama lower ($639). The median in Texas is significantly higher, at more than $3,500 per year. **A full listing of median property taxes paid by state can be found in Appendix M.**

Figure 26: Median Real Estate Taxes Paid by State, Units with a Mortgage (2016)



Source: American Community Survey 1-Year Estimates

Property Tax Effective Rate

The Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence produce an annual 50-State property tax comparison study[103] that provides meaningful data to compare property taxes among cities. Among its comparisons is to calculate the *effective tax rate*: the tax bill as a percent of a property's market value. Data for homestead, commercial, industrial and apartment properties are available for 73 large U.S. cities as well as a rural municipality in each state.

The study found that in 34 states, the effective tax rate on the median-valued home is higher in the largest city than in the rural municipality – and that Arkansas has the biggest difference: the 1.146 percent effective tax rate in Little Rock (largest city) is over 4.5 times the 0.246 percent rate in Pocahontas (rural municipality).

In the following table, a ranking of 1 indicates the highest rate among those being compared. In each of the four property categories, Pocahontas ranked more favorably among other rural municipalities than Little Rock did compared to other large cities.

Table 29: Property Tax Comparison Study, Taxes Paid in 2016[104]

City	Homestead	Commercial	Industrial	Apartments
Little Rock	33	37	28	30
Pocahontas	49	47	43[105]	45

Source: Lincoln Institute of Land Policy

[103] Report available electronically at https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2016-full.pdf
[104] A ranking of 1 indicates the highest rate.
[105] Based on average of industrial properties with land and building value of $100,000, $1 million and $25 million.

Using Census data to compare real estate taxes paid as a percentage of median home value in benchmark states yields similar findings. Arkansas again ranks low, with the property tax burden equal to 0.7 percent of median home value. Only Alabama and Louisiana are lower, at 0.4 percent and 0.6 percent, respectively.

Table 30: Median Real Estate Tax Paid as a % of Median Home Value, Units with a Mortgage (2016)

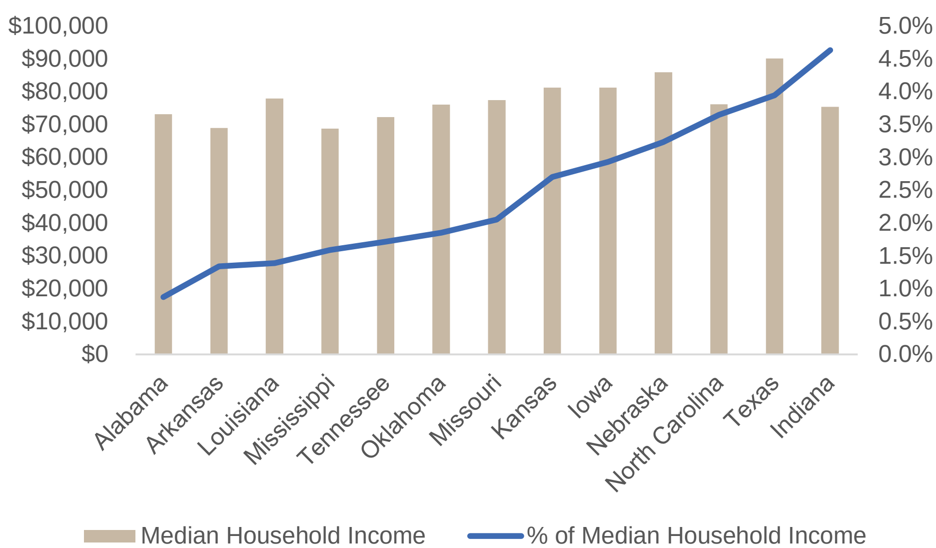
State	Median Home Value	Median Real Estate Taxes	% of Median Home Value
Alabama	$153,900	$639	0.4%
Louisiana	$173,200	$1,081	0.6%
Arkansas	**$139,700**	**$927**	**0.7%**
Tennessee	$166,700	$1,241	0.7%
Mississippi	$137,300	$1,092	0.8%
North Carolina	$179,100	$1,537	0.9%
Indiana	$142,900	$1,228	0.9%
Oklahoma	$148,900	$1,409	0.9%
Missouri	$161,700	$1,590	1.0%
Kansas	$158,700	$2,196	1.4%
Iowa	$152,200	$2,382	1.6%
Nebraska	$158,000	$2,778	1.8%
Texas	$183,300	$3,555	1.9%

Source: American Community Survey 1-Year Estimates

Property Taxes as a Percentage of Income

Additionally, it can be useful to analyze property taxes as a percentage of median household income. Property taxes expressed this way in Arkansas again rank low relative to benchmark states. At 1.3 percent, the State is higher only than Alabama (0.9 percent).

Figure 27: Median Real Estate Tax Paid as a % of Median Household Income, Units with a Mortgage (2016)



Source: American Community Survey 1-Year Estimates

State-Local Relationships

State-local government relationships vary from state to state. Generally, all local governments function as political subdivisions of the state, which includes cities, counties, school districts and other units of local government. To varying degrees nationally, local governments rely on state government for funding support, and their daily operations and financing are subject to state law and regulation.

Dillon's Rule and Home Rule

There are generally two approaches to the state and local government relationship: Dillon's Rule and Home Rule. Dillon's rule relies on state primacy over local governments, while home rule provides more rights and responsibilities for local governance.

Dillon's Rule is based on two court decisions issued by Iowa Supreme Court Chief Justice John Dillon in 1868. Besides being a State Supreme Court Justice, Dillon also wrote an influential treatise on municipal law. His opinions articulated the view that municipal governments have only the powers expressly granted to them by the state and any ambiguities in power must be resolved against the municipality so that its powers are narrowly construed. The U.S. Supreme Court soon echoed this interpretation, holding that "municipal corporations owe their origin to, and derive their powers and rights wholly from, the legislature. It breathes into them the breath of life, without which it cannot exist."[106] This narrow interpretation of a local government's authority provides that the state must specifically sanction local government activities. Dillon's Rule was subsequently upheld in other U.S. Supreme Court rulings. Currently, 39 states generally follow Dillon's Rule.

Home Rule has become an alternate structure primarily as a response to the inflexibility of Dillon's Rule. Under Dillon's rule, local officials often have to spend considerable time and effort lobbying the state legislature to approve bills granting local authority and disapprove bills imposing restrictions, often on relatively minor issues. To remove some of the impediments to change (at least in certain areas), many states began to adopt "Home Rule" provisions in the early 1900s. Home Rule is a delegation of power from the state to its local governments, in many cases limited to specific areas. There are currently 10 states that employ Home Rule (although some others grant home rule status to select local governments). The one remaining state, Florida, is aligned with the other Home Rule states except for revenue issues, which are reserved to the State.[107]

Until relatively recently, Arkansas followed only Dillon's Rule, and as a result, cities had only the powers granted to them by the Arkansas Constitution and statutes passed by the Arkansas General Assembly. Act 1187 of 2011 repealed Dillon's Rule and extended certain powers granted to cities of the first class to all municipalities.[108]

State's Role in Administering Property Taxes

While the State of Arkansas does not directly realize revenues from real property taxes, it has an interest in ensuring the property assessments and levies follow the State Constitution:[109]

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[106]Hunter v. Pittsburgh, 207 U.S. 161, (1907),
[107] A general discussion of the state-local government relationship is found on the National League of Cities website at http://www.nlc.org/build-skills-and-networks/resources/cities-101/city-powers/local-government-authority
[108] Accessed electronically at http://www.arkleg.state.ar.us/assembly/2011/2011R/Acts/Act1187.pdf
[109] University of Arkansas Public Policy Center – Administration of Arkansas' Property Tax.

- The Arkansas Constitution dictates that assessments be handled equally across the state and that the assessment value be based upon market value, with the exception of agriculture, timber and pasture land (which are based on productivity).

- The Constitution also sets caps on property tax rates that can be levied by counties and cities.

- Finally, the State also has the responsibility to ensure that school funding is adequate and equitable across school districts by allocating equitable funding per student to each school. The State uses property tax revenues and other state government funds to accomplish this objective.

Assessments, Reappraisals and Millage Rates

Assessments

A property tax assessment is a determination of the market value (or other determination of value, in the case of agriculture, timber and pasture land) of property.

Property taxes are based on millage rates (one mill is equal to $0.001) and are applied to the assessed value of all real and non-exempt personal property owned by the taxpayer. The total amount of a property tax bill is determined by two factors:

- Local property values determine the assessed value of property;
- Local millage rates determine the amount paid per $1,000 of assessed value.

Individual property tax bills are calculated by multiplying the assessed value of property by the total millage rate for that location (assessed value x millage rate = property tax bill).

Each year, between January 1 and May 31, every Arkansas taxpayer must report owned personal property to the county assessor for assessment of property taxes.[110] The county assessor estimates the value of all property in the county.

- The assessed value of **real property** is calculated as 20 percent of the true market value. For example, a house with a market value of $200,000 would be assessed for tax purposes at $40,000.

- The assessed value of **personal property** is 20 percent of the usual selling price at the time of the assessment. For example, a vehicle with a usual selling price of $20,000 would be assessed for tax purposes at $4,000.

Reappraisals

Reappraisal is defined as "estimating the value of all taxable real property within a county as of a given data within a given time frame." Each county in Arkansas must reappraise all real property every three or five years, depending on growth between appraisals.[111] While statute allows for certain counties to go through the reappraisal processes every three years, as of the date of this report, all counties are on a five year reappraisal cycle.

[110] Ark. Code Ann. § 26-26-1408.
[111] Ark. Code Ann. § 26-26-1902.

County-wide reappraisals of real property are completed no later than July 1 of the year in which the county reappraisal is scheduled to be completed. Reappraisals are performed by trained real estate appraisers selected by county assessors.

State funds are used to partially pay the cost of real property reappraisal (up to $7 per parcel per year). This reimbursement to counties covers a large share of the cost of reappraisals in the aggregate, as shown in the following table:

Table 31: Average County Reappraisal Cost per Parcel

Year	Avg. Cost per Parcel	% of Cost Reimbursed
2012	$7.42	94%
2013	$7.59	92%
2014	$7.77	90%
2015	$7.42	94%
2016	$7.88	89%
2017	$7.49	93%

Source: Assessment Coordination Department

At the same time, actual costs per county may vary significantly. The characteristics of property exhibit significant variation, and that can impact the cost of reappraisal.

According to the International Association of Assessing Officers (IAAO), real property characteristics data should be reviewed and updated at least every four to six years.[112] The following table compares the state processes regarding reappraisal or reassessment cycles requiring inspection. Just three states (Iowa, Louisiana and Texas) do not have cycles requiring inspections. At three or five years, Arkansas is within the range of benchmark states and the IAAO standard.

Table 32: State Processes Regarding Reappraisal or Reassessment Cycles Requiring Inspection

State	Reappraisal or Reassessment Cycles Requiring Inspection?	If Values Can Change Between Cycles, Describe the Process
Arkansas	Yes	3-year and 5-year reappraisal cycles; growth determines which cycle a county is on. Currently all states are on a 5-year cycle.
Alabama	Yes	4-year equalization cycle; year 1 has a "base value" established. Annually, the base value can be adjusted up or down, based on market value analysis.
Iowa	No	
Kansas	Yes	Annual property reappraisal (current market value) of all property. Recalibration of all mass appraisal models. 6 year minimum property reinspection cycle.
Louisiana	No	
Mississippi	Yes	Each county is required to update at least once every four years.
Missouri	Yes	

[112] "Standard on Mass Appraisal of Real Property," International Association of Assessing Officers, April 2013, p. 12.

State	Reappraisal or Reassessment Cycles Requiring Inspection?	If Values Can Change Between Cycles, Describe the Process
Nebraska	Yes	County assessors are required to assess at full market value each year and physically review and inspect all property in their jurisdiction no less frequently than once every six years.
Oklahoma	Yes	Property must be physically inspected at least once every four years. Annual valuation of all taxable property at its fair cash value is still required.
Tennessee	Yes	Values do not typically change during the cycle, unless improvements are added or deleted.
Texas	No	Value changes must meet statutory appraisal requirements and maintain equity within each appraisal district.
North Carolina	Yes	Clerical or mathematical error. Misapplication of the schedules used. Physical changes to the land or the improvements on the land. Legal change to the property (ex: residential to commercial).
Indiana	Yes	State completed a statewide general reassessment as of March 1, 2012. Starting in 2014, the State will begin a "Cyclical Reassessment" process, whereby one-fourth of all parcels will be reassessed each year. The other parcels will be annually adjusted ("trended").

Source: State and Provincial Property Tax Policies and Administrative Practices (PTAPP) – 2012 Update of 2009 Compilation and Report

Millage Rates

Cities, counties and school districts levy taxes on both real and personal property. All levied millage rates, except for city and county general funds and county road funds, must be approved by voters before taxes can be levied and collected.

There is a maximum constitutional limit on the number of mills that can be levied by cities and counties.

The county quorum court may approve millage levies for county general and road funds up to the maximum allowed. County governments can levy up to 21 mills:

- 5 mills for general government
- 5 mills for bonded indebtedness
- 5 mills for library maintenance and operation
- 3 mills for library capital improvements and construction
- 3 mills for roads

City governments may approved millage levies for the city general fund up to the maximum allowed. Cities can levy up to 20 mills:

- 5 mills for general government
- 5 mills for bonded indebtedness[113]
- 5 mills for library maintenance and operation
- 3 mills for library capital improvements and construction

[113] It should be noted that there are some exceptions related to indebtedness at the time of the adoption of the Constitution and constitutional amendments that may impact millage limits.

- 1 mill for police pension
- 1 mill for firemen's pension

There is no maximum limit on the number of mills that can be levied by school districts. However, all school district millage changes must be approved by voters.

Millage rates for school districts range from 27.3 mills in the DeQueen School District (Sevier County) to 49 mills in the Fouke School District (Miller County). The average mills levied by school districts statewide is 37.9, while the median is 38.1.[114]

The following table illustrates the variation in total millage rates that exists across the state. The Pocahontas School District (Randolph County) has the lowest total rate at 36.97 mills. The Little Rock School District (Pulaski County) has the highest rate, at 71.6 mills. On average, the total rate is 49.40 mills, while the median rate is 50.75 mills.

Table 33: Variation in Average Millage Rates by School District

School District	School	Co. General[115]	Co./City Roads[116]	City General	Other[117]	Total
Lowest Millage Rates:						
Pocahontas	29.37	2.50	1.00	1.70	2.40	**36.97**
Highland	30.00	3.05	1.80	2.00	1.00	**37.85**
Mountain View	28.91	4.00	2.30	1.80	1.00	**38.01**
West Memphis	29.00	0.00	1.00	2.00	6.20	**38.20**
Fountain Lake	34.80	1.20	0.00	0.00	2.40	**38.40**
Highest Millage Rates:						
Jacksonville/N. Pulaski	48.30	5.00	2.90	0.00	5.20	**61.40**
Bentonville	46.60	5.00	1.90	4.90	3.30	**61.70**
Genoa Central	47.00	5.00	0.50	5.00	6.30	**63.80**
North Little Rock	48.30	5.00	2.90	5.00	7.20	**68.40**
Little Rock	46.40	5.00	2.90	5.00	12.30	**71.60**
Average	37.94	3.84	2.16	3.38	2.08	**49.40**
Median	38.05	4.40	2.50	4.00	1.80	**50.75**

Source: Property Tax Distribution Breakdown by School District prepared by the Association of Arkansas Counties using ACD data.

The level of reliance on local property taxes is one of the main reasons why rates vary across cities, counties and school districts. Local governments with alternative revenue sources (such as local sales or income taxes) do not need to raise as much revenue from the property tax, and have lower property taxes rates on average as a result. Property values are the other primary factor in explaining differences in these rates. Local governments with high property values can impose a lower tax rate and still raise at least as much property tax revenue as one with low property values. Two additional factors that help explain variation in tax rates are the level of local government spending (generally, local governments with higher spending will need to have higher property tax rates) and whether they tax homesteads at lower rates than other types of property (resulting in lower property taxes on homesteads, but higher property taxes on business and apartment properties).[118]

[114] Per Property Tax Distribution Breakdown by School District prepared by the Association of Arkansas Counties using ACD data.
[115] County general maximum: 5 mills.
[116] County roads maximum: 3 mills, but split 50/50 with city in incorporated areas unless designation by special legislation.
[117] "Other" category includes hospitals, libraries, fire and police pensions, community colleges, etc.
[118] Lincoln Institute of Land Policy – 50 State Property Tax Comparison for 2016. Accessed electronically at http://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-comparison-for-2016-full.pdf

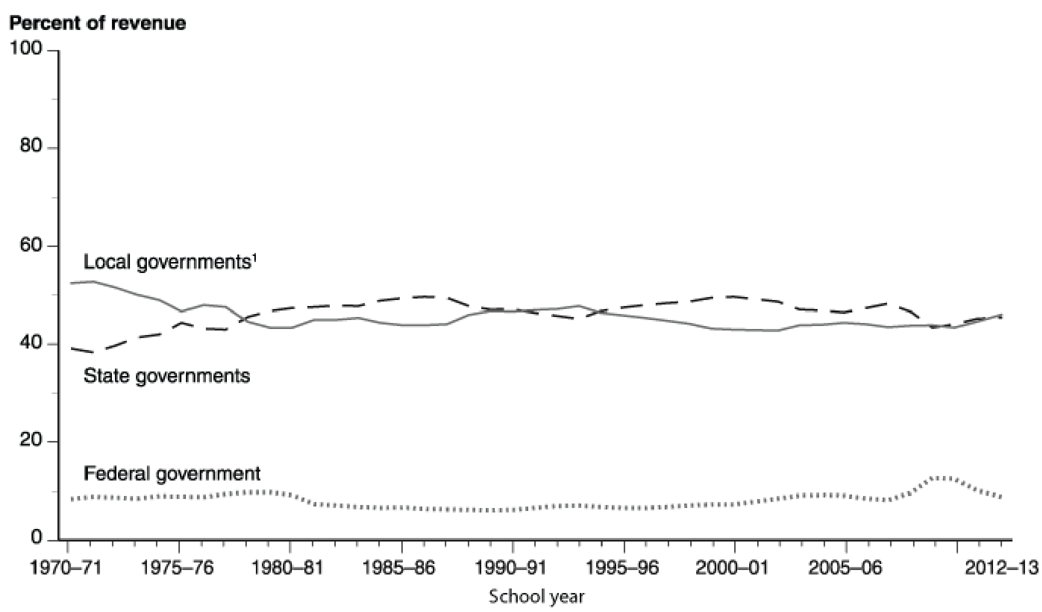
Key Property Tax Issues

K-12 Education Funding

In the 1973 Texas case *San Antonio School District v. Rodriguez*, the U.S. Supreme Court ruled that education "is not among the rights afforded explicit protection under our Federal Constitution," but that "no other state function is so uniformly recognized as an essential element of our society's well-being." *Rodriguez* effectively shifted the constitutional burden for providing public education to the states.[119]

As a result, states today collectively provide a large share of funding for public education in the U.S. The state share surpassed the total local government share of funding (which are primarily property tax revenues) for the first time in 1979, as shown in the following figure.[120] It is notable, however, that the state and local shares are currently nearly equal, both accounting for between 40 and 50 percent of total district revenues – and that figure varies from state to state.

Figure 28: Percent of Revenue for Public Elementary and Secondary Schools by Source, 1970-71 through 2012-13



Source: National Center for Education Statistics Digest of Education Statistics (2015)

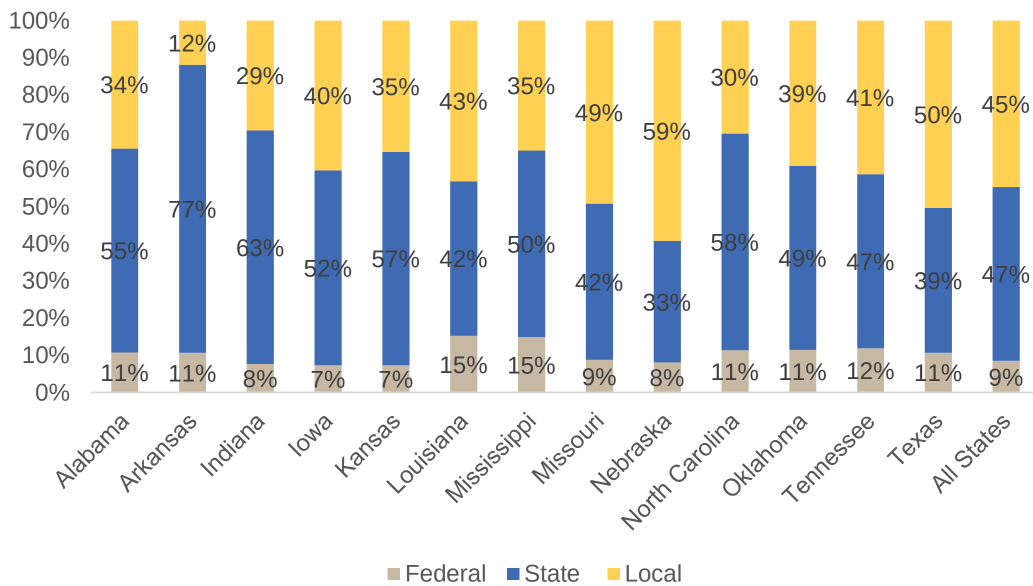
Still, the impact of *San Antonio School District v. Rodriguez* is clear. Of an estimated $1.15 trillion spent nationwide on education at all levels for school year 2012-2013, a substantial majority came from state, local and private sources. This is especially true at the elementary and secondary level, where approximately 92 percent of funds come from non-federal sources.[121]

Today, school district reliance on federal, state and local revenue sources varies widely across states. As shown in the following figure, reliance on state and local sources is split fairly evenly at around 45 percent, with

[119] National Conference of State Legislatures – State Role in Education Finance. Accessed electronically at http://www.ncsl.org/research/education/state-role-in-education-finance.aspx
[120] National Center for Education Statistics – Digest of Education Statistics (2015). Accessed electronically at https://nces.ed.gov/programs/digest/d15/
[121] U.S. Department of Education – The Federal Role in Education. Accessed electronically at https://www2.ed.gov/about/overview/fed/role.html

the remainder comprised of federal sources. This general composition holds true for the benchmark states. In Arkansas, however, a significant reliance (77 percent) is placed upon state sources. Indiana also has a significant (though comparably smaller) reliance.

Figure 29: School District Reliance on Federal, State and Local Revenues (FY2014), U.S. Census Bureau

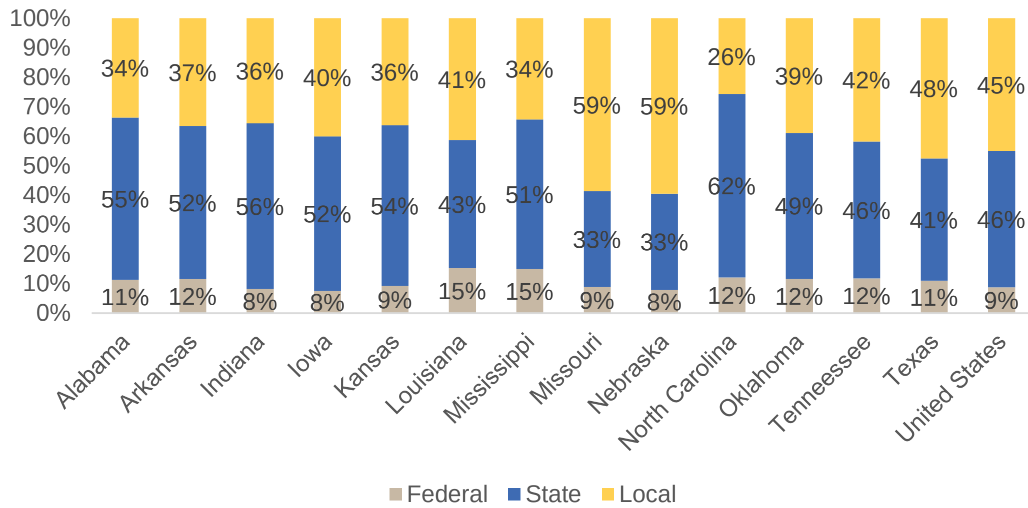


Source: U.S. Census Bureau, Summary of Public School Finances by State (FY2014)

As mentioned previously, for this allocation, the U.S. Census Bureau considers the 25 mills property tax levied by all Arkansas school districts to be a state property tax; the rationale is that because it is required by the State, it is part of overall state tax burden.

Obviously, depending on how one characterizes it, this definition has the effect of increasing or lowering the state's share of total school funding. And in fact, using a different data source yields differing results. According to the National Center for Education Statistics' Revenues and Expenditures for Public Elementary and Secondary Education Report, the State's share of school revenues is reduced from 77 percent to 52 percent, within the range of benchmark states and above the nationwide average (46 percent).

Figure 30: School District Reliance on Federal, State and Local Revenues (FY2014), NCES



Source: NCES – Revenues and Expenditures for Public Elementary and Secondary Education (FY2014)

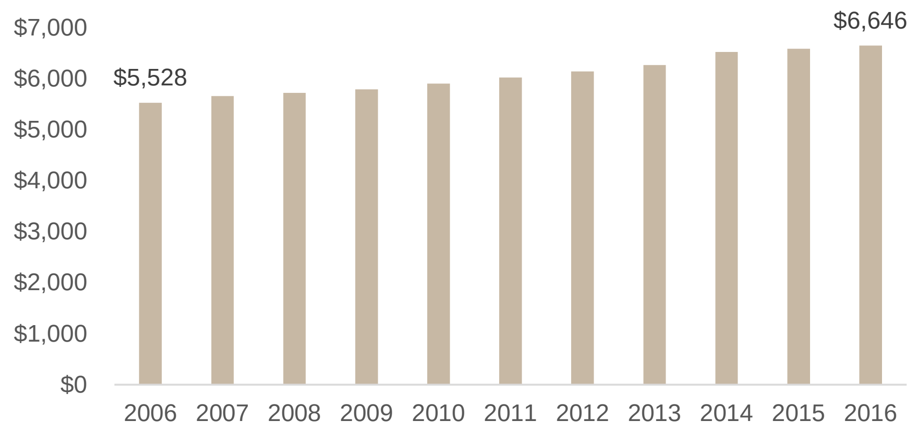
Federal funds for K-12 education primarily consist of support from the Department of Education (such as Title I funding) and other federal agencies, such as the Department of Health and Human Services' Head Start program and the Department of Agriculture's School Lunch program. Although the federal government's share of total education funding is relatively small, it acts as an "emergency response system," filling gaps in state and local support for education when critical national needs arise.[122]

States fund public education by either (1) providing a school district/charter school with a set amount of funding per pupil or (2) by funding a number of positions per school. A study of school funding systems by the Education Commission of the States found that 42 states (including Arkansas) fund schools based on dollar amounts per pupil, while seven fund based on the number of positions.[123] Hawaii is the only state not falling into these categories, as it operates its K-12 education system as a single school district and therefore does not require a funding formula that distributes dollars to school districts.

Arkansas bases its foundation funding amount on the previous year's average daily membership (ADM), a calculation representative of a district's total enrollment. Each school district receives the foundation funding amount set for each year multiplied by its prior year ADM. For example, the foundation funding amount per student for the 2017-18 school year is $6,713. If a school district has an ADM of 1,000, its funding would be determined by multiplying $6,713 by 1,000 for a total of $6,713,000. Typically, this funding makes up 56 percent of districts' total revenue.

[122] U.S. Department of Education – The Federal Role in Education. Accessed electronically at https://www2.ed.gov/about/overview/fed/role.html
[123] Education Commission of the States – Understanding State School Funding (June 2012). Accessed electronically at http://www.ecs.org/clearinghouse/01/02/86/10286.pdf

Figure 31: Foundation Aid per Student, 2006-2016



Source: State of Arkansas CAFRs

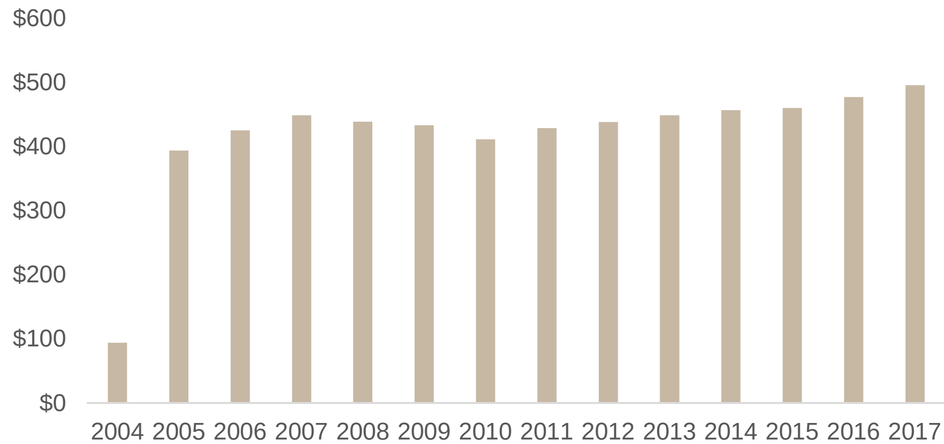
The State also provides additional funding to school districts and charter schools that experience growth over the previous year's third quarter ADM, as well as declining enrollment funding to school districts that have experienced a decline in ADM over the two immediately preceding school years. Additionally, districts receive categorical funding.

The State's role in funding public education has been litigated for much of the past 25 years, primarily stemming from the landmark case *Lake View School District No. 25 v. Huckabee*. In 1992, Lake View School District in Phillips County filed suit alleging unconstitutional disparities in public school funding for wealthy and low-income school districts. In 1994, the Pulaski County Chancery Court ruled the State's funding system inequitable and unconstitutional, and gave the legislature two years to enact legislation. The State changed its funding system to a per-student method in Acts 916 and 917 of 1995, and voters passed Amendment 74 in 1996.[124] Amendment 74 instituted a base millage rate of 25 mills and required that it be used for maintenance and operation in every school district in the State.[125] Despite these changes, in 2001, the Pulaski County Chancery Court again found the State funding system to be constitutionally inequitable and inadequate, and in 2002, the Arkansas Supreme Court held that the funding system was unconstitutional but delayed issuing its mandate until January 1, 2004 to allow the legislature to address the court's findings.[126]

Act 107 of the Second Extraordinary Session of 2003 increased the sales and use tax rate by .875 percent effective March 1, 2004. These revenues are deposited to the Education Adequacy Fund to provide an adequate education system. Act 87 of 2007 designated a portion of the six cent per gallon dyed diesel tax to the Educational Adequacy Fund to partially offset the exemption of dyed diesel from sales tax. Starting in FY2013, a portion of motor fuel taxes is also deposited to the Fund to offset the revenue loss from exempting truck tractors and semitrailers from sales tax. The FY2017 net tax collections are estimated to be $495.8 million.

[124] Arkansas Bureau of Legislative Research – Chronology of Milestones in Lake View (last updated May 23, 2012). Accessed electronically at http://www.arkansased.gov/public/userfiles/Legal/Milestones_in_Lake_View_Case_-_BLR.pdf
[125] Arkansas Law Review – *Kimbrell v. McCleskey:* Rethinking the Constitutional Equality Requirement for Funding Arkansas's Public Schools. Accessed electronically at https://law.uark.edu/alr/PDFs/67-3/ALR-67-3-723-758Fritsche.pdf
[126] Arkansas Bureau of Legislative Research – Chronology of Milestones in Lake View (last updated May 23, 2012). Accessed electronically at http://www.arkansased.gov/public/userfiles/Legal/Milestones_in_Lake_View_Case_-_BLR.pdf

Figure 32: Distributions to Education Adequacy Fund, 2004-2017 (millions)



Source: State of Arkansas CAFRs

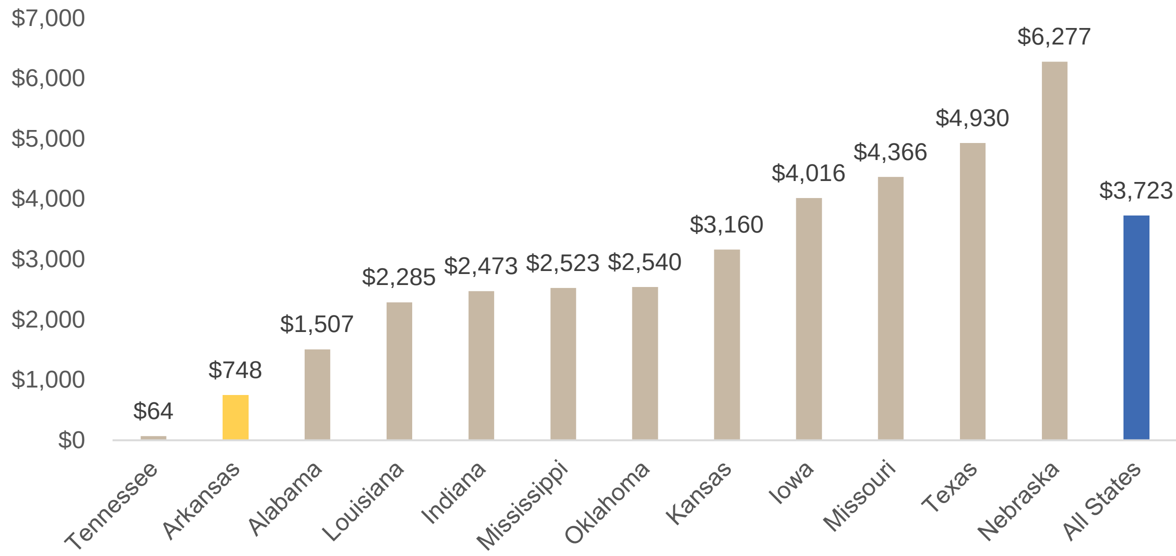
In December 2005, the Arkansas Supreme Court held that the legislature's inaction relative to determining funding needs violated constitutional school funding requirements but gave the legislature until December 2006 to correct constitutional deficiencies in school funding. The correction required significant increases in state resources allocated to education. In May 2007, the Arkansas Supreme Court declared the public school funding system constitutional.

Local funds are primarily property tax revenues. Other local funding sources include other taxes (local non-property taxes, such as sales and income taxes), revenue from cities and counties, fees, parent government contributions and other local revenues (from the sale of property, interest earnings, private contributions and other miscellaneous local revenues not classified elsewhere).[127]

Given the significant reliance on state sources to satisfy the *Lake View* decision, it is not surprising that Arkansas' reliance on local revenues (12 percent) is low relative to other states (between 34 and 59 percent). Additionally, as shown in the following table, on a per-pupil basis, Arkansas' property tax revenues are low ($748), higher only than Tennessee ($64). Nationwide, the average per-pupil property tax revenues are $3,723, significantly higher than in Arkansas.

[127] U.S. Census Bureau – Summary of Public School Finances by State (FY2014). Accessed electronically at https://nces.ed.gov/pubs2016/2016303.pdf

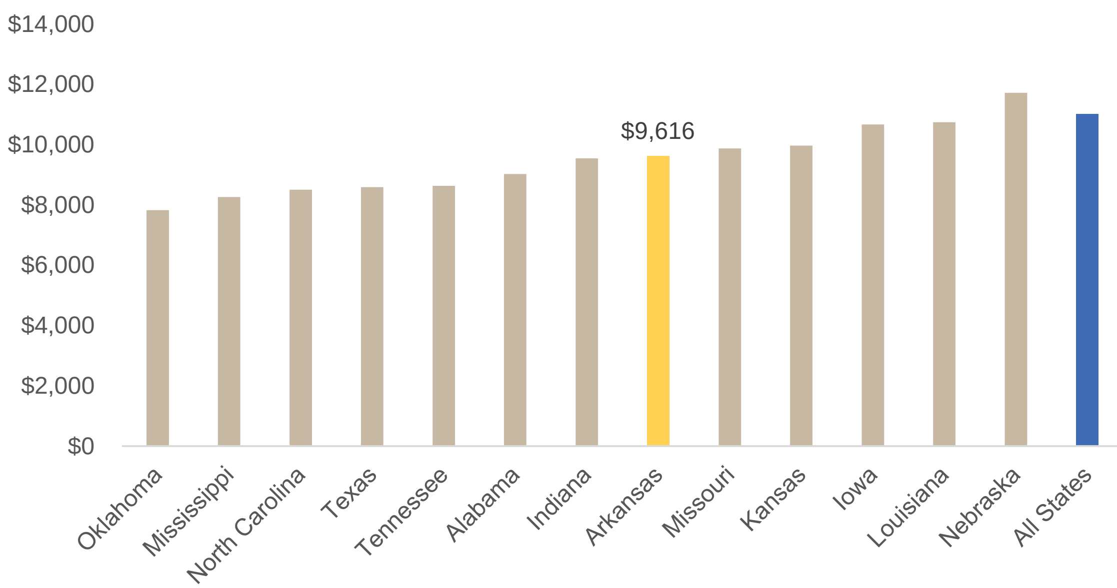
Figure 33: Property Tax Revenues per Student



Source: U.S. Census Bureau, Summary of Public School Finances by State (FY2014)

Many different factors and conditions within states influence education spending totals – some of the more prominent factors include cost of living, class sizes, student demographics and school district characteristics (such as population density and area). As a result, significant variation exists across states. As shown in the following figure, among benchmark states, Arkansas' per pupil spending ($9,616) ranks in the middle, but falls short of the nationwide rate ($11,009).

Figure 34: Per Pupil Current Spending



Source: U.S. Census Bureau, Summary of Public School Finances by State (FY2014)

Property Tax Exemptions

Certain charitable nonprofit organizations, generally including private universities, nonprofit hospitals, museums, soup kitchens, churches and retirement homes, are exempt from property taxation in all 50 states. Arkansas is one of five benchmark states whose constitution mandates charitable exemptions. The Arkansas Constitution provides for the exemption from property taxes for public property used for public purposes, churches, cemeteries, schools, libraries and buildings and grounds used for charitable purposes.[128] As shown in the following table, among benchmark states, only Iowa's constitution does not address taxes or exemptions for charities:

Table 34: Charitable Tax Exemptions in State Constitutions

State	Constitutional Provision
Alabama	State constitution mandates charitable exemption
Arkansas	State constitution mandates charitable exemption
Kansas	State constitution mandates charitable exemption
Louisiana	State constitution mandates charitable exemption
Oklahoma	State constitution mandates charitable exemption
Iowa	State constitution does not address taxes or exemption
Indiana	State constitution authorizes legislature to give charitable exemption
Mississippi	State constitution authorizes legislature to give charitable exemption
Missouri	State constitution authorizes legislature to give charitable exemption
Nebraska	State constitution authorizes legislature to give charitable exemption
North Carolina	State constitution authorizes legislature to give charitable exemption
Tennessee	State constitution authorizes legislature to give charitable exemption
Texas	State constitution authorizes legislature to give charitable exemption

Source: Urban Institute Center on Nonprofits and Philanthropy – The Charitable Property Tax Exemption and PILOTs (2012)

Understandably, this can be problematic for local governments that rely upon property taxes as a key source of revenue. It is also notable that these nonprofits, while exempt from property taxes, consume many of the services provided by those taxes – including police protection and use of the roads.

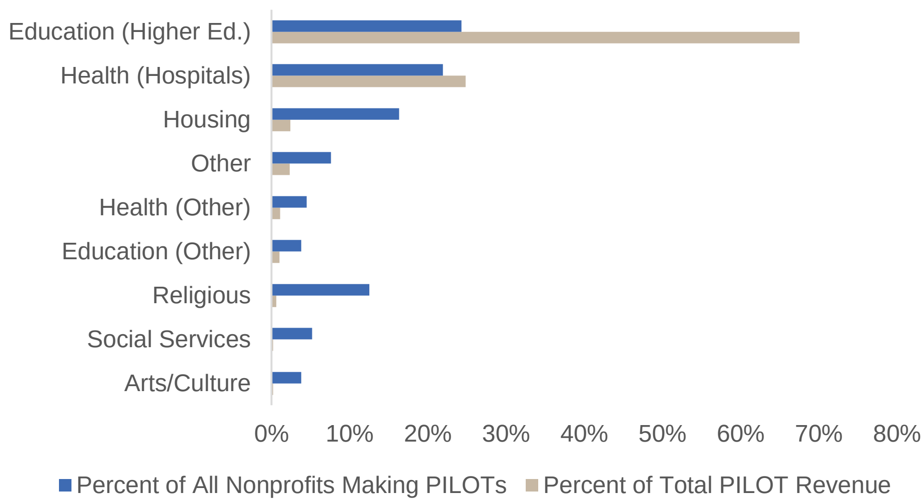
In recent history, local government fiscal pressures have led many localities to consider ways to raise revenue from these tax-exempt nonprofits, including payments in lieu of taxes (PILOTs). PILOTs are voluntary payments made by tax-exempt private nonprofits as a substitute for property taxes.

As shown in the following figure, higher education and hospitals ("eds and meds") account for 46 percent of all nonprofits making PILOTs and provide more than 90 percent of all PILOT revenue. Many other types of nonprofits (housing, religious organizations, social services and arts/culture) also make PILOTs even if their contributions are generally small.[129]

[128] Arkansas Constitution, Art. 16 § 5. The following non-charitable items are also exempted from property taxes: All capital invested in a textile mill for the manufacture of cotton and fiber goods in any manner for seven years from the date of the location of said mill (Arkansas Constitution Amd. 12); Intangible person property may be designated as one or more classes of personal property and such class or classes may be exempted by the legislature (Arkansas Constitution Amd. 57); All intangible personal property (AR Code Ann. 26-3-302); Household furniture and furnishings, clothing, appliances and other personal property within the home, if not held for sale, rental or other commercial or professional use, are exempt (Arkansas Constitution Amd. 71). Additionally, Ark. Code Ann. 26-3-306 exempts homestead and personal property taxes for 100 percent totally and permanently disabled veterans, as determined by the VA on an annual basis.

[129] Lincoln Institute of Land Policy – Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them (2012). Accessed electronically at http://www.lincolninst.edu/sites/default/files/pubfiles/langley-wp12al1-full_0.pdf

Figure 35: Distribution of PILOTs Across Different Types of Nonprofits



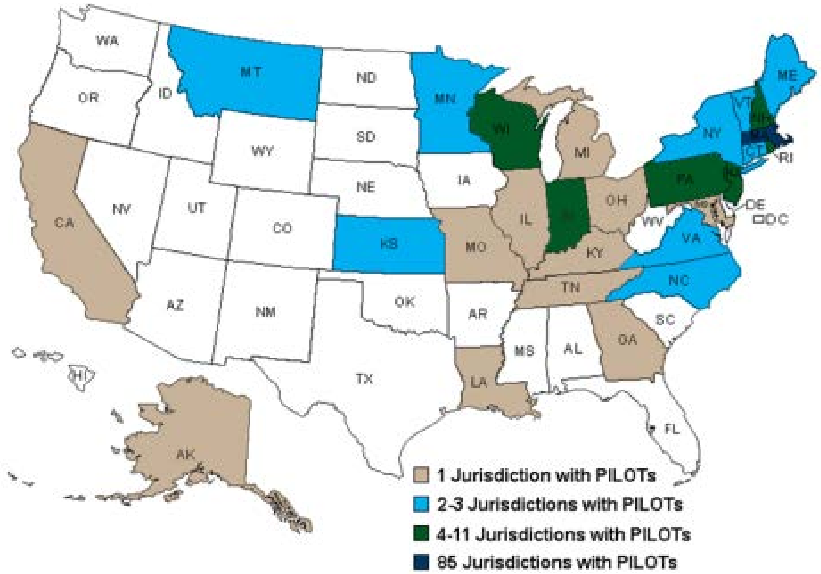
Source: Lincoln Institute of Land Policy – Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them (2012).

Generally, PILOTs account for a nominal share of total general revenue in the majority of localities receiving these voluntary payments. A 2012 study of 186 localities with information on revenue from PILOTs found that 131 generate less than 0.25 percent of their total revenue from PILOTs, and that the PILOT payments accounted for more than one percent of total revenue in just 21 of the 186 localities. Further, and perhaps more importantly, the study found that PILOT revenue exceeded one percent of total property taxes in 47 of the localities, but was less than 0.25 percent of total property taxes in 93 localities.[130]

As of 2012, no jurisdictions with charitable PILOTs had been identified in the State of Arkansas, as shown in the following map.

[130] Ibid.

Figure 36: States with Jurisdictions Collecting PILOTs, 2012



Source: Urban Institute Center on Nonprofits and Philanthropy – The Charitable Property Tax Exemption and PILOTs (2012)

Franchise, Inventory and Personal Property Taxes

Franchise Taxes

The State of Arkansas levies a capital stock tax (known as the franchise tax) on the net worth of a business. The Arkansas Secretary of State Office is responsible for the collection of the tax, which has totaled between $20 and $30 million in recent years. Of total collections, the first $8 million in collections is placed into the State's General Fund; the remaining balance is deposited into the Education Adequacy Fund. Current rates are displayed in the following table.

Table 35: Arkansas Franchise Tax Rates

Franchise Tax Type	Current Rate (2015 Reporting Year)
Corporation/Bank with Stock	0.3% of the outstanding capital stock; $150 minimum
Corporation/Bank without Stock	$300
Limited Liability Company	$150
Insurance Corporation Legal Reserve Mutual, Assets Less than $100 Million	$300
Insurance Corporation Legal Reserve Mutual, Assets Greater than $100 Million	$400
Insurance Company Outstanding Capital Stock Less than $500,000	$300
Insurance Company Outstanding Capital Stock Greater than $500,000	$400

Franchise Tax Type	Current Rate (2015 Reporting Year)
Mortgage Loan Corporation	0.3% of the outstanding capital stock; $300 minimum
Mutual Assessment Insurance Corporation	$300

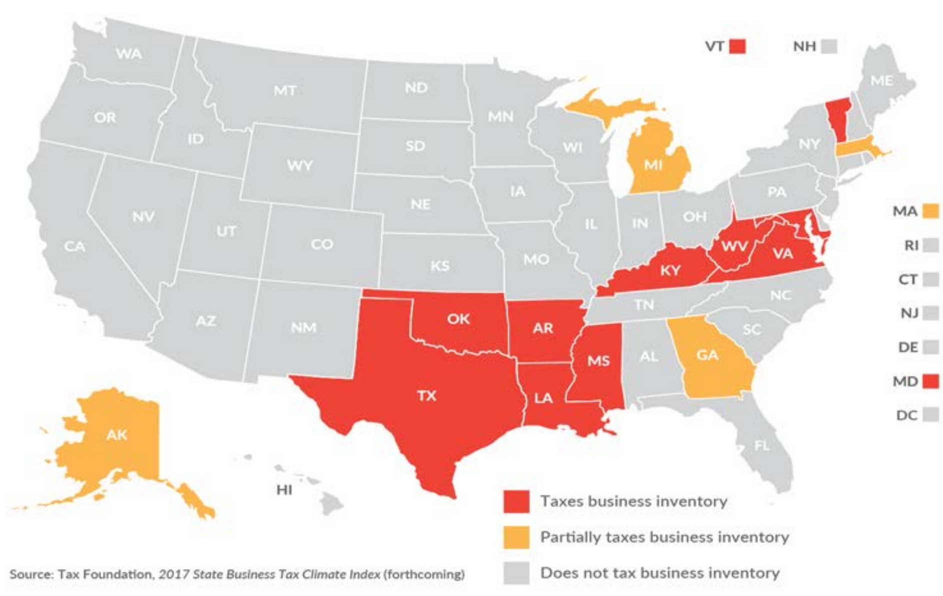
Including Arkansas, a total of 16 states currently levy a franchise tax; it is notable that several of the states (Alabama, Louisiana, Oklahoma, Nebraska and Tennessee) are considered benchmark states to Arkansas.

Flat taxes of this nature are sometimes characterized as “nuisance taxes,” as the administrative costs associated with filing and paying them are nearly as burdensome as the dollar amount of the tax itself. As such, there has been an influx of states in recent years that have begun to phase out the tax. Of the benchmark states, Mississippi passed legislation to phase out the tax over 12 years, Missouri eliminated its in 2016, and Kansas eliminated its in 2011.

Inventory Taxes

Arkansas levies its property tax on business inventories (in addition to taxing real and personal property). As of July 1, 2016, ten states, including Arkansas, tax business inventory. Four additional states impose partial taxes on business inventory, as shown in the following table.[131]

Figure 37: Other State Treatment of Business Inventory Taxes



Source: Tax Foundation – Does Your State Tax Business Inventory?

The following table displays benchmark state treatment of capital stock and business inventory taxes.

[131] Tax Foundation – Does Your State Tax Business Inventory? Property Taxes on Business Inventory as of July 1, 2016. Accessed electronically at https://taxfoundation.org/does-your-state-tax-business-inventory/

Table 36: Benchmark State Treatment of Capital Stock and Inventory Taxes

State	Capital Stock Tax?	Inventory Tax?
Arkansas	**Yes**	**Yes**
Alabama	Yes	No
Indiana	No	No
Iowa	No	No
Kansas	No – Elim. 2011	No
Louisiana	Yes	Yes
Mississippi	Phasing Out	Yes
Missouri	No – Elim. 2016	No
Nebraska	Yes	No
North Carolina	Yes	No
Oklahoma	Yes	Yes
Tennessee	Yes	No
Texas	No	Yes

Source: Tax Foundation: How High Are Capital Stock Taxes in Your State? (as of Jan. 1, 2017); Does Your State Tax Business Inventory? (as of July 1, 2016).

Because it is levied on the value of a company's inventory, the tax is considered to be particularly burdensome to large retail stores and other businesses that store large amounts of merchandise or other types of inventory. Inventory taxes are considered distortionary, because they force companies to make decisions about production that are not entirely based on economic principles but rather on how to pay the least amount of tax on goods produced. Inventory taxes also create strong incentives for companies to locate inventory in states where they can avoid these taxes.[132]

As with real and personal property, Arkansas's inventory tax is levied at the local level and is included as part of local property taxes. This makes estimating total revenues difficult, as amounts attributable to inventory taxes are not separately reported by local governments.

Inventory taxes represent a notable component of overall property taxes in Arkansas. The assessed value of inventory in the State in 2016 totaled nearly $1.4 billion, generating approximately $51.2 million in revenue for school districts and $13.7 million for counties statewide.[133]

While the revenue loss is a concern, other states have sought to navigate this challenge. Since 1991 (and changing over time), Louisiana has offered a state refund of local inventory tax paid by manufacturers, distributors and retailers in an effort to make the state more business-friendly while keeping local revenues intact.

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[132] Tax Foundation – 2018 State Business Tax Climate Index. Accessed electronically at https://files.taxfoundation.org/20171016171625/SBTCI_2018.pdf
[133] Data per Arkansas Assessment Coordination Department. Based on average school mills of 37.11; county tax calculated at 21.6 mills (county average).

Personal Property Taxes

A general definition of personal property is property that is not attached to the land and can therefore be moved from place to place. Some states use other terms for personal property, such as personal effects, movable property, and goods and chattel.[134]

Of the states, 36 tax personal property in some manner, while 14 do not. As shown in the following table, among benchmark states, the taxation of certain types of personal property is common; Iowa is the only state to fully exempt all personal property from taxation. Common exemptions include household goods, intangible property and goods in transit. **A full list of each state's treatment of personal property tax can be found in Appendix N**.

Table 37: State Taxation of Personal Property

State	Is Personal Property Taxed?	Exemptions
Alabama	Yes	Goods in transit, family portraits, farm animals, provisions and supplies on hand for the current year exclusively for family use, and household and personal effects.
Arkansas	Yes	Goods in transit, including raw materials used in the manufacturing process and tangible personal property manufactured, processed, or refined in this state and stored for shipment outside the state.
Indiana	Yes	Intangible personal property, all-terrain vehicles, snowmobiles, human powered boats, wheelchairs and yard and garden tractors for non-business purposes.
Iowa	No	
Kansas	Yes	Household and personal effects, goods in transit and grain.
Louisiana	Yes	Intangible personal property.
Mississippi	Yes	Commodities in transit, computer software and leasehold interests in personal property used to manufacture, transmit and/or distribute electricity or used in the service of higher education.
Missouri	Yes	Household goods, personal effects, intangible property and goods in transit.
Nebraska	Yes	Intangible property, non-depreciable property, household goods, personal effects, livestock and personal property belonging to qualified businesses.
North Carolina	Yes	Intangible personal property other than a leasehold interest, personal property not used to produce income, un-embedded computer software, poultry, livestock, feed for poultry and livestock, and goods in transit from a foreign country.
Oklahoma	Yes	Household goods, tools, implements and livestock used in support of a family not exceeding $100 in value.
Tennessee	Yes	Household and personal effects up to $7,500 in worth, deposits, growing crops, and goods in transit.
Texas	Yes	Non-income producing property (excluding manufactured homes), incoming producing property and mineral interests up to $500 in value, household supplies, farm products and most intangible personal property.

Source: Lincoln Institute of Land Policy – Significant Features of the Property Tax (2015) and PFM analysis of Arkansas Freeport Law

[134] Lincoln Institute of Land Policy – Significant Features of the Property Tax. Accessed electronically at http://datatoolkits.lincolninst.edu/subcenters/significant-features-property-tax/Report_Taxable_Personal_Property.aspx

As the preceding table indicates, many states exempt from tax goods in transit or those stored in the state for shipment out of state, sometimes with a limit on the length of time they may be stored in the state. These are commonly known as Freeport exemptions or laws. Arkansas is one of the states with this exemption.[135]

Property Taxation of Public Utilities

Some types of businesses cannot be readily separated for property tax purposes. These are assessed as a single unit and then the tax base attributable to each tax jurisdiction is determined. Unit valuations of public utilities attempt to value the combination of properties that is likely to sell in the market as a single operating unit.

The Tax Division of the Arkansas Public Service Commission determines property tax assessments on public utilities and carriers, which includes telecommunications providers; electric, gas and water utilities; pipeline companies; railroads; airlines; barge lines; cable television providers; motor carriers and bus lines.

During 2016, the Tax Division valued and assessed the real and personal property of:[136]

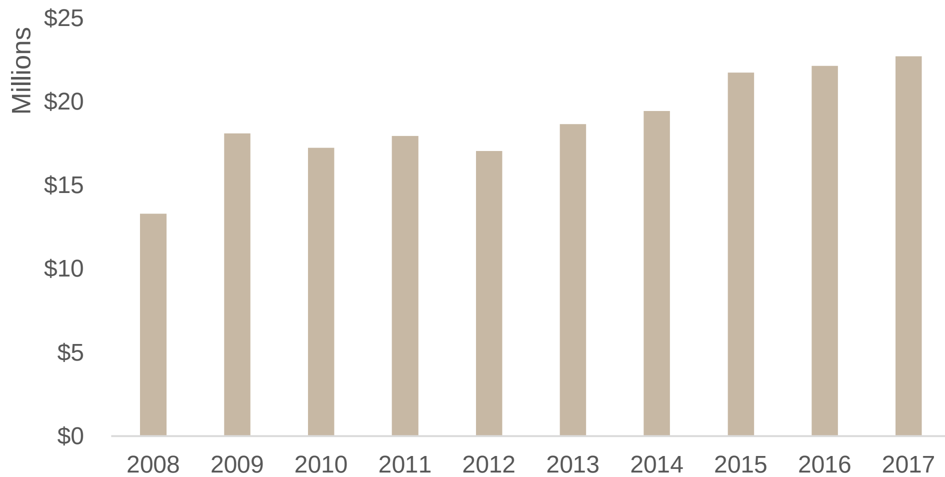
- 296 telecommunications companies and their operating subsidiaries
- 25 cable television companies and their operating subsidiaries
- 33 electric companies and cooperatives
- 17 gas companies
- 11 pipeline companies
- 3 water companies
- 25 railroads
- 387 private car companies
- 19 airlines
- 52 barge lines
- 31,454 motor carriers

These centrally assessed properties make up an important share of the overall tax base. The market value of the utilities and carriers valued by the Tax Division was approximately $22.4 billion in 2016, which represents an assessed value of approximately $4.5 billion and an estimated property tax of $211 million.

The property tax revenue resulting from utility and carrier assessments provides support for the schools, cities and counties of Arkansas. Additionally, Ark. Code Ann. § 26-26-1616 provides for an Ad Valorem Tax Fund, which is funded by revenues resulting from the Division's assessments on carriers. This Fund is used to support the Counties and Municipalities Section of Legislature Audit, the Assessment Coordination Department, and the Tax Division. Since 2008, ad valorem tax revenues have increased from $13 million to nearly $23 million in 2017.

[135] Arkansas Code Ann., Chapter 26, Section 26-1102, which reads, in part, "Tangible personal property in transit through this state, including raw materials from within or outside this state used in the manufacturing process and tangible personal property manufactured, processed, or refined in this state and stored for shipment outside the state, shall, for purposes of ad valorem taxation, acquire no situs in this state and shall not be assessed for taxation in this state."
[136] Arkansas Public Service Commission Tax Division 2015-2016 Biennial Report.

Figure 38: Ad Valorem Tax Fund Revenues, 2008-2017



Source: DFA Revenue Division, Miscellaneous Tax Section

The taxes and penalties collected from water transportation companies in excess of $2.5 million are deposited in the State Treasury and credited to the Arkansas Port, Intermodal and Waterways Development Grant Program; the State Treasurer may transmit the remaining balance to the respective counties in the state.[137]

The following table displays the change in assessed value by property class between 2006 and 2016. While certain classes, primarily private electronics, have declined, most have grown over this period. The most notable increase has been in the private car (situs) class of property. Overall, assessed value has increased by a compound annual growth rate (CAGR) of 5.0 percent.

Table 38: Assessed Value Ten Year Comparison

Class of Property[138]	2006 Assessed Value	2016 Assessed Value	Gain/(Loss)	CAGR
Airline (Real)	$0	$0	$0	N/A
Airline (Situs)	$1,251,210	$459,230	($791,980)	-9.5%
Barge Line (Situs)	$36,880	$1,178,120	$1,141,240	41.4%
Cable Televisions	$101,062,010	$189,977,270	$88,915,260	6.5%
Cellular Telephones	$247,060,020	$438,126,190	$191,066,170	5.9%
Electronic Cooperatives	$423,243,810	$643,140,300	$219,896,490	4.3%
Gas Transmission	$227,574,000	$536,994,690	$309,420,690	9.0%
Motor Carrier (Real)	$6,242,920	$8,722,860	$2,479,940	3.4%
Pipeline Companies	$29,394,940	$709,900	($28,685,040)	-31.1%
Private Cars (Situs)	$1,270,650	$1,264,714,770	$1,263,444,120	99.4%
Private Electronics	$793,570,500	$50,754,990	($742,815,510)	-24.0%
Railroad Companies	$190,973,720	$505,904,800	$314,931,080	10.2%
Reseller Telephones	$1,327,200	$2,806,260	$1,479,060	7.8%
Telephones	$398,733,590	$297,107,530	($101,626,060)	-2.9%
Water Companies	$4,122,800	$7,274,670	$3,151,870	5.8%
Total Certified to Counties	**$2,425,864,250**	**$3,947,871,580**	**$1,522,007,330**	**5.0%**

Source: Arkansas Public Services Commission Tax Division – Biennial Report (2015-2016)

[137] Arkansas Public Services Commission Tax Division – Biennial Report (2015-2016). Accessed electronically at http://www.apscservices.info/pdffiles/TaxBiennial_15-16.pdf
[138] "Situs" of property is where the property is treated as being located for legal purposes.

Property Tax-Based Incentives

Tax Increment Financing

Tax increment finance (TIF) originated in California in 1952. In the U.S., TIF is governed by state law but implemented by cities, counties, economic development authorities or other municipal governments. Today, 49 states and the District of Columbia have tax increment-type statutes with hundreds of projects financed annually.[139]

TIF policies vary by structure, but generally, the process is that a municipality approves and issues bonds for a new amenity. Then the municipality draws a boundary around the area, estimating which properties will benefit from the amenity. Property taxes within the boundaries of the district are split into two parts. The property tax collected on the assessed value of property prior to the formation of the TIF are calculated and continue to flow to the taxing entities. The remaining property value and resulting taxes, known as the increment, are credited to a separate fund and used to either pay the costs of improvements (when done on a pay-go basis) or the principal and interest payments for improvements (when bonds are issued). In theory, the improvements made within the TIF district will improve the value of property and provide the source of payments. However, there is a real risk that additional property tax revenues will be insufficient to pay the ongoing costs of the capital improvements.

TIF is popular because it provides a means to access new tax revenues to support the creation of these same new revenues. Public investment increases private property values, which increase property tax revenues. However, TIF is vulnerable to both national and local economic downturns due to its foundation of increasing tax revenues.

Arkansas Constitutional Amendment 78 of 2000 granted cities and counties the authority to form TIF districts and to issue bonds in order to finance redevelopment projects. A "redevelopment project" is defined in Amendment 78 as "any project for eliminating or preventing the development or spread of slums or blighted, deteriorated or deteriorating areas, for discouraging the loss of commerce, industry or employment, or for increasing employment." Under Amendment 78, all or a portion of ad valorem taxes levied by taxing units with property located in the TIF district may be diverted to the TIF district to pay for redevelopment bonds.

Use of Other Property-Tax Based Incentives

The Arkansas Constitution prohibits local governments from abating or waiving property tax to induce industry to locate within an Arkansas county. The State does, however, allow for PILOT programs, which effectively provide the benefits of partial property tax abatements through the lease or sale of tax-exempt city or county property to a for-profit entity. Under a PILOT agreement, the for-profit entity that leases or purchases tax exempt property agrees to pay at least 35 percent of the aggregate amount of property taxes that would be paid if the property were on the tax rolls, with certain exceptions.

Real Estate Transfer Taxes

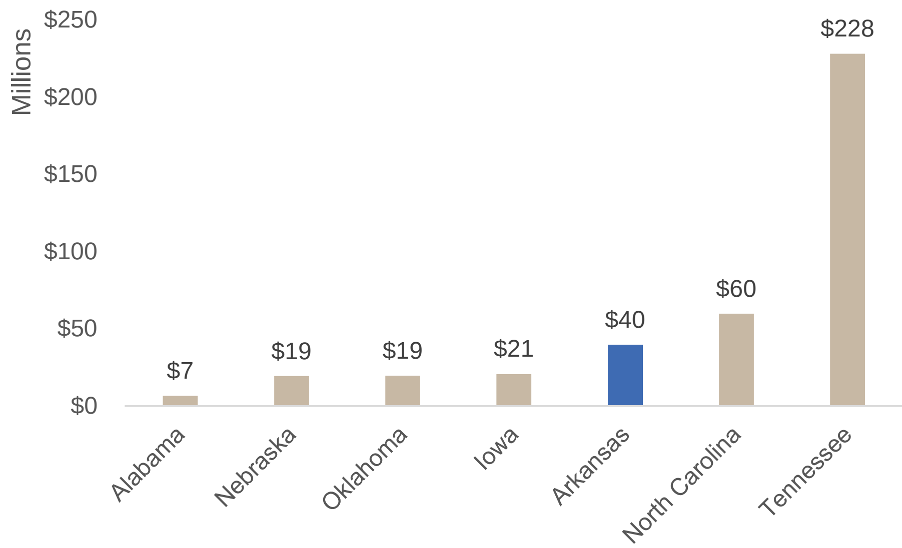
Real estate transfer taxes are taxes imposed by states, counties and municipalities on the transfer of the title of real property within the jurisdiction. They are also commonly referred to as real estate conveyance taxes, mortgage transfer taxes, documentary stamp taxes and property transfer taxes. Real estate transfer taxes can

[139] Arizona is the only state with no enabling legislation.

be used to fund general operations or for specific purposes, such as affordable housing and open space development.

These taxes are a relatively small source of revenue for states. As shown in the following table, among benchmark states, Arkansas' real estate transfer tax revenues ranked in the middle. Tennessee is the only outlier, where this source totaled $228 million in 2017.

Figure 39: Real Estate Transfer Tax Revenues



Source: State Tax Commission or Revenue Department reports

In Arkansas, the Real Property Transfer Tax is levied on each deed, instrument, or writing by which any lands, tenements, or other realty sold shall be granted, assigned, transferred or otherwise conveyed. The tax rate is $3.30 per $1,000 of actual consideration on transactions that exceed $100. In recent years, collections have totaled between $32 and $40 million.

A majority of states levy this tax, but 13 do not. State statutes may or may not stipulate who (buyer or seller is responsible for paying the tax; in addition, most statutes list a number of cases where the transfer is exempt from taxation. The following table provides a summary of real estate transfer taxes for each of the benchmark states.

Table 39: Real Estate Transfer Tax Rates, Select States

State	Tax Description	Rate
Tennessee	Transfer tax: $0.37/$100	0.37%
	Mortgage tax: $0.115/$100	0.12%
	For any instrument that requires a receipt by the county of the state transfer tax or mortgage tax, the county collects a $1.00 fee.	
Arkansas	State transfer tax: $3.30/$1,000 (composed of two parts: real property transfer tax - $1.10 plus an additional tax (currently at $2.20) on transactions exceeding $100.	0.33%
Nebraska	Documentary stamp tax rate: $2.25/$1,000	0.23%

State	Tax Description	Rate
North Carolina	Excise tax on instruments: $1.00/$500; seven counties can levy an optional local real estate excise tax to a maximum of $1.00/$500.	0.20%
Iowa	State real estate transfer tax: $0.80/$500	0.16%
Alabama	Deeds: $0.50/$500	0.10%
	Mortgages: $0.15/$100	0.15%
Kansas**	Mortgage registration tax: 0.1%	0.10%
Oklahoma	Documentary stamp tax: $0.75/$500	0.15%
	Mortgage registration tax: $0.02-$0.10/$100, based on term of mortgage	0.02%-0.10%
Louisiana	None	N/A
Mississippi	None	N/A
Missouri	None	N/A
Texas	None	N/A
Indiana	None	N/A

Source: Lincoln Institute of Land Policy as of 2015; National Conference of State Legislatures – Real Estate Transfer Taxes
*** Kansas is in the process of phasing out its mortgage registration tax; rate is 0.05% eff. 1/1/18 and 0% eff. 1/1/19.*

Voluntary Property Taxes

A provision unique to the state, Arkansas counties and cities are allowed by statute to collect a voluntary property tax if the tax is used to a public entity, for a public service, and for the general public.[140] The voluntary tax can be placed on real property and/or personal property.

These voluntary taxes, along with the millage rates, must be approved by a governing body (typically a quorum court). Once the voluntary property tax has been approved, residents have an option to pay the amount of their property tax with or without the voluntary tax.

A 2017 study completed by the University of Central Arkansas identified 58 different voluntary taxes used in 27 counties and 17 cities throughout the state.[141]

The following map displays the incidence of voluntary property taxes across the state as of 2012-2013. The purposes of these taxes vary, including soil conservation, recycling programs, voluntary fire protection, animal welfare, weather warning systems and historic preservation. For counties, soil conservation was the most common purpose (18 or 27 counties). For cities, volunteer fire departments were the most common purposes (9 of 17 cities).

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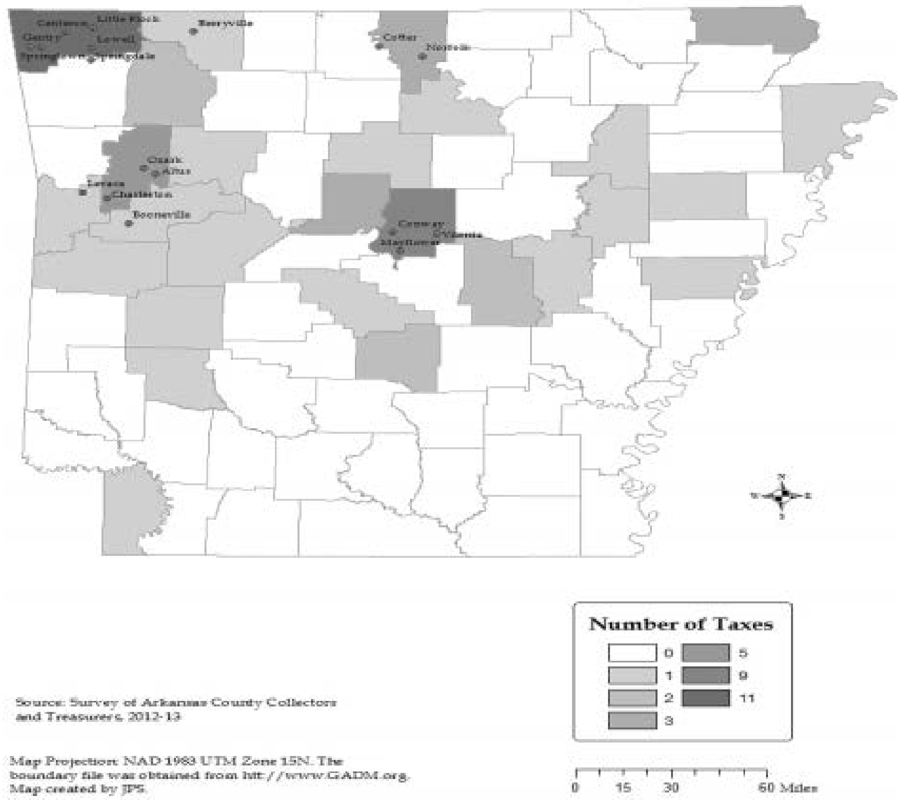
[140] Ark. Code Ann. § 26-25-106.
[141] Hoffman, Kim and Joseph Yuichi Howard – Raising Local Revenue: the Use and Adequacy of Voluntary Property Taxes in Arkansas. Journal of Public Budgeting, Accounting and Financial Management (Winter 2017). Accessed electronically at http://pracademics.com/attachments/article/1357/Art%203_Hoffman_Howard.pdf

Figure 40: AR Counties and Cities with a Voluntary Property Tax, 2012-13



Source: Raising Local Revenue: the Use and Adequacy of Voluntary Property Taxes in Arkansas

Voluntary Property Tax Advantages and Disadvantages

These voluntary property taxes typically represent a relatively small but important source of revenue for the organizations benefiting from them. For example, the study found that voluntary property taxes are the primary funding source for the Faulkner County Emergency Squad and Faulkner County Museum, representing between 72 and 83 percent of all revenue for the emergency squad and 82 to 99 percent of all revenue for the museum. Further, the tax equaled or exceeded program expenditures for three of the seven years of available data for both organizations.

Other examples of voluntary property taxes in Arkansas include:

- In 2016, the Pulaski County Quorum Court passed a "Voluntary Animal Control Spay/Neuter Tax" which levies a voluntary tax of $5 to be paid by business or personal property taxpayers.[142] In its first year, the voluntary tax generated approximately $45,000, which will be used to sponsor spay/neuter clinics.[143]

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[142] Pulaski County Treasurer. Accessed electronically at http://pulaskicountytreasurer.net/voluntary/
[143] Fox 16 – Free Spay and Neuter Services to be Offered in Pulaski County (October 25, 2017). Accessed electronically at http://www.fox16.com/news/local-news/free-spay-and-neuter-services-to-be-offered-by-pulaski-county/844447453

- In 2005, Faulkner County passed a voluntary 1.5 mill tax for animal control. Revenues from this source surpassed $1 million in 2016 and are now being considered for use in building a county animal shelter.[144]

Still, there are inherent disadvantages associated with voluntary property taxes. The primary challenge is that revenues are impacted by the state of the economy. Because they are voluntary and directly tied to ability to pay, revenues are hard to predict. Further, as is the case with check-off programs, revenues decline after initial creation of the opt-in option. Additionally, reliance places the organization at risk. The study found that the voluntary property taxes are a significant revenue source for the organizations benefitting from them. Reliance upon any single revenue source can expose an organization to financial challenges in the event that the revenues decline significantly.

Property Tax Relief Mechanisms

Property tax relief strategies can generally be grouped into three categories:

- Taxpayer-specific reductions in property taxes (primarily deductions and credits)
- Broad-based limits on the growth of property valuations, rates or levies
- Other forms of assistance

As it relates to taxpayer specific relief, the most common methods are forms of **direct payments** to property taxpayers or **specific reductions** to property tax bills. As it relates to limits, these are usually enacted by the state and vary widely - they may apply to the entire property tax bill or to the amount that property value may increase in a particular year. Other forms of assistance can include deferral on payment of all or a portion of property taxes, payment plans and other forms of assistance that do not necessarily reduce or limit the amount of property tax that is owed.

As it relates to these types of programs, a key factor that must be considered within the analysis is whether a program is initiated by the state or a local government (often a city). In most states, public schools are the largest portion (and in some places more than half) of the property tax bill. As a result, state programs that apply to all property tax sources are generally more impactful than city programs that in most cases only apply to city property taxes. Another important consideration (and part of why many property tax assistance programs are initiated at the state level) is that in many states, local government involvement in tax policy decisions is significantly constrained. **A summary of property tax relief programs by type can be found in Appendix O.**

Taxpayer-specific Reductions in Property Taxes (primarily deductions and credits)

Direct property tax reduction through the use of credits, rebates or other mechanisms is a common form of assistance. It is appealing because it can be tailored in multiple ways to impact certain groups of taxpayers or situations. In this respect, it can be seen as something of a ‘rifle shot’ and may be constructed to minimize wider-ranging tax policy issues. Assistance is also often seen as preferable politically, particularly when elected officials can identify specific actions that they have taken to reduce property tax burdens for individuals or groups of taxpayers. Within this category, the relief can take many forms.

[144] Log Cabin Democrat – County to Buy Property for Animal Shelter (November 18, 2017). Accessed electronically at http://thecabin.net/local/news/2017-11-18/county-buy-property-animal-shelter

Homestead Programs

Homestead programs are widely used for owner-occupied residential property. The programs reduce the amount of property value subject to the tax, which can be done by a fixed dollar amount or by a percentage of the value of the homestead.

- Homestead **credit** programs provide tax credits directly to taxpayers. Qualifying homeowners receive a discount on their tax bills or a rebate equal to a certain percentage of taxes due or a fixed amount.

- Homestead **exemption** programs reduce property taxes by exempting a certain amount of a home's value from taxation. The value of the reduction depends on the exemption amount and the assessment level, or the portion of a property's value that is subject to the local government's tax rate.

The majority of states offer some type of homestead credit or exemption. According to one state survey, 23 states have homestead exemptions, 8 have homestead credits and another 8 have both.[145] In some instances, there are further restrictions, such as requirements that the owner occupy the property to be eligible for the credit or exemption. In some instances, there are income limits for the benefit, or the benefit is phased out at higher income levels.

Circuit Breakers

In most states, property taxes as a share of income are greater for lower income taxpayers than for those with higher incomes. Property tax circuit breaker programs are meant to address this issue. Property tax circuit breaker programs, like property tax credits, provide a reduction in the overall property tax bill. While credits are provided to a variety of classes of property taxpayers or purposes, the circuit breaker is targeted at preventing property taxes from going above a certain percentage of the taxpayer's annual income. In effect, these (nearly always) state administered programs "shut off" property taxes once they exceed a certain share of a family's income (hence the 'circuit breaker' analogy – when property taxes 'overload' the taxpayer's income, they trip the circuit breaker). Traditionally, the process used for circuit breakers is as follows:

- The state establishes a maximum percentage of income that a qualifying household is expected to pay in property taxes. This can range from one percent to nine percent, depending on the state; in some states the percentage varies with the family's income level;

- If the household's property tax bill exceeds the limit, the state rebates either all or a portion of the tax payments made above the limit. According to the Institute on Taxation and Economic Policy (ITEP), in 2016, 15 states and Washington, D.C. offered property tax circuit breaker programs using a formula to target reductions for families who owe significant property taxes relative to their incomes. Another 15 states provided property tax credits to some low-income families based solely on income and do not require property taxes to exceed a set percentage of income to qualify; in these states, families may not be fully protected from a tax "overload."

Many states also target circuit breaker programs for specific types of households beyond simple income – most commonly households headed by those over age 65 or those classified as disabled.

Circuit Breakers Advantages and Disadvantages

Circuit breakers can be powerful limits on the overall property tax burden, as they prevent property taxes in a given year from passing a set income threshold (which is generally a percentage of income). Some circuit

[145] "State Homestead Exemption and Credit Programs, State of Connecticut Office of Legislative Research, June 24, 2013, accessed electronically at https://www.cga.ct.gov/2013/rpt/2013-R-0255.htm

breaker programs have other requirements as well (often related to the age of property taxpayers). Circuit breakers also benefit from the fact that they are generally state-administered and thus do not require city administration – and also apply to all property taxes, not just city taxes.

Most of the disadvantages of circuit breakers relate to plan design. Some are overly restrictive and do not provide sufficient tax relief for the targeted population. In other states, the level of funding dedicated to the program does not cover all eligible for relief. Other programs do not adjust available levels of relief as income ceilings and/or brackets become eroded over time by inflation. Some of the plan design problems are associated with the costly nature of these programs – property taxes are a major revenue source, and providing meaningful checks on their growth via payment mechanisms can be very costly.

A final disadvantage relates to its possible impact on state and local finances – in cases where the circuit breaker is applied generally (rather than specifically), there is less pressure by individual property taxpayers to restrain growth in taxes (and thus growth in spending). In this case, it acts as something of a 'blank check' for budget growth. As previously noted, these are generally state designed and administered programs – while that has its benefits for cities, it also limits city control of the program's features (including whether the state has such a program).

Property Tax Refunds

Property tax refunds are a simple concept but more complicated to administer in practice. As with a concept many taxpayers are familiar with, the personal income tax refund, the property taxpayer first pays the property taxes owed and, at some point in the future, receives a refund of some portion of the taxes paid, based on the program characteristics. The exact nature of the program can vary widely from city to city and state to state; it can be a wide ranging program or one that is limited in its impact.

Refunds Advantages and Disadvantages

An advantage of this approach is that it can be tailored to meet the identified needs of the city. This can include establishing criteria related to income levels, percentage growth in property tax levels, length of ownership or other criteria to be eligible for the credit. Another advantage (at least seen from the city's perspective) is that the financial impact of the tax relief can be adjusted up or down based on features of the credit. In the case of a program that provides a percentage of property tax relief, the percentage increase necessary to qualify or the income level can be adjusted up or down to meet general budget requirements.

A major disadvantage of this type of program is the requirement for the refund or rebate to be calculated and applied for by the taxpayer. With any credit or rebate that requires additional activity to receive it, there will be some percentage of eligible taxpayers who will not apply for and receive the credit or rebate. It is certainly possible to design education and public outreach campaigns to seek to increased awareness and participation, but it is unlikely that full participation will ever be achieved. As an example, according to King County, Washington (which includes Seattle), only 1 in 100 qualified seniors and disabled persons for a state property tax exemption and deferral program are currently enrolled. It is also notable that there has to be some vehicle for providing a refund, and this requires administrative processes and costs associated with them.

Limits on Growth

The property tax relief in the prior section primarily provides methods to reduce the homeowner's property tax bill once the entirety of the property tax owed has been determined. One of the difficulties of providing meaningful property tax relief is the cost associated with it. There are also very understandable concerns that assisting taxpayers with a reduction in their property tax burden is simply shifting the overall tax burden to other types of taxes and taxpayers.

The approaches in this section seek to address burden issues in various ways that restrain or restrict the growth (generally from year to year) in the property tax bill itself or the property valuation that helps determine the property tax that is owed. These are nearly always applied by the state to local governments and rely on the state's authority to regulate and provide oversight over its political subdivisions.

While this approach is sometimes limited in its scope, in general it is a broader mechanism for dealing with property tax growth than taxpayer-specific relief. It usually applies across the board to all property taxpayers – which is in contrast to the programs described in the prior section, which are generally eligibility-based, often on income or other characteristics.

Assessment Caps and Adjustments

As has already been discussed, in many instances the genesis for property tax relief has been a concern that growth in property tax assessments was creating a hardship on homeowner property taxpayers. If this is a problem, a direct way to mitigate it is to limit (or cap) increases in assessments. In fact, a large number of states have adopted this approach in various shapes and forms since California's Proposition 13 started the movement in 1978. Using assessment caps and adjustments, states curtail the ability of local governments to increase property taxes through four common mechanisms:

- Limitations on increases in tax rates (35 states)
- Limitations on tax levies (35 states)
- Limitations on increases in assessed values (18 states)
- Limitations on revenues/expenditures (10 states)

Assessment Caps and Adjustments Advantages and Disadvantages

As previously noted, a concern with exemptions and caps is that they are often applied as broad-based changes, which can make them expensive 'blunt instruments.' They can also provide property tax relief (and limit local revenues) to taxpayers who are not necessarily in need of this assistance. Also, in some cases, they simply lead to substituting growth in valuation (which is paid for by certain types of property) for growth in property tax rates (which are paid by owners of all classes of property, whether they are growing in value or not). In many instances, cities have been able to create selective programs that limit growth to lower-income property taxpayers, sometimes in conjunction with other qualifications (such as long-time residents) that align with good tax and other public policy.

Other Forms of Assistance

The way that property taxes are collected (generally in one or two lump sum payments) is sometimes problematic for taxpayers. Over time, more governments have created options that provide more payment flexibility for taxpayers.

Payment Flexibility

Payment flexibility takes many forms. Some governments allow regular payment (such as monthly) plans; others allow payment by credit card (generally with a percentage of payment fee to cover processing charges). Some will provide taxpayers the opportunity to customize a payment plan. These are becoming more and more common, as there generally is little disadvantage (other than the cost to create and administer the program) to the taxing body and is seen as a good 'customer service' practice.

Payment Deferral

As the name suggests, payment deferral plans allow eligible taxpayers to defer all or a part of their property tax payment for some length of time. These were first used in programs targeted to older homeowners as a way to allow them to stay in their homes and acted as something of a reverse mortgage – the property taxes are still due and owed to the government but are deferred until the property is sold or ownership otherwise changes hands. These are generally state programs and come with various eligibility requirements and program features; in some cases, they have been extended to other eligible populations (such as disabled taxpayers) as well.

Payment Flexibility and Deferral Advantages and Disadvantages

These programs provide opportunities for flexibility in design and administration and provide an alternative to homeowners from being forced from their homes, particularly for older individuals. At the same time, they are generally a form of a loan – with interest charged that will be due upon property sale or transfer. Some of the cities in Virginia have adopted interesting approaches that combine features of property tax exemption, freeze and/or deferral at different income levels.

Property Tax Relief in Arkansas and Benchmark States

Amendment 79 of the Arkansas Constitution provides for property tax relief by:

- **Limiting the increase in assessed value** for property tax purposes as a result of county-wide reappraisal. The taxable assessed value of homesteads will not increase more than five percent above the previous taxable assessed value except when new additions or substantial improvements are made to the property. However, the taxable value of the homestead will continue to increase each year until it equals 20 percent of market value. The taxable assessed value of homesteads of residents aged 65 and older or of those who are disabled are capped at the previous year value unless the property owner builds additions, substantial improvements are made to the property, or disposes of it. Taxable value increases for all other real property are limited to 10 percent per year with the same exceptions for new construction and substantial improvements.

- Providing for a $350 **homestead tax credit.** To qualify for the credit, a taxpayer must be either an owner, a purchaser under a record contract to purchase, a holder of a recorded life estate, or a person that has formed a revocable trust that owns the property. Residing in a nursing home does not disqualify a person from the benefits of the provision.

- Finally, homestead assessed values are **frozen** if the owner is 65 years or older, or is disabled.[146]

The following table outlines how local property taxes are restricted in Arkansas and each of the benchmark states. While most set property tax rate limits, fewer impose assessment limits or mandate revenue rollbacks; fewer still set expenditure limits or allow property tax freezes.

[146]Ark. Code Ann. § 26-26-1120.

Table 40: State Restrictions on Local Property Taxes

State	Property Tax Rate Limits	Assessment Limits	Revenue Rollbacks	Expenditure Limits	Property Tax Freeze
Arkansas	**Yes**	**Yes**	**Yes**		
Alabama	Yes	Yes			
Indiana	Yes				
Iowa	Yes	Yes		Yes	
Kansas	Yes		Yes	Yes	
Louisiana	Yes		Yes		
Mississippi	Yes				
Missouri	Yes		Yes		
Nebraska	Yes			Yes	
North Carolina	Yes				
Oklahoma	Yes	Yes			Yes
Tennessee					Local Option
Texas	Yes	Yes	Yes		School Districts

Source: National Association of Counties – A Look at Exemptions, Tax Limits and Assessment Cycles

Property Tax Reform Efforts in the U.S.

The four primary rationales for initiating property tax reform are (1) to improve fiscal performance, (2) to improve social equity, (3) to improve economic efficiency, and (4) to increase administrative cost-effectiveness. While revenue shortfalls are a common reason for property tax reform, they can also be revenue neutral if social, economic or administrative considerations are more important.[147]

In recent years, several benchmark states have made efforts to reform property taxes at the state level in order to achieve one or more of these goals.

Recent Significant State Actions

- **Colorado** (2017) imposed a constitutionally required residential assessment rate decrease, resulting in a property tax revenue reduction to local governments of $440 million.
- **South Dakota** (2016) reduced the property tax rate for school district general fund levies as part of a revision to the K-12 school property tax funding; measure was projected to cost the state $40 million.
- **Pennsylvania** (2017) voters approved a constitutional amendment on property taxes. The amendment permits legislation that could exempt homeowners from paying property taxes. If legislation passed, taxing authorities (counties, school districts and municipalities) could choose to exempt taxes for up to 100 percent of the assessed value for primary residences. This is unlikely to happen, unless other sources of revenue become available to replace property taxes – including income and sales taxes – and would require more legislation.

[147] Harvard Kennedy School – The Tax Everyone Loves to Hate: Principles of Property Tax Reform (2012). Accessed electronically at https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/files/MRCBG_FWP_2012_10-2012_Rosengard_Tax_Reform.pdf

Recent Benchmark State Actions Impacting Property Taxes

- **Alabama** (2016) amended its state constitution to give municipalities and counties increased discretion over the tax increment districts developed within a Major 21st Century Manufacturing Zone.

- **Kansas** (2016) accelerated the effective date of property tax "lid" from 2018 to 2017. This measure requires city and county governments to hold a public vote if they want to raise spending by more than the adjusted Consumer Price Index set by the state. It is now scheduled to take effect in the summer of 2017.

- **Louisiana** (2016) approved an amendment to the state constitution during the 2016 general election authorizing an exemption from ad valorem property tax for the total assessed value of the homestead for a surviving partner of a member of the armed forces who died while in active duty or of a state police, law enforcement or fire protection officers who died while performing their duties.

- **Nebraska** (2016) increased the property tax credit appropriation, resulting in revenue reduction of $20 million in FY2018.

Case Study: Iowa Property Tax Cuts

In Iowa, historically agricultural and residential real property have been treated more favorably for determining taxable value than commercial and industrial property. While the growth in assessed value that is taxable for agricultural and residential property has been limited to 4 percent per year (and, thus, increases have been frequently 'rolled back' to the point where agricultural land taxable value was 43.4 percent of assessed value, and residential was 54.4 percent In 2013), assessments for commercial and industrial property were not. As a result, the annual survey of property taxes in the 50 states by the Lincoln Land Institute generally found that, of the surveyed cities commercial and industrial property taxpayers in Des Moines had among the highest effective property tax rates in the country.

To seek to rectify this, the Legislature enacted wide-ranging property tax relief that "rolled back" commercial and industrial property taxes to 95 percent of assessed value (2013) and 90 percent for 2014 and subsequent years. The maximum annual taxable value growth percentage was also reduced from four percent to three percent for residential and agricultural property.

The State also initiated a complex new property tax credit for commercial and industrial property. The calculation of the credit depends on a number of factors under methodology set out in statute. Each fiscal year, the Iowa Department of Revenue is required to calculate "an initial amount of actual value for use in determining the amount of the credit." Taxes are computed on this "initial amount" (or at the property's actual value if less than the "initial amount") at the residential rate and at the higher commercial rate. The credit is the difference in the two tax calculations, so that the "initial amount" of the qualifying property's valuation is effectively taxed at the lower residential rate. In 1973, the non-partisan Legislative Services Agency estimated that the annual credit increases would be $513 per unit in 2013; $1,385 per unit for 2014; $1,930 per unit for 2015; and $1,989 per unit for 2016.[148]

At the time, the State projected commercial taxpayers would save $218 million in 2017. Lawmakers also promised to fully reimburse local governments for the revenues they stood to lose. In three years, the State has reimbursed Iowa's cities, counties and school districts $391 million – but that amount has not kept pace with

[148] "Local Property Tax, Iowa Legislative Services Agency, December 2015, accessed electronically at https://www.legis.iowa.gov/docs/publications/LG/9447.pdf

the reduction in property tax revenue brought on by the changes (a difference of $107.2 million). Businesses that were expected to benefit the most though lower taxes have saved about half as much as the State projected in 2013, according to the nonpartisan Legislative Services Agency.[149] At the current time, the State of Iowa is projecting a budget shortfall for both the current fiscal year and the next fiscal year; the ability of the State to maintain the credit payments to local governments has been raised as an issue of concern by local governments.

Current Issues and Trends Affecting Property Taxes

Proposed Federal Changes

The Revenue Act of 1913, which introduced the federal income tax, states that "all national, state, county, school, and municipal taxes paid within the year, not including those assessed against local benefits," can be deducted. The Revenue Act of 1964 later named specific state and local taxes that could be deducted, which included: real and personal property, income, and general sales taxes.[150]

These tax preferences serve two important goals. First, by allowing taxpayers the ability to deduct state and local taxes (SALT), taxpayers avoid being taxed twice on the same income. Additionally, the deduction on property taxes, along with deduction on mortgage interest, provides a strong incentive for homeownership. The sales tax deduction provides similar incentives for encouraging spending — which facilitates economic growth.

Compared with other common deductions, the state and local tax deduction has a larger impact than the deductions for both charitable giving and mortgage interest. In recent years, 29.5 percent of tax units used the SALT deduction. Only 21 percent used the SALT deduction for mortgage interest, and 15 percent used the deduction for charitable donations.[151]

Recently, the U.S. House and Senate tax overhaul bills were resolved in a conference committee. The conference committee report, which is to be voted on in both chambers before the end of 2017, caps the combined deductibility of state and local sales, income and property taxes at $10,000. This analysis will be updated as needed should a bill be passed and signed into law that is materially different from this.

In the future, the project team will update the analysis of the impact of the cap of the on Arkansas taxpayers. It is notable that 75-80 percent of all SALT deductions in the state are for income or sales tax (as opposed to property tax).

Table 41: Arkansas SALT Deduction

	House District 1	House District 2	House District 3	House District 4
Total Count of State Tax Returns	268,852	319,057	319,721	273,005
State/Local Income or Sales Tax Deduction				
Number of Returns	46,535	86,948	76,319	46,964
Amount Deducted ($1000s)	$265,736	$605,986	$702,313	$252,460
% of All Returns	17.3%	27.3%	23.9%	17.2%
Total SALT Deduction				
Number of Returns	48,846	88,643	77,622	49,276

[149] Des Moines Register – Iowa's Largest Property Tax Cut in History Fails to Delivery, Register Investigation Finds (September 16, 2017).
[150] Per GFOA
[151] Ibid.

	House District 1	House District 2	House District 3	House District 4
Amount Deducted ($1000s)	$342,911	$815,511	$876,429	$327,774
% of All Returns	18.2%	27.8%	24.3%	18.0%
Income/Sales Deduction as Percent of Total SALT Deduction	**77.5%**	**74.3%**	**80.1%**	**77.0%**

Source: Center on Budget and Policy Priorities – House District Map

Summary

Property taxes, stable but unpopular, continue to be a primary source of local government revenue across the country. States use a variety of mechanisms to deal with this dichotomy – relief, reform, caps and limits on growth. Overall, there has been a national trend away from property-based taxation toward taxes that are more consumption-based. That trend is likely to continue.

Arkansas, in comparison to benchmark states and the nation as a whole, has a lower property tax burden. The K-12 education component of property taxes is usually the largest and also the most significant for state share of funding. Arkansas has contributed a larger share of the combined funding for K-12 education than most of the benchmark states and the nation as a whole.

Broad-based property tax relief is an expensive undertaking – targeted relief, caps or limits on growth are more often used.

Relief and Reform Considerations

- Exemptions for non-profits are becoming an 'area of interest' in many parts of the country as local governments seek ways to cover the cost of services.
- On the other side of the 'tax exempt equation,' some states are limiting the ability of local government to provide targeted exemptions (such as TIFs) for economic development purposes.
- Other property-related taxes, such as real estate transfer taxes, franchise and inventory taxes, have been targets for tax reduction or prohibition.

Recent State Tax Actions

Overview

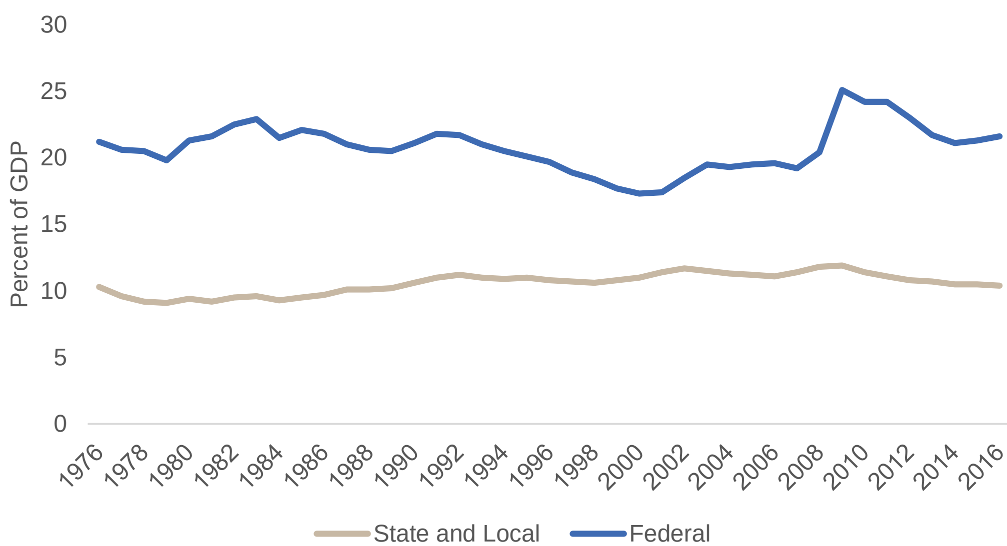
On a macro level, state taxes and spending are intertwined yet sometimes competing components of state budgets. Nearly every state has constitutional or statutory balanced budget requirements,[152] and while they vary considerably in their impact on state budget deliberations, there are a variety of other checks (both political and policy-related) that work to maintain a reasonable equilibrium between state revenues and expenditures.

An important question – with multiple competing theories and answers – is what is the key driver in the balanced budget equation? In other words, do revenues (which, at the state level, are primarily taxes) define expenditures, or do expenditures require states to find revenues to match them?

Examples can be found to support either answer – and it is also possible that both are, depending on the state and other circumstances, defensible. In fact, many of these exogenous variables – such as federal requirements, business cycles and state political, demographic and social conditions – may materially impact these considerations. These will likely vary on a state-by-state basis.

When looked at over time, there are some broad trends that can be ascertained. As the following chart shows, state and local expenditures as a share of GDP have been relatively stable over the last 40 years. While there is some fluctuation, these tend to be associated with business cycle economic conditions and/or federal requirements:[153]

Figure 41: State/Local and Federal Expenditures as a Share of GDP, 1976-2016



Source: Office of Management and Budget

Of course, expenditures as a share of GDP measures them as a share of economic activity and not as a dollar value. It is not surprising that expenditures (and taxes that support them) have generally been rising during this same time period:[154]

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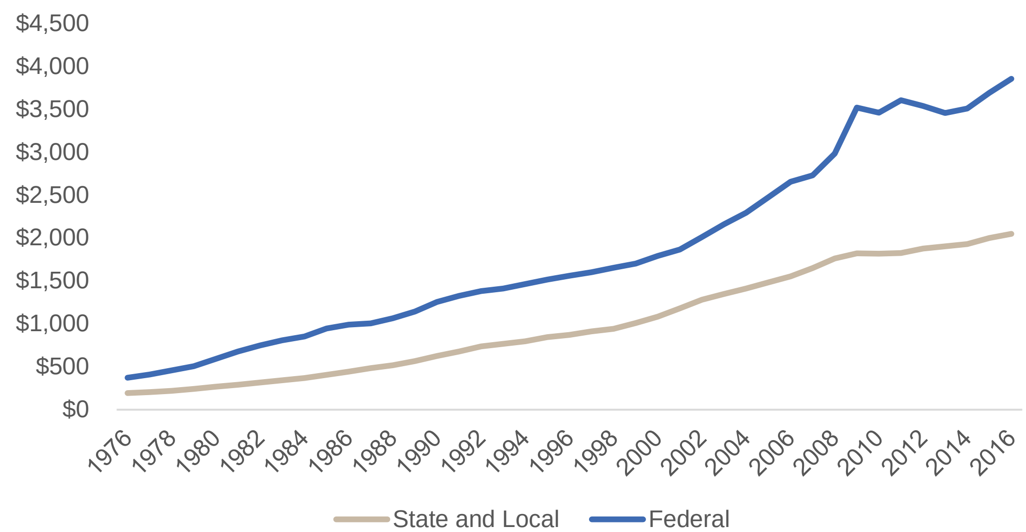
[152] "Budget Processes in the States," National Association of State Budget Officers, Spring 2015, Table 9, p. 52.
[153] Office of Management and Budget, Historical Tables, Table 14.3, accessed electronically at https://www.whitehouse.gov/omb/historical-tables/
[154] Ibid., Table 14.2

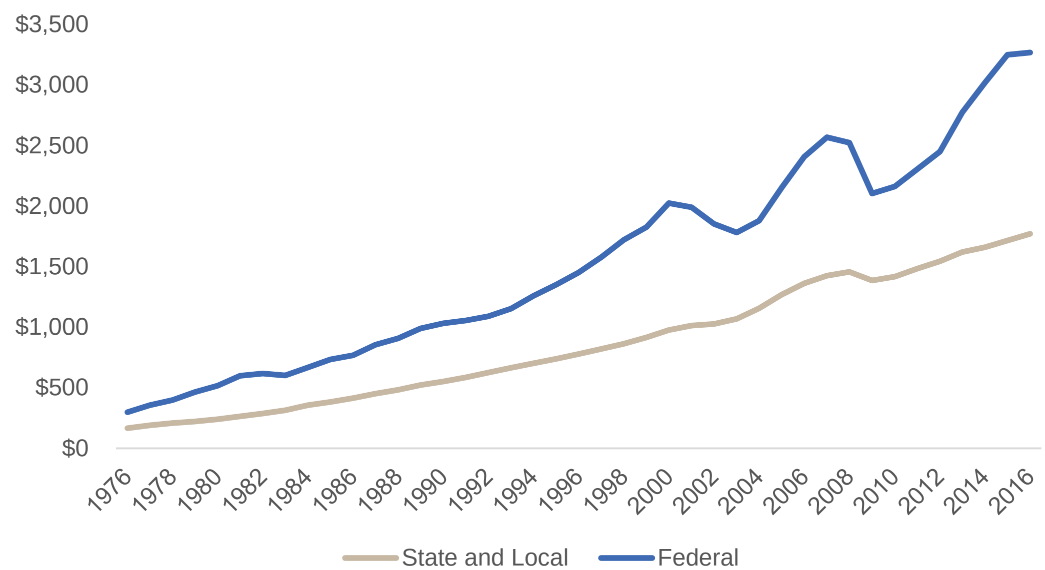
Figure 42: State/Local and Federal Expenditures, 1976-2016 (in billions)



Source: Office of Management and Budget

While there was a slight dip in expenditures in 2010 (associated with the Great Recession), the long-term state and local revenues showed a bit more volatility associated with that recession:

Figure 43: State/Local and Federal Revenues, 1976-2016 (in billions)

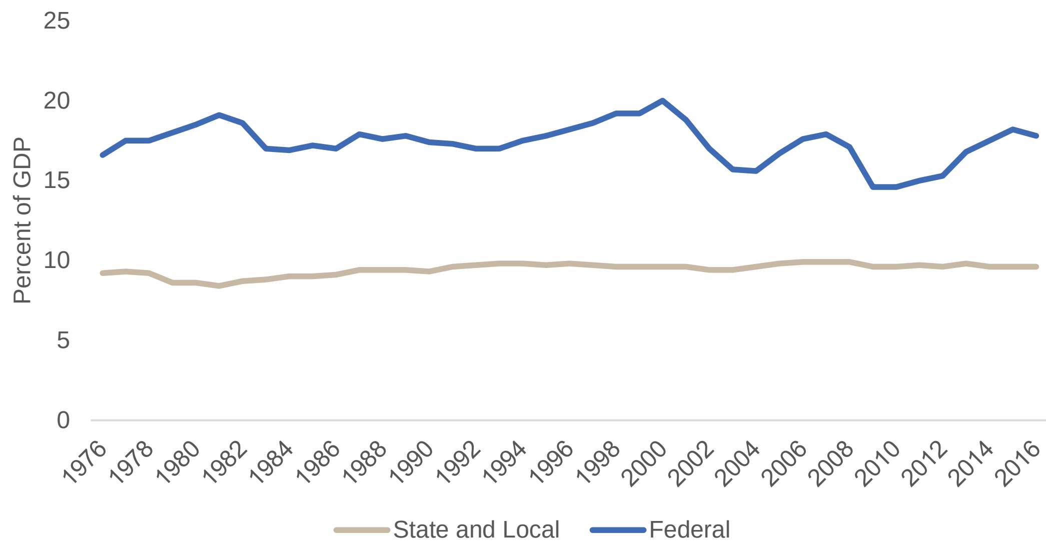


Source: Office of Management and Budget

That is understandable, as state and local governments have additional tools to smooth out spending that may not necessarily exist on the tax side. For example, most states maintain cash reserves/rainy day funds that may be accessed when revenues underperform. States may also access other one-time funds or use borrowing or other financing methods to smooth out expenditures.

In general, however, the prior charts suggest that, over the last 40 years, aggregate state and local revenues and expenditures have generally increased, but their share of GDP has shown some fluctuation. As a share of GDP, these revenues and expenditures have not exhibited dramatic variation (either in terms of increases or decreases).

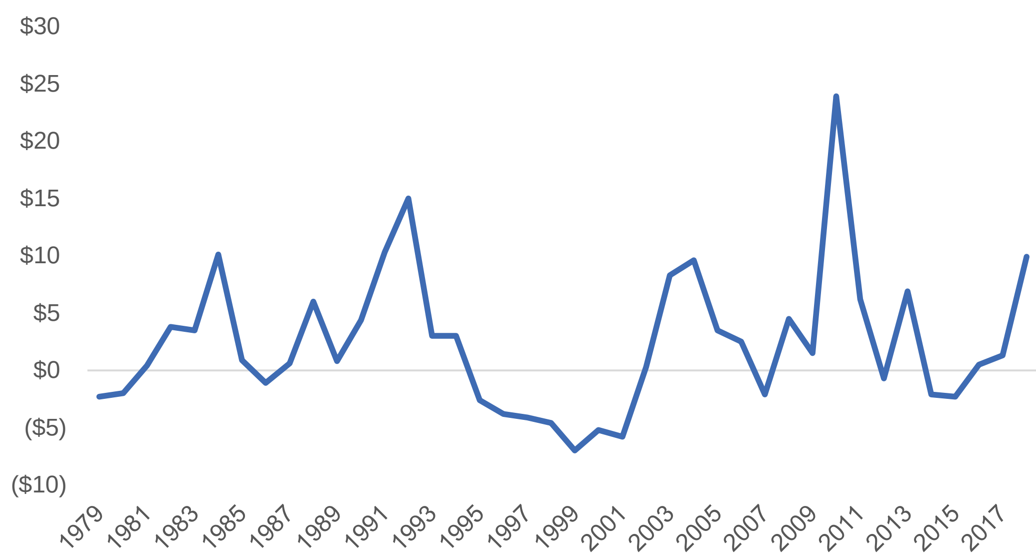
Figure 44: State/Local and Federal Revenues as a Share of GDP, 1976-2016



Source: Office of Management and Budget

While this suggests that revenues and expenditures are roughly aligned and move in similar patterns, the role of enacted changes to tax structures reflects more noticeable ebbs and flows. The following chart tracks legislated changes to tax structures – both tax law changes that increase and decrease revenue.

Figure 45: Enacted State Revenue Changes, Fiscal 1979 to Fiscal 2018



Source: NASBO Fall 2017 Fiscal Survey

A detailed table containing the data points for the preceding chart can be found in Appendix P.

It is notable that many of the periods of tax increases are during or immediately after economic downturns. According to the National Bureau of Economic Research, the following are recessionary periods during the calendar and fiscal years for most states included on the preceding chart:[155]

- January 1980 to July 1980 (Fiscal Years 1980-1981)
- July 1981 to November 1982 (Fiscal Years 1982-1983)
- July 1990 to March 1991 (Fiscal Year 1991)
- March 2001 to November 2001 (Fiscal Years 2001-2002)
- December 2007 to June 2009 (Fiscal Years 2008-2009)

The need to legislate tax changes that increase revenue during and after recessions is logical – as previously noted, states generally have to balance budgets, and recessions are periods of both reduced revenue associated with economic activity (such as income taxes) and increased expenditures (for example, for programs with income-based eligibility, such as Medicaid). In these periods, states often rely on taxes that can be readily increased without dramatically increasing overall tax burdens. Excise taxes are a common target, particularly those on cigarettes and tobacco products. In some cases, particularly when recessions are deeper or longer-lasting (such as during the December 2007 to June 2009 Great Recession), tax increases are broader-based. It is notable that the highest peak in enacted revenue increases occurred in FY2010-2011, the years after the Great Recession.

Over the past 40 years, the longest period of sustained revenue reduction actions occurred from FY1994 through FY2000. This was a lengthy period of economic expansion, and that provided states an opportunity to maintain balanced budgets while also cutting taxes. During this period, most states made revenue reduction changes to their budgets.[156]

When comparing the areas of legislated revenue increases to decreases, the increases are significantly more substantial. There are several possible explanations for this differential, and the two most impactful are:

- **Erosions of the tax base** have required revenue increases to maintain similar levels of revenue (as a share of GDP). This aligns with discussions within this report related to the sales and use tax, where changes related to consumption of non-taxed services, purchases over the Internet and other factors have impacted on collections.

- **Changes to the mix of state and local revenue sources.** As discussed related to the state-local government relationship, over the years, states have often chosen to substitute state tax revenue for local property taxes. Because the comparisons combine state and local revenue, when state taxes are raised to replace those revenues, it will show up as state tax actions that increase revenues, even when there is a similar reduction in local tax revenues.

[155] "Business Cycle Expansions and Contractions, National Bureau of Economic Research, accessed electronically at http://www.nber.org/cycles.html

[156] Review of annual Fiscal Surveys of the States, National Association of State Budget Officers, available electronically at https://www.nasbo.org/mainsite/reports-data/fiscal-survey-of-states/fiscal-survey-archives

Recent State Tax Actions

According to a just-released 50-state survey by the National Association of State Budget Officers (NASBO),[157] states collectively enacted revenue changes of an additional $9.9 billion in FY2018. This was the largest enacted increase since FY2010, when, at the end of the Great Recession, enacted revenue increases totaled $23.9 billion.

Of course, not all states enacted revenue increases – in fact, several enacted substantial reductions, led by Minnesota (-$303 million), Maine (-$176 million) and Florida (-$92 million). However, a handful of states enacted extremely large revenue increases, led by Illinois ($4,450 million), California ($2,632 million) and Washington ($697 million). **Appendices Q and R provide detailed information regarding enacted revenue actions in FY2018 and mid-FY2017, respectively.**

The following details changes by major tax category:

- **Sales tax** actions resulted in a (minor) net increase of $13 million. Of the states, 11 enacted increases and 11 enacted decreases. Eliminating tax breaks and base broadening efforts in Illinois and Washington were the more significant actions, while new exemptions in Minnesota and Washington and a reduced tax rate on food in Tennessee were the largest reductions. Sales tax increases on vehicles in South Carolina and West Virginia contributed to a net increase of $120 million for other funds – dedicated in those states to road construction and maintenance.

- **Personal income tax** actions made up a substantial amount of enacted revenue increases, $4,114 million, driven by Illinois and Kansas rate increases. Eleven states made what NASBO characterizes as 'modest' decreases. These included a repeal of a high income surcharge in Maine, expansion of the earned income tax credit in California and tax credit changes in Minnesota.

- **Corporate income tax** actions resulted in an increase of $545 million, with five states enacting increases and eight enacting decreases. Illinois enacted a rate increase and Pennsylvania changed the cap on net operating loss deductions, which made up the bulk of the increases. Tennessee's allowing manufacturers to apportion income via a single sales factor accounted for the largest reduction.

- **Cigarette and tobacco taxes** actions totaled an increase of $51 million. Three states enacted tax increases and two enacted (according to NASBO) 'very modest' decreases. This was the smallest number of states to enact increases in several years. It is also notable that Oklahoma attempted to enact a cigarette revenue increase as a fee, but the Oklahoma Supreme Court ruled it violated the state's constitution and invalidated it.

- **Motor Fuel Taxes** were increased in eight states, resulting in other fund (primarily restricted road funds) revenue increases totaling $2,895 million. California's infrastructure package had the largest fiscal impact, increasing gas and diesel tax revenues by an estimated $2.1 billion. Indiana, Oregon, Tennessee, South Carolina, West Virginia and Montana also increased fuel taxes for FY2018, while Utah's increase is effective for FY2019.

[157] "The Fiscal Survey of the States, Fall 2017," National Association of State Budget Officers, December 13, 2017, accessed electronically at https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Fiscal%20Survey/NASBO_Fall_2017_Fiscal_Survey__S_.pdf

State Tax Reform Efforts

Most of the changes described in the prior section were responses to particular budget situations or needs. As discussed in the section on excise taxes, motor fuel tax increases have been common among the states in recent years, which is a result of a combination of factors, including reduced federal funding, improved gas mileage, the rise of alternate fuel vehicles and a substantial need for reinvestment/repair of existing roads and bridges.

Moving beyond the basic funding needs and tax changes to support them, while states as a whole have often not been focused on broad-based tax reform-like changes to their tax structure, there are notable exceptions. As Figure 45 suggests, these changes generally occur during periods of sustained economic expansion, particularly in recent years during the 1990s and the period after the end of the Great Recession.

While it is helpful to understand reform efforts that have been enacted by Legislatures and signed by Governors, it is also worth noting broad efforts at reshaping state tax structures that have not been enacted. In particular, there is much attention to remaking state (and local) sales and use tax base to include services, but it has been difficult to accomplish this – even when accompanied by recommendations to reduce the sales tax rate (which would align with the basic tax principle of taxing the broadest base at the lowest rate). The following two state examples, from Ohio and Oklahoma, may help underscore how difficult this can be. As with Arkansas, both Ohio and Oklahoma share the characteristic of a Republican Governor and Republican majorities in the state legislature.

Ohio

In 2013, Ohio Governor John Kasich proposed a sweeping revision to Ohio's major state tax structure. Under his proposal, the state sales tax would be reduced from 5.5 percent to 5.0 percent (an estimated reduction in revenue of $621 million) and the sales tax base would be expanded to include all services, with the exception of essential services such as health care, education, and shelter. This base expansion was estimated to increase sales tax revenue by $1,943.8 million. At the same time, Governor Kasich proposed to reduce individual income taxes in a phased approach. For FY2014, phase one of a three-year, 20 percent income tax rate reduction, a 7.5 percent reduction was to be enacted. Years two and three would have seen an additional 7.5 percent reduction in 2015 and a 5.0 percent reduction in 2016. The plan would have also provided a deduction of 50 percent on up to $750,000 of business income for pass through entities. The income tax changes would have reduced revenue by $1,657.7 million in FY2014. Taken together, the sales and individual income tax changes were a net reduction of revenue in FY2014 of $334.9 million.

As can be expected, the broad changes were met with resistance from a variety of stakeholders – both those who would be subject to collecting the new tax (and would see it as negatively impacting their businesses) and those who would have to pay the tax. In the end, the plan enacted by the Legislature and signed by the Governor was far different than proposed. While significant changes were made to individual income taxes, the sales tax rate was increased slightly, by 0.25 percent (a projected increase in revenue of $295.0 million for FY2014). A few other sales tax changes were enacted to raise additional revenue (full membership in the Streamlined Sales Tax Agreement, a projected $9 million; explicitly subject digital goods and services to sales tax, a projected $15.0 million; and repeal the exemption for magazine subscriptions, $11.0 million).

In the end the primary vehicle for tax reform was reductions in individual income tax, and the sales tax was seen primarily as a method to help reduce the fiscal impact of those reductions – albeit not through a broad-based expansion of taxed services. The individual income tax reduction package included some minor revenue raisers (freezing indexing of brackets for three years, an additional $37.0 million; eliminating the $20 exemption credit for taxpayers with taxable income of $30,000 or more; eliminating the gambling loss deduction, an additional $30.0 million; freezing the personal exemption for three years, an additional $17.0 million). In return, there were significant income tax rate reductions phased in over three years for all nine brackets – reductions of 8.5 percent in the first year, and 9 percent and 10 percent in the following two years. There were also increases in deductions for small businesses and an earned income tax credit equal to five percent of the federal credit. All told, the income tax reductions totaled $2,426.5 million for FY2014.

Clearly the Ohio changes were significant, and they moved the State along the path toward greater taxation of consumption and away from taxes on income. At the same time, it did not address the concern about base erosion for the sales and use tax or taxes on services.

Oklahoma

During her 2017 State of the State speech and in her proposed budget,[158] Oklahoma Governor Mary Fallin proposed a sweeping set of changes to Oklahoma's tax structure. Characterizing it as a way to modernize the state's tax laws, the centerpiece of the plan was a broadening of the state sales tax base to include a broad array of approximately 160 services, which was estimated to raise an additional $839.7 million. At the same time, the Governor's proposal would have provided a full sales tax exemption for the purchase of groceries, which are fully taxable in the State. That exemption was projected to reduce sales tax revenue by $234.7 million. The Governor's proposal would have also eliminated the state's corporate income tax, which would have reduced revenue by an estimated $140.2 million.

It is notable that Governor Fallin had opposed a proposal the prior year to increase the state sales tax. That plan was put to a vote of the people and defeated. However, as a revenue raising alternative to a rate increase, Governor Fallin's proposal to expand the tax on services was met with significant resistance. Besides stakeholder group resistance, the plan was also criticized by the State's Lieutenant Governor, Todd Lamb, who resigned from the Administration in protest of the proposal. In the end, the Legislature did not approve the Governor's expansion of the tax on services, and also did not act on the recommendation to exempt groceries from the sales tax.

Other State Actions

Since 2008, 18 states have cut their individual income taxes and 15 states have reduced their corporate income taxes – while several others have fundamentally remade their tax codes. While some states serve as models for reform, others serve as cautionary tales. The following states provide case studies of recent reform efforts. They are by no means the only ones, but they provide a starting 'representative sample.'

Michigan

Prior to 2012, Michigan had an unusual corporate tax structure that consisted of both a corporate income tax of 4.95 percent and a gross receipts tax of 0.8 percent. In addition, there was a 21.99 percent surcharge on the total tax liability. At the same time, a variety of carve outs created 'favored business status' for activities with arguable economic benefits. This was a structure that, in many respects, combined the worst of each world related to corporate taxes.

To enact a more typical type of corporate tax structure, in 2012 a single six percent corporate tax rate was enacted. At the same time, a variety of tax credits and preferences were eliminated, for both individual and corporate income taxes. Michigan continued to revise its tax structure by enacting a reduction in its individual income tax rate, from 4.35 percent to 4.25 percent. In 2014, it also repealed the personal property tax for small businesses and manufacturers.

[158] FY2018 Executive Budget, Governor Mary Fallin, February 6, 2017, accessed electronically at https://www.ok.gov/OSF/documents/bud18.pdf

While employment growth was slow in the first years of the changes to the tax structure, the state has exhibited strong performance in recent years. According to an analysis of Bureau of Economic Analysis data, real average GDP growth for Michigan has outpaced the region in the period after the Great Recession and its tax law changes, as shown in the following table. The table also shows the period prior to the Great Recession, where Michigan lagged the growth of its neighbors:

Table 42: Real Average GDP Growth

All Industries	2002-2007	2011-2016
U.S.	2.7%	2.0%
Michigan	0.0%	1.9%
Great Lakes States*	1.3%	1.4%
Illinois	1.8%	1.0%
Manufacturing	**2002-2007**	**2011-2016**
U.S.	4.4%	0.9%
Michigan	0.8%	2.1%
Great Lakes*	2.4%	0.8%
Illinois	2.7%	-0.4%

**Illinois, Indiana, Michigan, Ohio, Wisconsin*
Source: Bureau of Economic Analysis, Wall Street Journal

Of course, there are a lot of factors other than just taxes that were impacting these states at these points in time. In Michigan, there were a variety of changes to state operations and management that received national attention and acclaim. At the same time, other comparison states may not have been doing as well. In particular, the inability of Illinois to enact budgets and engage in basic state governance has had a significant impact on everything from the State's credit rating to the willingness of businesses and individuals to do business with the State.[159] At the same time, these tax changes align with what might be considered at least some tax reform best practices:

- The State focused on specific areas of perceived weakness in its existing structure
- The changes were made over a number of years, in successive stages or phases
- The changes were made in conjunction with spending restraints and other reforms

Kansas

In 2012, Governor Sam Brownback recommended cutting income taxes across the board. The top income tax rate was reduced from 6.45 percent to 4.9 percent. Tax cuts were not limited to individual income taxes; for some businesses (partnerships, LLCs, S-Corps and sole proprietorships), the tax rate was cut to 0.0 percent.

In 2013, another tax cut was initiated, which would have reduced the top rate for wage income by an additional 1.0 percent by 2018.

Facing a $400 million budget deficit in FY2016, the State approved the following measures:

- An **income tax** package that slowed the scheduled rate cuts and repealed itemized deductions (except those for charitable contributions, mortgage interest and property taxes paid), a projected tax increase of $149.8 million.

[159] As an example, Governing Magazine named the State's Budget Director, John Nixon one of its 2012 Public Officials of the Year, noting that "After just six weeks on the job, Nixon had rebalanced the state budget and put together a sweeping tax-reform package. With the state now on firmer financial ground, Nixon also locked $47 million for technology into the state's base budget for the next five years." Accessed electronically at http://www.erepublic.com/press_releases/174972511.html

- An increase in the **sales and use tax** rate from 6.15 percent to 6.5 percent, a projected tax increase of $164.2 million.

- An increase in the **cigarette tax** rate by $0.50 per pack, a projected tax increase of $40.4 million.

In 2017, the Legislature voted to raise the top income tax rate to 5.7 percent and ended the special treatment of business income. These income tax increases are projected to raise an additional $1.2 billion between FY2018 and FY2019.

Oklahoma

In addition to the proposed changes to the sales tax (previously discussed), the following provides broader context related to tax reform efforts in the state that predate those 2017 issues.

In 2014, the State passed a two-step tax cut that scheduled a tax reduction "trigger" – a planned reduction in the State's top income rate from 5.25 percent to 5.0 percent in January 2016 if the December 2014 revenue estimate for FY2016 was higher than the February 2013 estimate for FY2014.

By December 2014, the State estimated a $300 million budget deficit for FY2016; however, since the FY2016 revenue estimate was higher than the FY2014 estimate, the trigger was pulled, and the top income tax rate was reduced to 5.0 percent (reducing revenue by $100 million).

In 2017, faced with continued deficits, the State repealed the trigger that would have reduced the rate from 5.0 percent to 4.85 percent.

Facing a $1.3 billion budget deficit for FY2017, the State increased revenue by nearly $270 million with the following measures:

- The earned income tax credit was made nonrefundable ($29 million in 2017).
- The "double deduction" for state income tax payers was eliminated ($90 million annually).
- The total credit available for low-producing oil wells was capped at $12.5 million ($120 million).
- An annual tax credit cap of $25 million was placed on the Investment and New Jobs Tax Credit, effective for tax years 2016-2018 ($14 million).
- A new license plate was unveiled and vehicle owners were required to pay a $5 license plate fee ($18.5 million).

Facing a $900 million budget deficit for FY2018, the State increase revenue by nearly $500 million with the following measures:

- A $1.50 per pack fee on cigarettes ($214 million).
- A 1.25 percent use tax on vehicle purchases ($111 million).
- The elimination of several gross production tax breaks and rebates for wells drilled before FY2015 ($138 million).

However, subsequent lawsuits challenged the revenue-raising measures. The Oklahoma Supreme Court nullified the $1.50 fee on cigarettes and ruled that the legislature failed to follow constitutional requirements for revenue-raising measures and tax increases. As a result of the Supreme Court's decision, the Legislature convened a special session to pass a new budget, which adjourned on November 17th. The Governor vetoed all but five sections of the bill, and it appears that a new special session will be called.

Indiana

In 2015, the State of Indiana put into place a $3.5 billion (2015-2022) tax cut package affecting several tax categories.

- In 2013, the State's flat individual income tax rate was reduced from 3.4 percent to 3.23 percent over two years ($2.0 billion).
- In the same year, the inheritance tax and dormant estate taxes were repealed ($620 million).
- In 2014, the corporate tax rate was lowered from 6.5 percent to 4.9 percent by 2021 ($700 million).
- During the same year, the financial institutions tax rate was reduced from 6.5 percent to 4.9 percent by 2021 ($195 million).
- In 2017, the State implemented a $0.10 per gallon gas tax fee increase and new vehicle registration fees for highway bridge maintenance ($1.2 billion by 2025).

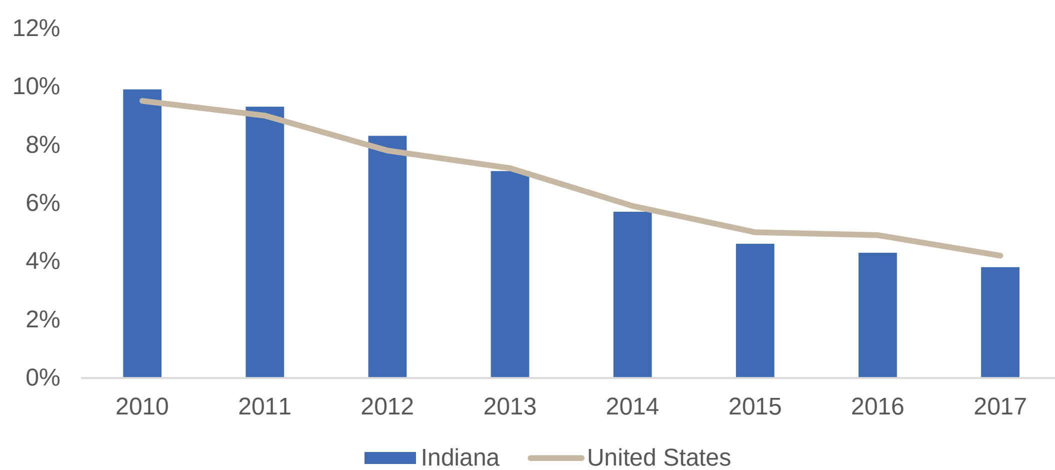
The budget remained balanced throughout the cuts, mostly by keeping the State's spending growth rate below inflation.

Since then, the State has experience encouraging economic activity.

The State GDP growth, which trailed the national average in the years leading up to the reforms, outpaced the national average in 2013, 2014 and 2016.

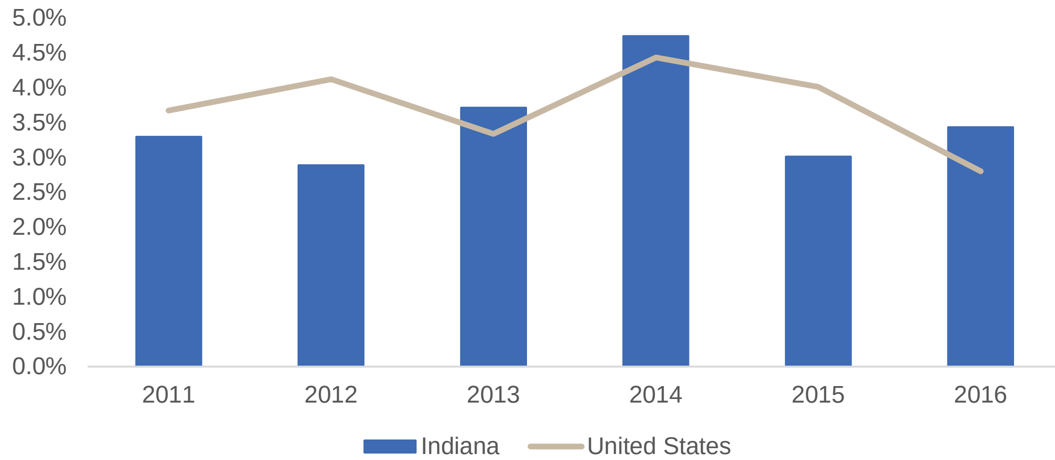
Additionally, the unemployment rate, which typically aligned just above the national average leading up to the reforms, has been slightly below the national average since 2014.

Figure 46: Indiana and U.S. Unemployment Rate, 2010-2017



Source: Bureau of Labor Statistics – Local Area Unemployment Statistics (seasonally adjusted as of September)

Figure 47: Indiana and U.S. GDP Growth, 2011-2016



Source: Bureau of Economic Analysis – Annual Change in GDP by State

North Carolina

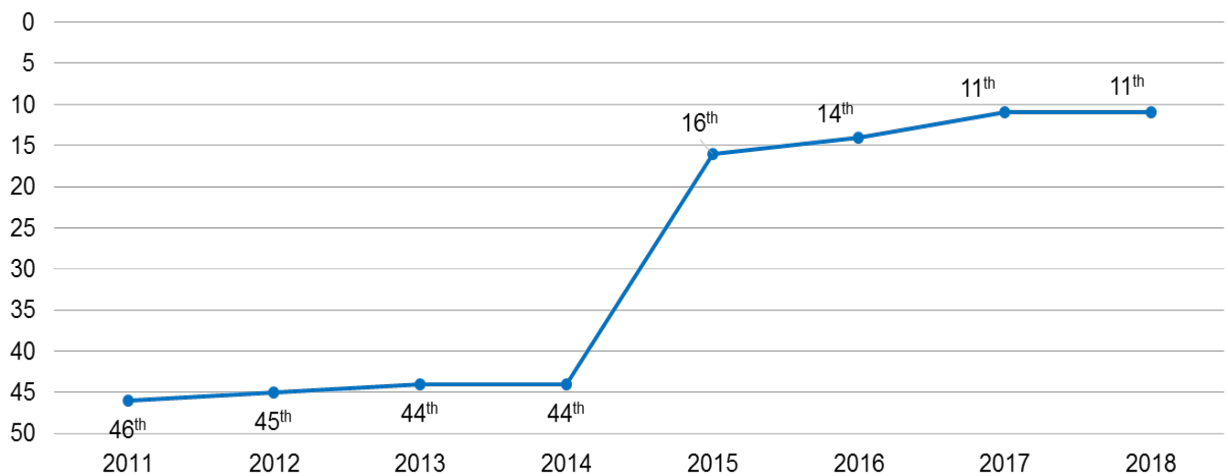
Beginning in 2013, North Carolina began making broad-based tax structure changes designed to change the tax configuration over time.

- In 2013, the State's two-bracket personal income tax of 6.0 percent and 7.75 percent was reduced to a single rate of 5.8 percent in 2013 (-$108 million) and then further reduced to 5.75 percent in 2015 (-$60 million).
- In 2013, the State also applied a combined general sales tax rate of 7.0 percent to electricity ($417.1 million) and piped natural gas ($102.3 million).
- Effective in 2014, the State also repealed the estate tax (-$52 million in 2014).
- The corporate income tax was reduced from 6.9 percent to 6.0 percent effective in 2014 (-$50.1 million) and then further reduced to 5.0 percent in 2015 (-$70 million). Today the tax is levied at 3.0 percent.
- The State then expanded the sales tax base to include service charges on repairs, maintenance and installation of tangible personal property (+$44.5 million in 2016; +$159.5 million in 2017).
- Finally, the State adopted further refinements to its personal income tax structure, lowering the rate from 5.75 percent to 5.499 percent in 2017 (-$117.3 million); the rate will be further reduced to 5.35 percent in January 2019 as a result of legislation passed on the 2017 session.

Since implementing its reforms, the State has experienced positive effects. Prior to 2013, the State had a relatively high tax burden in comparison to its neighbors.

Additionally, the State's tax climate ratings have improved significantly, as shown in the following figure:

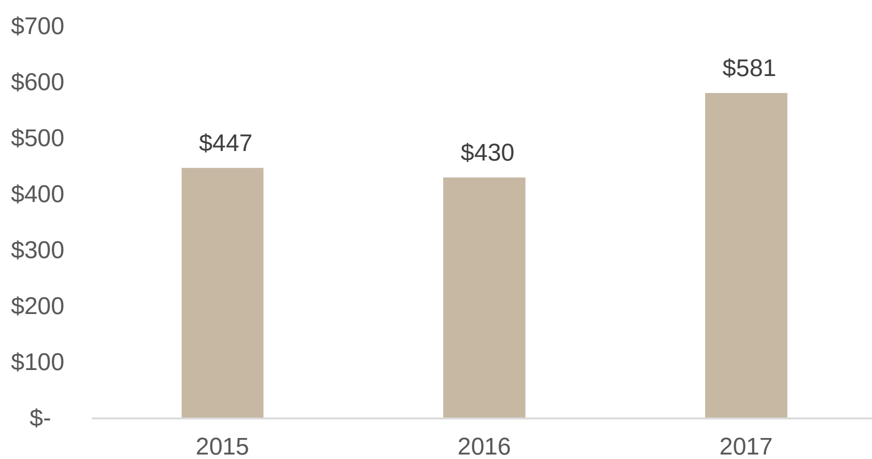
Figure 48: State Business Climate Index Rankings, North Carolina (2011-2018)



Source: Tax Foundation – North Carolina Illustrated: A Visual Guide to Tax Reform

In fact, even while reducing tax rates, the State has had a substantial budget surplus for the past three fiscal years:

Figure 49: State of North Carolina Budget Surpluses



Source: Tax Foundation: NC Set to Post Another Large Budget Surplus

The Budget Office estimates economic gains will provide close to $1.5 billion over the next two fiscal years.

Summary and Next Steps

Summary

To date, the Arkansas Tax Reform and Relief Legislative Task Force has gathered significant data and information related to the State and local government tax structure, those of other states and national trends in several important tax policy areas. This is important foundational work that has generated much useful analysis and discussion. It has helped set the stage for more focused discussion and analysis about tax reform and tax relief options and opportunities.

There are still several significant areas of tax policy that have not been covered in depth. It is likely that several of these topics will be an area of focus and attention in coming Task Force meetings. In particular, individual and corporate income taxes, which are scheduled for the January Task Force meeting, are a topic that has already been addressed by recent Legislatures and is still an important area for additional discussion. There are a few other key tax issues as well, particularly related to pending federal tax reform and its impact on the State.

The following provides a brief summary of some of the foundational underpinnings of the current structure, as discussed to date:

- The state **sales and use tax**, as a broad-based consumption tax, has positive attributes from an economic perspective. Relative to income-based taxes, consumption taxes are more generally more economically efficient. Nearly all will pay some tax, and there is no disincentive to work or earn more. At the same time, recent economic and demographic changes, coupled with consumer behavior and preference and the explosion of electronic commerce are contributing to sales tax base erosion and impediments to collection that threaten revenue sufficiency. For states with a significant reliance on the sales tax and facing declining revenue shares from the tax, this has mostly led to rate increases, which exacerbates border effects and spurs additional tax avoidance. Due to the ability of local governments in the state to levy sales taxes, Arkansas has relatively high sales tax rates when compared to benchmark states, although this tends to be a characteristic of the region as a whole. There are some areas, such as tax on groceries, where some surrounding states also have higher rates of tax.

- **Excise taxes** are something of a 'blunt instrument' that can have more significant specific impact on an industry than the broad-based income, sales and corporate taxes. There are several logical explanations for their use, but there is usually market distortion associated with their application, as the rates and bases for the taxes vary considerably. From a budget perspective. Arkansas excise taxes are a lower percentage of overall revenue than many of its peers, representing 13.5 percent of total tax collections. Nonetheless, with the exception of certain natural resource severance taxes, Arkansas excise taxes currently appear to be following regional trends. Most rates are comparable to nearby states.

- **Property taxes**, which are stable but unpopular, continue to be a primary source of local government revenue across the country. The K-12 education component is usually the largest and also the most significant for the state share of funding, and Arkansas is no exception. Overall, there has been a national trend away from property-based taxation toward taxes that are more consumption-based – a trend that is likely to continue. Some property-based taxes, such as franchise and inventory taxes, have specific shortcomings from an economic perspective and have been the targets of reduction and/or elimination efforts in other states.

- **Other state tax reform efforts** are important to understand, both from the perspective of their role as competitors with Arkansas in the national and state economy and as 'laboratories of democracy' where the State can benefit from their experience. Recent years have seen many states undertaking changes to their tax structure, with 'lessons learned' about approaches to perhaps emulate or learn from trial and error. While these efforts can be targeted or broad-based, there are some key 'lessons learned' that may prove useful in the Task Force deliberations. While not an exhaustive list, these include:

- Tax reform is generally more successful as part of an ongoing process rather than a single event;
- It helps to have a strategic vision that drives the year-to-year decision making;
- The tax structure should be viewed as a whole rather than just its component parts;
- Spending restraint is generally necessary to be successful – tax cuts alone rarely pay for themselves;

Possible Areas of Additional Analysis and Discussion

- Several **sales and use tax** reform strategies exist, from base restructuring, which could include eliminating some exemptions and adding more services, to mitigating the sales tax's adverse impacts with changes to other taxes. Increased compliance strategies, while having the benefit of not imposing an additional tax or increasing an existing tax's base, may come with push-back from taxpayers. The State will also benefit from performing cost-benefit analysis on its sales tax exemptions.

- Several of Arkansas' **excise taxes** present opportunities for reform. The State's hotel/motel tax (via the amusement tax) is perhaps one that is below the rate of most comparable states. Also worthy of consideration are cigarette, alcohol and transportation taxes. These are commodities related to activities where costs are rising, and the social costs of cigarettes and alcohol vastly outweigh the revenue collected from its consumption. Lastly, the Legislature may wish to consider updating existing laws to include new commerce activities such as ride sharing and non-traditional short-term occupancy.

- Broad-based **property tax** relief is an expensive undertaking – targeted relief, caps or limits on growth are more often used and have been used in Arkansas. Exemptions for non-profits are becoming an 'area of interest' in many parts of the country as local governments seek ways to cover the cost of services. Other property-related taxes, such as real estate transfer taxes, franchise and inventory taxes, have been targets for tax reduction or prohibition.

Project Next Steps

As previously noted, there are still key taxes within the State tax structure that should be addressed in a comprehensive manner. The following detail some of the foundational issues to be addressed:

- **Individual and corporate income taxes.** These taxes and issues surrounding them will be addressed at the January 2018 Task Force meeting.

- **Federal tax changes.** There are a variety of issues that will impact on state taxes – and state taxpayers. As just one example, how the federal government will handle depreciation for qualified property can impact on state corporate income tax collections. State taxpayers may also be impacted by, for example, changes to the deductions for state and local taxes (SALT). While the federal treatment of SALT will not impact on state tax collections, it is likely that state taxpayers will be aware of this change and be cognizant of state policies related to their federal tax payments. Of course, the federal tax changes will be substantial and will impact taxpayers differently – probably even among those with similar incomes. As a result, this will take some time to analyze.

- **Other taxes.** There are some taxes, such as those on telecommunications and mineral extraction, which are also important to understand from an overall tax structure perspective. These will also probably be the subject of at least a day of discussion and analysis by the Task Force.

- **Tax Incentives/Expenditures.** These have been tangentially covered within some of the topic areas (such as sales tax exemptions) but the overall methods used in other states to analyze and decide on their use and efficacy is likely worthy of some dedicated time by the Task Force.

Once these foundational issues have been fully covered, the expectation – by the Task Force chairs, members and the project team – is that the discussion will become more focused on specific options and opportunities. As a part of this, the project team would suggest that a form of SWOT (strengths, weaknesses, opportunities and threats) analysis be done of the existing structure and alternatives.

At the same time, the project team, with the involvement of DF&A, is focused on the costing side of existing exemptions and credits. Once the existing costing is updated (to the extent possible), the project team will work to group them by categories, identify their characteristics (in a form of SWOT analysis), and provide some recommendation for how to rank them for use by the Task Force in its deliberations.

As an ongoing exercise, the project team will also continue to provide analysis and, where possible, quantitative data and responses to Task Force member questions. This will be an ongoing effort that depends on the data (and time) available for that analysis. The project team continues to keep BLR staff updated on progress on each of these activities – many of which have already been completed and reported on in this summary.

The project team will also work with the Task Force to identify specific possible approaches to relief and reform and work with DF&A on costing, SWOT analysis and identification possible economic and other impacts. As noted, where possible (and being mindful of the issue of timing as it relates to state budgets), the project team will also provide analysis of dynamic as well as static impacts from possible tax law changes.

Finally, the project team will continue to provide written summaries and updates from each of its presentations and the discussions of the Task Force. The ongoing goal is to be a source of data, information and analysis for the Task Force to rely upon in its deliberations and decision-making.

Appendices

Appendix A: Arkansas Local Sales and Use Tax Rates for October – December 2017, by City

City	Rate	City	Rate	City	Rate
Alexander	2.00%	Cedarville	1.00%	Garfield	1.00%
Alma	2.00%	Centerton	2.00%	Garland (city)	1.00%
Almyra	1.00%	Charleston	1.50%	Gassville	1.00%
Alpena	1.00%	Cherokee Village	1.00%	Gentry	1.13%
Altheimer	1.00%	Cherry Valley	1.00%	Gilbert	1.00%
Altus	1.00%	Chidester	2.00%	Gillett	3.00%
Amity	1.50%	Clarendon	3.00%	Gillham	2.00%
Anthonyville	2.00%	Clarksville	2.00%	Gilmore	1.00%
Arkadelphia	1.00%	Clinton	1.00%	Glenwood	1.50%
Ash Flat	1.38%	Coal Hill	1.00%	Gosnell	1.50%
Ashdown	2.00%	Conway (city)	1.75%	Gould	3.00%
Atkins	2.00%	Corning	1.75%	Grady	1.00%
Augusta	1.00%	Cotter	2.00%	Gravette	2.00%
Austin	2.00%	Cotton Plant	1.00%	Green Forest	2.25%
Avoca	1.00%	Cove	2.00%	Greenbrier	2.00%
Bald Knob	1.50%	Crawfordsville	2.00%	Greenland	3.00%
Barling	2.00%	Crossett	2.25%	Greenwood	2.00%
Batesville	2.00%	Damascus	1.00%	Greers Ferry	1.00%
Bauxite	1.50%	Danville	1.50%	Guion	1.00%
Bay	1.00%	Dardanelle	2.00%	Gum Springs	1.00%
Bearden	1.00%	De Queen	1.00%	Gurdon	1.50%
Beebe	1.00%	Decatur	1.00%	Guy	1.50%
Beedeville	0.50%	Delight	1.00%	Hackett	1.00%
Bella Vista	1.00%	Dermott	2.00%	Hamburg	1.00%
Belleville	1.00%	Des Arc	1.00%	Hardy	1.00%
Benton (city)	2.50%	DeValls Bluff	3.00%	Harrisburg	2.00%
Bentonville	2.00%	DeWitt	3.50%	Harrison	1.25%
Berryville	2.00%	Diamond City	1.00%	Hartford	2.00%
Bethel Heights	2.50%	Diaz	1.00%	Haskell	2.00%
Big Flat	1.00%	Dierks	1.00%	Hatfield	1.00%
Black Rock	1.00%	Dover	1.00%	Havana	1.00%
Blevins	1.50%	Dumas	2.50%	Hazen	3.00%
Blue Mountain	1.00%	Dyer	1.00%	Heber Springs	1.00%
Blytheville	1.50%	Earle	2.00%	Helena-West Helena	2.00%
Bonanza	1.00%	East Camden	1.00%	Hermitage	1.00%
Bono	1.00%	El Dorado	1.25%	Higginson	1.00%
Booneville	2.00%	Elkins	2.75%	Highfill	2.00%
Bradford	2.00%	Elm Springs	1.00%	Highland	1.50%
Bradley (city)	1.00%	England	3.00%	Holly Grove	3.00%
Branch	1.00%	Etowah	1.00%	Hope	1.00%
Briarcliff	1.00%	Eudora	2.00%	Horatio	1.00%
Brinkley	2.00%	Eureka Springs	2.38%	Horseshoe Bend	2.00%
Brookland	3.00%	Evening Shade	1.00%	Hot Springs (city)	1.50%
Bryant	3.00%	Fairfield Bay	1.50%	Hoxie	1.00%
Bull Shoals	1.00%	Farmington	2.00%	Hughes	1.00%
Cabot	2.00%	Fayetteville	2.00%	Humphrey	1.00%
Caddo Valley	2.00%	Flippin	1.00%	Huntington	1.50%
Calico Rock	2.00%	Fordyce	1.50%	Huntsville	2.00%
Camden	1.75%	Foreman	1.00%	Imboden	1.00%
Caraway	1.00%	Forrest City	1.88%	Jacksonville	2.00%
Carlisle	2.13%	Fort Smith	2.00%	Jasper	2.00%
Cash	1.00%	Fouke	1.00%	Jennette	1.00%
Cave City	1.00%	Fountain Hill	1.00%	Johnson (city)	2.00%
Cave Springs	1.00%	Franklin (city)	1.00%	Joiner	1.25%

Source: Arkansas Department of Finance and Administration, City & County Tax Rates, 2017

Appendix A, Cont'd.: Arkansas Local Sales and Use Tax Rates for Oct – Dec 2017, by City

City	Rate	City	Rate	City	Rate
Jonesboro	1.00%	Mulberry	2.00%	Shirley	1.00%
Judsonia	1.00%	Murfreesboro	1.50%	Siloam Springs	2.00%
Junction City	1.00%	Nashville	1.00%	Sparkman	1.00%
Keiser	2.00%	Newport	1.50%	Springdale	2.00%
Keo	1.00%	Norfork	1.00%	Springtown	1.00%
Kibler	1.00%	Norman	1.00%	St. Charles	2.00%
Kingsland	1.00%	North Little Rock	1.00%	Stamps	1.00%
Lake City	1.00%	Oak Grove	1.00%	Star City	2.00%
Lake Village	2.00%	Oak Grove Heights	1.00%	Stephens	1.00%
Lakeview	1.00%	Ola	2.00%	Strong	1.00%
Lamar	2.00%	Oppelo	1.00%	Stuttgart	3.00%
Lead Hill	1.00%	Osceola	1.00%	Sulphur Springs	1.00%
Lepanto	2.25%	Oxford	1.00%	Summit	1.00%
Leslie	1.00%	Ozark	2.00%	Sunset	3.00%
Lewisville	1.00%	Palestine	2.00%	Swifton	1.00%
Lincoln	2.00%	Pangburn	1.00%	Taylor	2.00%
Little Flock	1.00%	Paragould	0.75%	Texarkana	2.50%
Little Rock	1.50%	Paris	1.50%	Thornton	1.00%
Lockesburg	0.75%	Patmos	1.00%	Tontitown	2.00%
Lonoke (city)	1.50%	Patterson	1.00%	Trumann	2.00%
Lowell	2.00%	Pea Ridge	1.00%	Tuckerman	1.25%
Luxora	1.00%	Perla	1.00%	Turrell	2.00%
Madison (city)	1.00%	Perryville	1.00%	Tyronza	1.00%
Magazine	2.00%	Piggott	2.00%	Van Buren (city)	2.00%
Magnolia	2.38%	Pine Bluff	2.25%	Vandervoort	1.00%
Malvern	1.00%	Pineville	1.00%	Vilonia	2.50%
Mammoth Spring	1.00%	Plainview	1.50%	Viola	2.00%
Manila	1.25%	Pleasant Plains	2.00%	Wabbaseka	1.00%
Mansfield	2.50%	Plumerville	2.00%	Waldenburg	2.00%
Marianna	2.00%	Pocahontas	2.00%	Waldron	2.00%
Marion (city)	2.00%	Portia	1.00%	Walnut Ridge	1.00%
Marked Tree	2.00%	Portland	1.00%	Ward	2.00%
Marmaduke	1.25%	Pottsville	1.50%	Warren	1.00%
Marshall	0.50%	Prairie Grove	2.25%	Washington (city)	1.00%
Marvell	2.00%	Prescott	1.00%	Weiner	1.00%
Maumelle	1.00%	Pyatt	0.50%	West Fork	3.00%
Mayflower	2.00%	Quitman	1.50%	West Memphis	1.50%
Maynard	1.50%	Ravenden	1.00%	Western Grove	1.00%
McCrory	1.00%	Rector	2.00%	Wheatley	1.00%
McGehee	3.00%	Redfield	1.00%	White Hall	1.00%
McRae	1.00%	Rison	1.00%	Wickes	1.00%
Melbourne	2.00%	Rockport	2.00%	Widener	1.75%
Mena	1.00%	Roe	1.00%	Wiederkehr Village	1.00%
Menifee	3.00%	Rogers	2.00%	Wilmot	1.00%
Mineral Springs	1.00%	Rose Bud	2.00%	Wilson	1.00%
Monette	1.00%	Rudy	0.50%	Wilton	1.00%
Monticello	1.00%	Russellville	1.50%	Wynne	1.00%
Moorefield	2.00%	Salem	1.00%	Yellville	2.00%
Moro	1.00%	Salesville	1.00%		
Morrilton	1.00%	Searcy (city)	1.50%		
Mount Ida	1.00%	Shannon Hills	1.00%		
Mountain Home	1.00%	Sheridan	2.00%		
Mountain View	2.00%	Sherrill	1.00%		
Mountainburg	2.50%	Sherwood	1.00%		

Source: Arkansas Department of Finance and Administration, City & County Tax Rates, 2017

Appendix B: Arkansas Local Sales and Use Tax Rates for Oct – Dec 2017, by County

County	Rate	County	Rate
Arkansas County	1.00%	Lee County	1.00%
Ashley County	1.50%	Lincoln County	1.00%
Baxter County	1.00%	Little River County	2.25%
Benton County	1.00%	Logan County	2.00%
Boone County	1.25%	Lonoke County	1.00%
Bradley County	2.00%	Madison County	2.00%
Calhoun County	2.50%	Marion County	1.75%
Carroll County	0.50%	Miller County	1.25%
Chicot County	2.00%	Mississippi County	2.50%
Clark County	1.50%	Monroe County	0.00%
Clay County	1.50%	Montgomery County	1.00%
Cleburne County	1.63%	Nevada County	2.00%
Cleveland County	3.25%	Newton County	1.50%
Columbia County	1.50%	Ouachita County	3.00%
Conway County	1.75%	Perry County	2.50%
Craighead County	1.00%	Phillips County	2.00%
Crawford County	1.75%	Pike County	2.00%
Crittenden County	2.75%	Poinsett County	1.25%
Cross County	2.00%	Polk County	2.00%
Dallas County	2.00%	Pope County	1.00%
Desha County	1.50%	Prairie County	1.50%
Drew County	2.25%	Pulaski County	1.00%
Faulkner County	0.50%	Randolph County	1.25%
Franklin County	1.50%	Saline County	0.00%
Fulton County	2.00%	Scott County	2.63%
Garland County	1.50%	Searcy County	1.50%
Grant County	1.25%	Sebastian County	1.25%
Greene County	1.75%	Sevier County	2.38%
Hempstead County	2.00%	Sharp County	1.00%
Hot Spring County	1.50%	St. Francis County	2.50%
Howard County	2.75%	Stone County	1.00%
Independence County	1.75%	Union County	2.00%
Izard County	0.50%	Van Buren County	2.00%
Jackson County	2.25%	Washington County	1.25%
Jefferson County	1.63%	White County	1.75%
Johnson County	1.00%	Woodruff County	1.00%
Lafayette County	2.25%	Yell County	1.88%
Lawrence County	2.50%		

Source: Arkansas Department of Finance and Administration, City & County Tax Rates, 2017

Appendix C: State and Local Sales Tax Rates as of July 1, 2017

State	State Tax Rate	Avg. Local Tax Rate [1]	Combined Rate	Max Local Tax Rate
Alabama	4.00%	5.03%	9.03%	7.00%
Alaska	0.00%	1.76%	1.76%	7.50%
Arizona	5.60%	2.72%	8.32%	5.30%
Arkansas	6.50%	2.84%	9.34%	5.13%
California [2]	7.25%	1.23%	8.48%	2.50%
Colorado	2.90%	4.60%	7.50%	8.30%
Connecticut	6.35%	0.00%	6.35%	0.00%
Delaware	0.00%	0.00%	0.00%	0.00%
Florida	6.00%	0.80%	6.80%	2.00%
Georgia	4.00%	3.15%	7.15%	4.90%
Hawaii [3]	4.00%	0.35%	4.35%	0.50%
Idaho	6.00%	0.03%	6.03%	3.00%
Illinois	6.25%	2.44%	8.69%	4.75%
Indiana	7.00%	0.00%	7.00%	0.00%
Iowa	6.00%	0.80%	6.80%	1.00%
Kansas	6.50%	2.18%	8.68%	4.00%
Kentucky	6.00%	0.00%	6.00%	0.00%
Louisiana	5.00%	5.02%	10.02%	7.00%
Maine	5.50%	0.00%	5.50%	0.00%
Maryland	6.00%	0.00%	6.00%	0.00%
Massachusetts	6.25%	0.00%	6.25%	0.00%
Michigan	6.00%	0.00%	6.00%	0.00%
Minnesota	6.88%	0.42%	7.29%	1.50%
Mississippi	7.00%	0.07%	7.07%	1.00%
Missouri	4.23%	3.74%	7.97%	5.00%
Montana [4]	0.00%	0.00%	0.00%	0.00%
Nebraska	5.50%	1.40%	6.90%	2.00%
Nevada	6.85%	1.29%	8.14%	1.42%
New Hampshire	0.00%	0.00%	0.00%	0.00%
New Jersey [5]	6.88%	-0.03%	6.85%	3.44%
New Mexico [3]	5.13%	2.51%	7.63%	4.13%
New York	4.00%	4.49%	8.49%	4.88%
North Carolina	4.75%	2.20%	6.95%	2.75%
North Dakota	5.00%	1.79%	6.79%	3.50%
Ohio	5.75%	1.39%	7.14%	2.25%
Oklahoma	4.50%	4.36%	8.86%	6.50%
Oregon	0.00%	0.00%	0.00%	0.00%
Pennsylvania	6.00%	0.34%	6.34%	2.00%
Rhode Island	7.00%	0.00%	7.00%	0.00%
South Carolina	6.00%	1.37%	7.37%	3.00%
South Dakota [3]	4.50%	1.90%	6.40%	4.50%
Tennessee	7.00%	2.45%	9.45%	2.75%
Texas	6.25%	1.92%	8.17%	2.00%
Utah [2]	5.95%	0.82%	6.77%	2.65%
Vermont	6.00%	0.18%	6.18%	1.00%
Virginia [2]	5.30%	0.33%	5.63%	0.70%
Washington	6.50%	2.70%	9.20%	4.00%
West Virginia	6.00%	0.29%	6.29%	1.00%
Wisconsin	5.00%	0.42%	5.42%	1.75%
Wyoming	4.00%	1.26%	5.26%	2.00%
D.C.	5.75%	0.00%	5.75%	0.00%

Source: Compiled by Tax Foundation from various sources.

[1] City, county, and municipal rates vary. These rates are weighted by population to compute an average local tax rate.

[2] Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1%), Utah (1.25%), and Virginia (1%). We include these in their state sales tax.

[3] The sales taxes in Hawaii, New Mexico, North Dakota, and South Dakota have broad bases that include many business-to-business services.

[4] Due to data limitations, sales taxes in local resort areas in Montana are not included.

[5] Salem County, New Jersey is not subject to the statewide sales tax rate and collects a local rate of 3.4375%. New Jersey's average local score is represented as a negative.

Appendix D: Number of Services Taxed by Category and State, July 2007

	Utilities	Personal Services	Business Services	Computer Services	Admissions/ Amusements	Professional Services	Fabrication, Repair & Installation	Other Services	Total	% of Total Services Taxed
Total Number of Services in Category	16	20	34	8	15	9	19	47	168	
Alabama	12	2	6	3	10	0	1	3	37	22.0%
Alaska *	0	0	0	0	0	0	0	1	1	0.6%
Arkansas	**16**	**7**	**12**	**1**	**12**	**0**	**11**	**13**	**72**	**42.9%**
Arizona	12	2	7	0	9	0	2	23	55	32.7%
California	2	2	7	2	1	0	3	4	21	12.5%
Colorado *	4	0	2	1	2	0	3	2	14	8.3%
Connecticut	10	9	20	6	10	0	10	14	79	47.0%
Delaware *	9	20	33	6	10	9	19	37	143	85.1%
District of Columbia	13	7	15	6	8	0	12	12	73	43.5%
Florida	7	4	9	0	14	0	16	13	63	37.5%
Georgia *	10	4	5	2	8	0	1	6	36	21.4%
Hawaii	16	20	34	8	14	9	18	41	160	95.2%
Iowa	13	15	18	1	14	0	13	20	94	56.0%
Idaho	0	3	5	0	11	0	6	4	29	17.3%
Illinois	12	1	1	1	0	0	1	1	17	10.1%
Indiana	7	4	3	2	3	0	1	4	24	14.3%
Kansas	10	11	9	1	13	0	15	15	74	44.0%
Kentucky	11	2	4	0	6	0	4	1	28	16.7%
Louisiana	10	8	5	3	9	0	13	7	55	32.7%
Maine	9	1	6	0	3	0	4	2	25	14.9%
Maryland	5	3	13	1	11	0	4	2	39	23.2%
Massachusetts	9	1	4	0	1	0	2	1	18	10.7%
Michigan	12	2	7	1	1	0	1	2	26	15.5%
Minnesota	15	7	12	2	13	0	6	11	66	39.3%
Mississippi	10	5	8	3	11	0	13	22	72	42.9%
Missouri	8	1	2	2	10	0	0	3	26	15.5%
Montana	12	0	0	0	2	0	0	4	18	10.7%
Nebraska	14	9	14	3	12	0	13	12	77	45.8%
Nevada	0	1	4	0	7	0	2	4	18	10.7%

Appendix D Cont'd.: Number of Services Taxed by Category and State, July 2007

	Utilities	Personal Services	Business Services	Computer Services	Admissions/Amusements	Professional Services	Fabrication, Repair & Installation	Other Services	Total	% of Total Services Taxed
Total Number of Services in Category	16	20	34	8	15	9	19	47	168	100%
New Hampshire *	6	1	0	2	0	0	0	2	11	6.5%
New Jersey	12	5	16	1	6	0	15	19	74	44.0%
New Mexico	16	20	32	8	14	9	18	41	158	94.0%
New York	4	4	13	1	6	0	14	15	57	33.9%
North Carolina	10	4	5	0	9	0	1	1	30	17.9%
North Dakota	6	1	4	2	11	0	0	2	26	15.5%
Ohio	8	12	14	5	3	0	12	14	68	40.5%
Oklahoma	9	3	4	1	10	0	0	5	32	19.0%
Oregon	0	0	0	0	0	0	0	0	0	0.0%
Pennsylvania	9	5	16	1	1	0	15	8	55	32.7%
Rhode Island *	10	1	6	3	4	0	3	2	29	17.3%
South Carolina	4	6	7	4	10	0	1	3	35	20.8%
South Dakota	14	19	28	8	13	5	18	41	146	86.9%
Tennessee *	11	10	7	3	12	0	13	11	67	39.9%
Texas	12	10	14	8	12	1	10	16	83	49.4%
Utah	7	8	6	0	11	0	15	11	58	34.5%
Vermont	9	2	5	2	11	0	2	1	32	19.0%
Virginia *	1	3	4	0	1	0	4	5	18	10.7%
Washington	16	20	33	8	13	9	16	43	158	94.0%
West Virginia	6	17	26	4	13	1	13	25	105	62.5%
Wisconsin	11	11	8	3	14	0	14	15	76	45.2%
Wyoming	10	6	6	2	6	0	16	12	58	34.5%

Source: Federation of Tax Administrators 2007 Survey
*State did not respond to 2007 survey; 2004 data reported.

Appendix E: Iowa Sales Tax Revenues from Services (Fiscal Year 2017)

Services Group	Number of Returns	Percent of Returns	Taxable Sales	Computed Tax	Percent of Total Tax Revenue
Arts and Entertainment	8,539	2.53%	$614,891,646	$36,893,499	1.59%
Auto Rental and Storage	4,518	1.34%	$335,046,403	$20,102,600	0.86%
Auto Repair	17,343	5.14%	$1,088,038,524	$65,282,254	2.81%
Beauty/Barber Shops	26,828	7.95%	$412,515,986	$24,750,951	1.06%
Education and Athletic Events	1,570	0.47%	$92,287,311	$5,537,239	0.24%
Electronic and Precision Equipment Repair and Maintenance	1,929	0.57%	$69,449,158	$4,166,949	0.18%
Employment Services	569	0.17%	$32,297,772	$1,937,866	0.08%
Finance, Insurance, Real Estate and Leasing	4,534	1.34%	$118,774,123	$7,126,447	0.31%
Footwear and Leather Repair	75	0.02%	$818,652	$49,119	0.00%
Funeral Service and Crematories	1,291	0.38%	$62,470,755	$3,748,245	0.16%
Hotels and All Other Lodging Places	5,811	1.72%	$969,010,285	$49,827,522	2.14%
Laundry and Floor Cleaning	2,537	0.75%	$126,075,216	$7,564,513	0.33%
Miscellaneous Repairs	7,980	2.37%	$187,741,974	$11,264,518	0.48%
Motion Picture and Video Industries	2,618	0.78%	$157,179,770	$9,430,786	0.41%
Other Business Services	16,595	4.92%	$705,098,864	$42,085,294	1.81%
Other Personal Services	10,783	3.20%	$257,504,164	$15,450,250	0.66%
Other Services	7,990	2.37%	$129,196,850	$7,751,811	0.33%
Photographic Studios	5,132	1.52%	$43,473,891	$2,608,433	0.11%
Upholstery and Furniture Repair	860	0.25%	$5,855,881	$351,353	0.02%
Watch, Clock, Jewelry Repair	131	0.04%	$1,435,418	$86,125	0.00%
Group Totals	**127,633**	**37.83%**	**$5,409,162,643**	**$316,015,775**	**13.58%**

Source: Iowa Annual Sales and Use Excel Tables, FY2017 – Retail Taxable Sales and Tax by Business Classification

Appendix F: State Treatment of Common Exemptions

State	Groceries	Clothing	Prescription Medication	Non-Prescription Medication	Gasoline
Alabama	Taxable	Taxable	Exempt	Taxable	Exempt
Alaska	No Sales Tax				
Arizona	Exempt	Taxable	Exempt	Taxable	Exempt
Arkansas	1.5%	Taxable	Exempt	Taxable	Exempt
California	Exempt	Taxable	Exempt	Taxable	Alternate Rate
Colorado	Exempt	Taxable	Exempt	Taxable	Exempt
Connecticut	Exempt	Taxable	Exempt	Exempt	Alternate Rate
Delaware	No Sales Tax				
Florida	Exempt	Taxable	Exempt	Taxable	Exempt
Georgia	Exempt	Taxable	Exempt	Taxable	Exempt
Hawaii	Taxable	Taxable	Exempt	Taxable	Taxable
Idaho	Taxable	Taxable	Exempt	Taxable	Exempt
Illinois	1%	Taxable	Alternate Rate	Alternate Rate	Taxable
Indiana	Exempt	Taxable	Exempt	Taxable	Taxable
Iowa	Exempt	Taxable	Exempt	Taxable	Exempt
Kansas	Taxable	Taxable	Exempt	Taxable	Exempt
Kentucky	Exempt	Taxable	Exempt	Taxable	Exempt
Louisiana	Exempt	Taxable	Exempt	Taxable	Exempt
Maine	Exempt	Taxable	Exempt	Taxable	Exempt
Maryland	Exempt	Taxable	Exempt	Exempt	Exempt
Massachusetts	Exempt	Exempt	Exempt	Taxable	Exempt
Michigan	Exempt	Taxable	Exempt	Taxable	Exempt
Minnesota	Exempt	Exempt	Exempt	Exempt	Exempt
Mississippi	Taxable	Taxable	Exempt	Taxable	Exempt
Missouri	1.225%	Taxable	Exempt	Taxable	Exempt
Montana	No Sales Tax				
Nebraska	Exempt	Taxable	Exempt	Taxable	Exempt
Nevada	Exempt	Taxable	Exempt	Taxable	Exempt
New Hampshire	No Sales Tax				
New Jersey	Exempt	Exempt	Exempt	Exempt	Exempt
New Mexico	Exempt	Taxable	Exempt	Taxable	Exempt
New York	Exempt	Exempt	Exempt	Exempt	Exempt
North Carolina	Exempt	Taxable	Exempt	Taxable	Exempt
North Dakota	Exempt	Taxable	Exempt	Taxable	Exempt
Ohio	Exempt	Taxable	Exempt	Taxable	Exempt
Oklahoma	Taxable	Taxable	Exempt	Taxable	Exempt
Oregon	No Sales Tax				
Pennsylvania	Exempt	Exempt	Exempt	Exempt	Exempt
Rhode Island	Exempt	Exempt	Exempt	Taxable	Exempt
South Carolina	Exempt	Taxable	Exempt	Taxable	Exempt
South Dakota	Taxable	Taxable	Exempt	Taxable	Exempt
Tennessee	5%	Taxable	Exempt	Taxable	Exempt
Texas	Exempt	Taxable	Exempt	Exempt	Exempt
Utah	3%	Taxable	Exempt	Taxable	Exempt
Vermont	Exempt	Exempt	Exempt	Exempt	Exempt
Virginia	2.5%	Taxable	Exempt	Exempt	Exempt
Washington	Exempt	Taxable	Exempt	Taxable	Exempt
West Virginia	Exempt	Taxable	Exempt	Taxable	Exempt
Wisconsin	Exempt	Taxable	Exempt	Taxable	Exempt
Wyoming	Exempt	Taxable	Exempt	Taxable	Exempt
District of Columbia	Exempt	Taxable	Exempt	Exempt	Exempt

Source: Compiled by Tax Foundation from 2017 State Business Tax Climate Index

Appendix G: State of Arkansas Sales and Use Tax Exemptions

Exemption	Act Year(s)	Ark. Code Ann.	Estimated Annual Impact
Motor Fuel Exemptions			
Gasoline or motor vehicle fuel on which the gasoline or motor vehicle fuel tax has been paid.	1941	§ 26-52-401(11)(A)(i)	$325,237,468
Sale of motor fuel to owners or operators of motor buses operated on designated streets, according to regular schedules, under municipal franchise, for municipal transportation purposes.	1971	§ 26-52-417(a)	$94,317
Border zone permit holders pay tax of 1 cent higher than bordering state fuel tax		§ 26-55-210	$3,726,507
No motor fuel tax is charged in aviation fuel, only sales tax		§ 26-74-214	$348,420
Dyed diesel exemption - all municipal buses, barges, vessels and railroads are exempt.		§ 26-56-224	$4,910,705
Sales of special fuel or petroleum products for consumption by vessels, barges, other commercial watercraft, and railroads.	1995	§ 26-52-401(11)(A)(ii)	$13,602,208
Sales of dyed diesel. The sales tax was replaced by a per gallon tax.	2007	§ 26-52-401(11)(A)(iii)	$41,263,111
Total Motor Fuel Exemptions Estimate			**$389,182,737**

Federal Government Exemptions			
Purchases legally made with food stamps or the Special Supplemental Food Program for Women, Infants and Children (WIC).	1987	§ 26-52-401(27)(A)	$46,226,160
Sales to the U.S. Government and its agencies.	N/A	§ 26-52-401(5)	$45,720,000
Sales or rental of medical equipment by medical equipment suppliers in Arkansas for the benefit of persons enrolled in and eligible for Medicare or Medicaid programs under the Federal Social Security Act.	1991	§ 26-52-401(20)	$7,021,800
Sales of motor vehicles used to transport the aged, disabled or mentally ill under DHS programs where the vehicles are purchased in lots of 10 or more and (1) purchased by non-profit organizations, and used for the performance of contracts with DHS, or (2) purchased with Urban Mass Transit Administration Funds.	1991	§ 26-52-420	$15,000
Sales of motor vehicles and adaptive equipment to disabled veterans who have purchased them with financial assistance from the Department of Veterans Affairs	1973	§ 26-52-401(6)	$39,501
Total Federal Government Exemptions Estimate			**$99,022,461**

Media Exemptions			
Services purchased by radio and television companies for use in providing their services.	1989	§ 26-52-301(3)(C)(ii)	$2,197,688
Sales of newspapers.	1941	§ 26-52-401(4)	$2,094,866
Sale or rental of advertising space in newspapers and publications.	1941	§ 26-52-401(13)	$12,713,596
Sale of billboard advertising.	1941	§ 26-52-401(13)	$1,660,968
Sales of any publication (other than newspapers) through regular subscription.	1993	§ 26-52-401(14)	$4,183,330
Total Media Exemptions Estimate			**$22,850,448**

Exemptions for Low-Income Households			
The sale of the first 500 kilowatt hours of electricity per month to each residential customer whose household income does not exceed $12,000 per year.	1983	§ 26-52-416(a)	$3,473,971
Sales of new or used motor vehicles or trailers of less than $2,500. In 2011 session, threshold was increased to $4,000 effective 1/1/2012	1997, 2011	§ 26-52-510(b)(1)(B), 26-53-126(b)(2)	$25,624,590
Sales of food and food ingredients to non-profit agencies organized under the Arkansas Nonprofit Corporation Act (4-28-201) for free distribution to the poor and needy.	1993	§ 26-52-421	$313,661
Total Exemptions for Low-Income Households Estimate			**$29,412,222**

Medical Exemptions			
Sales and purchases of prescription drugs by licensed pharmacists, hospitals, or physicians and oxygen prescribed by a licensed physician for human use.	1987, 1997	§ 26-52-406	$142,520,059
Sales of test strips for testing human blood sugar levels (sales of insulin are included under the prescription drugs exemption).	1991	§ 26-52-419	$1,610,307
Sales, rentals, or repair of durable medical equipment, mobility-enhancing equipment, prosthetic devices and disposable medical supplies when the items are prescribed by a physician prior to use.	1991	§ 26-52-433	$9,867,095
Exempts the sale of dental appliances to or by a dentist, orthodontist, oral surgeon, maxillofacial surgeon, or endodontist from state sales tax.	2013	§ 26-52-448	$2,100,000
Total Medical Exemptions Estimate			**$156,097,461**

Agricultural Exemptions			
Sales of raw products, including Christmas trees, from the farm, orchard or garden where the sale is made directly by the producer to the consumer, including sales by the producer to the consumer at farmers' markets.	1941, 1991, 2009	§ 26-52- 401(18)(A)(iii) and (B)(ii)	$501,453
Sale of baby chickens in Arkansas.	1949	§ 26-52-401(18)(A)(v)	$18,844,313
Sales of livestock, poultry, poultry products and dairy products of producers who own not more than 5 cows.	1941	§ 26-52-401(18)(A)(iv)	$100,807
Sales of twine used in the production of tomatoes.	1975	§ 26-52-408(b)	$2,438
Sales of bagging, packaging and tie materials sold to and used by cotton gins in Arkansas for packaging and tying baled cotton in Arkansas.	1975	§ 26-52-408(a)	$303,939
Sales of cotton, seed cotton, lint cotton or baled cotton whether compressed or not.	1941	§ 26-52-401(18)(A)(i)	$23,540,800
Sales of seed to be used in the commercial production of any agricultural product or agricultural seed.	1965	§ 26-52-401(18)(A)(ii)	$22,200,000
Sales of agricultural fertilizer, agricultural limestone and agricultural chemicals, pesticides, herbicides used in the commercial production of agricultural products, and vaccines, medications, and medicinal preparations used in treating livestock and poultry for commercial production.	1973	§ 26-52-405	$51,200,000

Agricultural Exemptions, Continued			
Exempts farmers engaged in commercial farming operations on the purchasing of baling twine, net wrap, silage wrap, and other similar products used for baling, packaging, tying, wrapping or sealing animal feed products.	2013	§ 26-52-408(3)	$1,160,000
Exempts electricity, natural gas and liquefied petroleum gas which are separately metered and used for commercial grain drying and storage.	2013	§ 26-52-466	$3,890,000
Exempts eligible purchases of timber harvesting equipment from state and local sales tax.	2013	§ 26-52-431	$700,000
Exempts utilities used for qualifying agricultural structures and qualifying aquaculture and horticulture equipment. Utilities eligible for the exemption are electricity, natural gas and electricity and must be separately metered.	2013	§ 26-52-450	$10,000,000
Sales of feedstuffs used in the commercial production of livestock or poultry.	1955	§ 26-52-404(a)	$98,541,351
Sales of machinery and equipment used exclusively and directly in farming for commercial purposes, including machinery and equipment used for production of sod and nursery products.	1981, 1999	§ 26-52-403	$25,983,750
Irrigation pipe carrying water from the well to the crop is exempt as farm equipment.	1995	§ 26-52-403(a)(1)(B)(i)	$475,275
Sales of livestock reproduction equipment or substances.	2005	§ 26-52-439	$27,776
Agricultural water purchases that reduce groundwater use. No impact in FY2012 because there will be virtually no use of water from public projects designed to substitute surface water use for groundwater use in eastern AR until around 2015.	2011	§26-52-405(4)	$0
Total Agricultural Exemptions Estimate			**$257,471,902**

Industrial Machinery or Equipment Exemptions			
Sale of machinery and equipment used directly in manufacturing or processing.	1968, 1985	§ 26-52-402	$85,373,388
Sale of pollution control machinery and equipment utilized by manufacturing or processing plants or facilities or cities or towns in Arkansas to prevent or reduce air or water pollution.	1968	§ 26-52-402(a)(3) and 26-53-114(a)(3)	$15,470,607
The first $50,000 of the purchase price of timber harvesting equipment is exempt if the purchaser's primary activity is harvesting timber and if the equipment is used exclusively for harvesting timber.	1999, 2001	§ 26-52-431	$378,134
Establishes a partial refund of 1% of the state sales tax paid on the purchase of manufacturing repair or replacement parts purchased to modify, replace, or repair existing manufacturing machinery and equipment. The refund also applies to the purchase of labor to install or repair the equipment.	2013	§ 26-52-447	$5,000,000
Exempts pollution-control machinery and equipment used in the refining of petroleum based products to remove sulphur pollutants from the refined product. Repair parts and labor for this machinery are also exempted.	2013	§ 26-52-402(a)(3)(B)	$120,000
Sales of fuel packaging materials and machinery and equipment (including analytical equipment and chemicals) used in the business of processing hazardous and non-hazardous waste into fuel products.	2001	§ 26-52-401(36)	$43,709
Chemicals, catalysts, and reagents consumed in manufacturing.	1999	§ 26-52-401(35)	$21,100,000
Total Industrial Machinery or Equipment Exemptions Estimate			**$127,485,838**

Energy Exemptions			
Sale of electricity used in the manufacture of aluminum metal by the electrolytic reduction process. *No current production or corresponding revenue loss.*	1987	§ 26-52-401(24)	$0
Sales of natural gas used in the process of manufacturing glass.	1993	§ 26-52-423	$130,268
Sales of natural gas and electricity to qualified manufacturers of steel.	1987	§ 26-52-903	$6,582,349
Sales of railroad ties, solid waste (except for wood byproducts and chips), used motor oil and other petroleum-based waste, and waste fuel if used as fuel in manufacturing operations.	1993, 1995, 1997	§ 26-52-425	$285,745
Sale of gas produced from "biomass" and sold for the purpose of generating energy, which is then sold back to the gas producer.	1997	§ 26-52-429(a)	$41,482
Provides an exemption for sand and other proppants used to complete a new oil or gas well or to recomplete, drill, or expand an existing well. Estimate is for 10 months only.	2015	Unknown	$390,000
Creates an exemption for the collection of solid waste for saltwater, drilling fluids, hydraulic fracturing fluids, produced water, pit water, pit mud, and similar materials produced from oil, gas and other natural resource exploration. Estimate is for 10 months only.	2015	Unknown	$300,000
Sale of natural gas and electricity used in wall and floor tile manufacturing if construction began before 1/1/2003.	2001	§ 26-52-435	$0
Sale of electricity used for production of chlorine and other chemicals using a chlor-alkali manufacturing process.	2005	§ 26-52-438	$0
Reduces the state sales tax rate for electricity and natural gas used in manufacturing by eligible manufacturers classified in sections 31-33 of the NAICS; cotton gins classified in NAICS code 115111; all eligible high efficiency generators of electric power. The current rate is 1.625%. Effective July 1, 2015, the rate will be reduced to 0.625% (the constitutional levies for conservation and highways only) for manufacturers in NAICS code 31-33 and cotton gins under code 115111. The rate for eligible electricity generators will remain at the rate of 1.625%.	2013	§ 26-52-319	$27,200,000
Partial sales tax exemption (3.25% rate in FY2011) on manufacturers' use of natural gas and electricity. In 2011, exemption is 2.75% and is extended to high-efficiency electric power generators with a longer phase-in period. Estimate is incremental impact.	2007, 2009, 2011	§ 26-52-319	$28,649,277
Sales of natural gas and electricity used in the manufacture of new motor vehicle tires.	2007	§ 26-52-441	$733,109
Total Energy Exemptions Estimate			**$64,312,230**

Exemptions for Local Governments Other than School Districts			
Sales by municipalities or counties of tickets or admissions to places of amusement or athletic, entertainment or recreational events.	1981, 2007	§ 26-52-411	$150,377
Sales to public housing authorities.	1937	§ 14-169-235	$3,532,842
Sales to Regional Water Distribution Districts.	1957	§ 14-116-405	$4,394,706
Provides a sales and use tax exemption for the lessee of property located at an intermodal authority on the lessee's purchase of tangible personal property and services. No current revenue impact available - no eligible taxpayers at this time.	2015	Unknown	$0
Sales to Regional Airport Authority organized under Ark. Code. Ann. 14-362-101.	1968	§ 14-362-121	$360,144
Fire protection equipment and emergency equipment (including motor vehicles used for this purpose) to be owned by and exclusively used by volunteer fire departments.	1995, 2003	§ 26-52-434(a)	$460,507
Construction supplies and materials used in construction and maintenance of volunteer fire departments.	1997, 2003	§ 26-52-434(b)	$391,085
County purchases of law enforcement aircraft thermal imaging equipment.	2009	§ 26-52-442	$9,900
Total Exemptions for Local Governments Other than School Districts Estimate			**$9,299,561**

Exemptions for Non-Profit, Religious or Charitable Organizations			
Sales to Boys' and Girls' Clubs of America and any local Councils.	1977, 1979	§ 26-52-401(8)	$59,394
Sales to The Poets Roundtable of Arkansas.	1979	§ 26-52-401(9)	$120
Sales to Boy Scouts of America and Girl Scouts of America and any Scout Councils located in Arkansas.	1975	§ 26-52-401(7)	$106,981
Sales to 4-H Clubs and FFA Clubs located in Arkansas, the Arkansas 4-H Foundation, the Arkansas FFA Foundation, and the Arkansas FFA Association.	1979	§ 26-52-401(10)	$71,645
Sales to Orphans' homes and Children’s' homes in Arkansas, not operated for profit, and operated by church, religious or other charitable organizations.	1949	§ 26-52-413	$44,892
Sales to Humane Societies not operated for profit and organized for the prevention of cruelty to animals.	1979	§ 26-52-414	$83,354
Sales of food to governmental agencies for free distribution to any public, penal or eleemosynary institution or for free distribution to the poor and needy.	1941	§ 26-52-401(19)	$75,401
Sales by churches and charitable organizations not engaged in business for profit.	1941	§ 26-52-401(1) & § 26-52-401(2)	$559,881
Sales to any hospital, sanitarium or not-for-profit nursing homes operated for charitable and non-profit purposes.	1941	§ 26-52-401(21)	$103,507,885
Sales to non-profit organizations whose sole purpose is to provide temporary housing to the family of patients in a hospital or sanitarium.	1989	§ 26-52-401(21)	$2,344

Exemptions for Non-Profit, Religious or Charitable Organizations, Continued			
Sales of new motor vehicles to a veteran of the U.S. Armed Services who is blind as a result of a service-connected injury.	1979	§ 26-52-415(a)	$6,475
Sales to Fort Smith Clearing House.	1993	§ 26-52-424	$8,480
Sales to federally chartered credit unions.	1941	§ 23-35-103	$1,460,016
Sales of articles sold on the premises of the Arkansas Veterans' Home.	1941	§ 26-52-401(25)	$1,671
Sales to Habitat for Humanity.	1995	§ 26-52-401(31)	$111,954
Exempts non-profit blood donation organizations from state and local sales tax.	2013	§ 26-52-449	$120,000
Sales to Salvation Army.	1997	§ 26-52-401(33)	$93,758
Sales to Heifer Project International, Inc.	1997	§ 26-52-401(34)	$178,225
Sales by gift shops operated by charitable organizations at for-profit hospitals.	2001	§ 26-52-430(c)(2)	$3,278
Sales to the Arkansas Symphony Orchestra Society.	2005	§ 26-52-401(37)	$6,843
Sales to Arkansas Search Dog Association, Inc.	2009	§ 26-52-443	$1,000
Hospital and Medical Service Corporations.	1959	§ 23-75-120	$200,000
Arkansas National Guard - sales by canteen.	1977	§ 12-63-406	$900,000
Sales to Arkansas Black Hall of Fame Foundation.	2011	§ 26-52-401(39)	$3,000
Total Exemptions for Non-Profit, Religious or Charitable Organizations			**$107,606,597**

Aviation or Aerospace Exemptions			
Sales of new or used aircraft of less than $2,000.	1991	§ 26-52-505(b)	$835
Sales of aircraft brought into AR when the seller and purchaser are both residents of another state and the aircraft will be based outside of Arkansas. No revenue impact since these sales are not currently being completed in AR.	2015	Unknown	$0
Sales of new aircraft manufactured or substantially completed in Arkansas to a purchaser for use exclusively outside Arkansas.	1981	§ 26-52-505(c)	$22,960,453
Aircraft held for resale that is used in a charter service for a period of 24 months from the date of purchase.	1995	§ 26-52-409	$2,457,207
Total Aviation or Aerospace Exemptions			**$25,418,495**

Exemptions for School Districts and Other Educational Institutions (Arkansas taxes sales to itself and to the local governments)			
Sales of school buses to school districts in Arkansas or to other purchasers if they exclusively use buses to provide school bus service under contract with an Arkansas school district.	1947, 1997	§ 26-52-410(b) and (c)	$2,845,947
Sales of motor vehicles to municipalities, counties, state-supported colleges, state-supported universities or public school districts in Arkansas.	1971	§ 26-52-410(a)	$1,206,606

Exemptions for School Districts and Other Educational Institutions, Continued			
Motor vehicles purchased by technical or community colleges and used exclusively for training purposes.	1995	§ 6-51-101(a)(1)	$12,428
Sales of food in public, common, high school or college cafeterias and lunchrooms.	1941	§ 26-52-401(3)	$5,220,039
Sales of textbooks and other instructional materials (including sheet music, electronic software, maps, globes, charts, DVDs, etc.) purchased by an Arkansas school district or Arkansas public school that receives state funding, or purchased by the State of Arkansas for free distribution to Arkansas school districts or Arkansas public schools.	1995, 2005	§ 26-52-437	$2,506,586
Sales of tickets for admissions to athletic events and interscholastic activities at public and private elementary and secondary schools in Arkansas.	1973	§ 26-52-412(a)	$1,376,428
Sales of tickets for admission to athletic events at public or private universities and colleges in Arkansas.	1995	§ 26-52-412(b)	$2,439,885
Sales tax exemption for parking space charges or fees by state institutions.	2005	§ 25-17-307(a)(2)(B)	$135,385
Total Exemptions for School Districts and Other Educational Institutions Estimate			**$15,743,304**

Other Exemptions			
Sales of automobile parts which constitute "core charges" which are received for the purpose of securing a trade-in for the article purchased.	1987	§ 26-52-401(26)	$54,723
Services provided by coin-operated car washes where the labor is performed solely by the customer or mechanical equipment.	1973	§ 26-52-301(3)(B)(ii)	$134,417
Admission fees at state, district, county or township fairs. Admission fees to rodeos.	1941	§ 26-52-401(15)	$287,369
Sales of automobile parts which constitute "core charges" which are received for the purpose of securing a trade-in for the article purchased.	1989	§ 26-52-301(3)(B)(v)	$6,475
Isolated sales not made by an established business or in an established manner. This exemption does not apply to the sale of motor vehicles, trailers, semi-trailers, mobile homes or airplanes.	1941	§ 26-52-401(17)	$422,241
Sales of used property if item was taken in trade and tax was collected on the full purchase price of the new item.	1941	§ 26-52-401(22)	$6,880,889
Construction materials and furnishings for use in the initial construction and equipping of a child care facility operated by a business for the primary purpose of providing child care services to their employees.	1995	§ 26-52-516	$87,202
Sales of motor vehicles to persons engaged in the business of renting licensed motor vehicles.	1993, 2007	§ 26-63-302 and 26-63-304	$6,915,743
Fees charged for the transfer of fill material by a business engaged in transporting or delivering fill material, provided such fill material was obtained free of charge by a business engaged in transporting or delivering fill material and the charge to the customer or user is only for delivery.	1993	§ 26-52-401(30)	$328,233
Sales of new manufactured homes and modular homes are taxed on 62% of the gross sales price. Sales of used manufactured and modular homes are exempt.	1997, 2005	§ 26-52-802	$3,414,140
Any interstate or international private communications service and any interstate or international 800 service or 900 service.	2003	§ 26-52-15	Unknown

Other Exemptions, Continued			
Repair or maintenance services of railroad parts, cars, and equipment brought into Arkansas for repair or maintenance, solely and exclusively and then returned to a point outside Arkansas.	1995	§ 26-52-301(3)(B)(iii)	$5,599,345
Sale of vessels, barges and towboats of at least 50 tons load displacement and the parts and labor used in their repair and construction.	1979	§ 26-52-407	$287,638
Sales tax exemption for gross receipts in excess of $9,150 selling price of a truck tractor (Class 5-Class 8 trucks) and gross receipts in excess of $1,000 selling price of a semi-trailer.	2003	§ 26-52-436	$7,288,596
Sales of Class 7 and Class 8 trucks and semi-trailers. No earlier impact because exemption effective July 1, 2012.	2011	§ 26-52-36	$4,000,000
Sales tax exemption for purchases by a "qualified museum" for construction, repair, expansion or operation. A "qualified museum" must have a collection with a value greater than $100,000,000 in an Arkansas facility prior to January 1, 2013. The aggregate cost of construction and acquisition must exceed $30 million.	2005	§ 26-52-440	$2,700,000
Partial sales tax exemption (2.0% rate in FY2011) on food and food ingredients. In 2011, rate is 1.5 %	2007, 2009, 2011	§ 26-52-317	$196,846,787
Arkansas Entertainers Hall of Fame Board.	1985	§ 13-9-104	$3,237
Sale of back to school supplies, clothing and clothing accessories on the first weekend (Saturday and Sunday) in August.	2011	§ 26-52-444	$2,120,000
Purchases of kegs by a wholesale manufacturer of beer that are used to sell beer wholesale.	2011	§ 26-52-445	$1,200
Sunsets the 1.5% Long Term Leasing Tax for motor vehicle leases of more than 30 days after the number of vehicles leased is at least 3% of all new motor vehicles registered. The tax will expire on June 30, 2015.	2013	§ 26-63-304(b)	$2,000,000
Total Other Exemptions Estimate			**$239,378,235**

** The estimates do not represent an official revenue estimate of any particular tax proposal. They do not necessarily represent the revenue gain that would occur if the exemptions were eliminated. The estimates are based on estimated activity during FY2011. The value of a particular exemption may vary widely from year to year depending on prices, industry activity and demographic trends. Each exemption is considered independently although there is overlap between individual exemptions. For this reason, the sum of all the estimates would not represent the combined value of all Arkansas sales tax exemptions.*

Pink cells indicate **new** or **refined** sales tax exemptions approved since 2012 study.

Appendix H: Cross-Border Competition Studies

Generally

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King-Adzima and Nesbit. *The Revenue Impacts of Cross-border Sales and Tourism: Wine and Liquor Taxation in West Virginia and Its Neighbors*.

LoPiccalo, Katherine. *Driving to Drink: Tax Avoidance Along the Washington-Oregon Border*. April 2016.

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Lovenhelm, Michael F. *How Far to the Border?: The Extent and Impact of Cross-Border Casual Cigarette Smuggling*. March 2008.

Mickiewicz and Levinson. *Colorado's 2005 Tobacco Tax Increase, Cigarette Consumption, and Tax Revenues*. May 2006.

Tax Foundation. *How Excise Tax Differentials Affect Interstate Smuggling and Cross-Border Sales of Cigarettes in the United States*. October 1998.

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Appendix I: 50 State Excise Tax Comparisons

Appendix I1: Motor Fuel Tax

State	Gasoline	Diesel	Gasohol	State	Gasoline	Diesel	Gasohol
Pennsylvania	$0.58	$0.75	$0.58	Delaware	$0.23	$0.22	$0.23
Washington	$0.49	$0.49	$0.49	North Dakota	$0.23	$0.23	$0.23
North Carolina	$0.34	$0.34	$0.34	Wyoming	$0.23	$0.23	$0.23
Maryland [5]	$0.34	$0.34	$0.34	New Hampshire	$0.22	$0.22	$0.22
Rhode Island	$0.33	$0.33	$0.33	Colorado	$0.22	$0.21	$0.20
Idaho	$0.32	$0.32	$0.32	**Arkansas**	**$0.22**	**$0.23**	**$0.22**
Wisconsin	$0.31	$0.31	$0.31	West Virginia	$0.21	$0.21	$0.21
Iowa	$0.31	$0.33	$0.29	Louisiana	$0.20	$0.20	$0.20
Maine	$0.30	$0.31	$0.30	Texas	$0.20	$0.20	$0.20
Oregon [1]	$0.30	$0.30	$0.30	Illinois [1]	$0.19	$0.22	$0.19
Utah	$0.29	$0.29	$0.29	Alabama [1]	$0.18	$0.19	$0.18
Minnesota	$0.29	$0.29	$0.29	Arizona	$0.18	$0.26	$0.18
Ohio	$0.28	$0.28	$0.28	Indiana	$0.18	$0.16	$0.18
South Dakota [1]	$0.28	$0.28	$0.27	Mississippi	$0.18	$0.18	$0.18
California	$0.28	$0.16	$0.28	Florida [2]	$0.17	$0.17	$0.17
Nebraska	$0.27	$0.27	$0.27	Missouri	$0.17	$0.17	$0.17
Montana	$0.27	$0.28	$0.27	New Mexico	$0.17	$0.21	$0.17
Georgia [3]	$0.26	$0.29	$0.26	Virginia [1]	$0.16	$0.20	$0.16
Michigan	$0.26	$0.26	$0.26	Hawaii [1]	$0.16	$0.16	$0.16
Connecticut	$0.25	$0.42	$0.25	Oklahoma	$0.16	$0.13	$0.16
Kentucky	$0.25	$0.22	$0.25	South Carolina	$0.16	$0.16	$0.16
Kansas	$0.24	$0.26	$0.24	Vermont [3]	$0.12	$0.28	$0.12
Massachusetts	$0.24	$0.24	$0.24	New Jersey	$0.11	$0.14	$0.11
Nevada [1]	$0.24	$0.27	$0.24	Alaska	$0.08	$0.08	$0.08
Tennessee [4]	$0.24	$0.21	$0.24	New York	$0.08	$0.08	$0.08
Dist. of Columbia	$0.24	$0.24	$0.24				

Source: Compiled by Federation of Tax Administrators from various sources.

[1] Tax rates do not include local option taxes. In AL, 1 - 3 cents; HI, 8.8 to 18.0 cent; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 4.0 to 9.0 cents; OR, 1 to 5 cents; SD and TN, one cent; and VA 2.1%.
[2] Local taxes for gasoline and gasohol vary from 0 cents to 6.0 cents. Includes Inspection Fee, SCETS, & Statewide Local Tax.
[3] Portion of the rate is adjustable based on maintenance costs, sales volume, cost of fuel to state government, or inflation.
[4] Rates updated to reflect those in effect as of July 1, 2017. Rate shown does not include one-cent local option tax

Appendix I2: Cigarette Tax

State	Tax Rate ($/pack)	State	Tax Rate ($/pack)
New York [1]	$4.35	Texas	$1.41
Connecticut	$3.90	Iowa	$1.36
Rhode Island	$3.75	Florida [3]	$1.34
Massachusetts	$3.51	Oregon	$1.32
Hawaii	$3.20	Kansas	$1.29
Vermont	$3.08	West Virginia	$1.20
Minnesota [5]	$3.04	**Arkansas**	**$1.15**
Washington	$3.03	Louisiana	$1.08
New Jersey	$2.70	Oklahoma	$1.03
Pennsylvania	$2.60	Indiana	$1.00
Wisconsin	$2.52	California [2]	$0.87
Alaska	$2.00	Colorado	$0.84
Arizona	$2.00	Mississippi	$0.68
Maine	$2.00	Alabama [1]	$0.68
Maryland	$2.00	Nebraska	$0.64
Michigan	$2.00	Tennessee [1] [4]	$0.62
Illinois [1]	$1.98	Kentucky	$0.60
Nevada	$1.80	Wyoming	$0.60
New Hampshire	$1.78	Idaho	$0.57
Montana	$1.70	South Carolina	$0.57
Utah	$1.70	North Carolina	$0.45
New Mexico	$1.66	North Dakota	$0.44
Delaware	$1.60	Georgia	$0.37
Ohio	$1.60	Virginia [1]	$0.30
South Dakota	$1.53	Missouri [1]	$0.17
Dist. of Columbia [6]	$2.50		
U. S. Median	$1.53		

Source: Compiled by FTA from state sources.

[1] Counties and cities may impose an additional tax on a pack of cigarettes: in Alabama, 1¢ to 25¢; Illinois, 10¢ to $4.18;
Missouri, 4¢ to 7¢; New York City, $1.50; Tennessee, 1¢; and Virginia, 2¢ to 15¢.
[2] California tax rate is scheduled to increase to $2.87 per pack on 4/1/17.
[3] Florida's rate includes a surcharge of $1 per pack.
[4] Dealers pay an additional enforcement and administrative fee of 0.05¢ in Tennessee.
[5] In addition, Minnesota imposes an in lieu cigarette sales tax determined annually by the Department. The current rate is 55.0¢ through December 31, 2017.
[6] In addition, District of Columbia imposes an in lieu cigarette sales tax calculated every March 31. The current rate is 42¢.

Appendix I3: Insurance Premium Tax

State	Premium Tax on Insurers, Generally	State	Premium Tax on Insurers, Generally
Hawaii	4.27%	New York	2.00%
Nevada	3.50%	Pennsylvania	2.00%
New Mexico	3.00%	Rhode Island	2.00%
Mississippi	3.00%	Vermont	2.00%
West Virginia	3.00%	Washington	2.00%
Montana	2.75%	Wisconsin	2.00%
Alaska	2.70%	Arizona	1.95%
Arkansas	**2.50%**	North Carolina	1.90%
South Dakota	2.50%	Connecticut	1.75%
Tennessee	2.50%	Florida	1.75%
California	2.35%	North Dakota	1.75%
Massachusetts	2.28%	Texas	1.60%
Georgia	2.25%	Idaho	1.50%
Oklahoma	2.25%	Ohio	1.40%
Utah	2.25%	Indiana	1.30%
Virginia	2.25%	New Hampshire	1.25%
New Jersey	2.10%	Michigan	1.25%
Colorado	2.00%	South Carolina	1.25%
Delaware	2.00%	Iowa	1.00%
Kansas	2.00%	Nebraska	1.00%
Kentucky	2.00%	Wyoming	0.75%
Maine	2.00%	Illinois	0.5%
Maryland	2.00%	Alabama	Varies by insurance type
Minnesota	2.00%	Louisiana	Dollar amount based on volume
Missouri	2.00%	Oregon	Subject to corporate excise tax; no premium tax

Source: National Association of Insurance Commissioners, Retaliation Guide, December 2016

Appendix I4: Cigar and Tobacco Tax

State	Tax Rate	State	Tax Rate
Alabama [2]		Minnesota [7]	95% Wholesale Price
Cigars	3.0¢-40.5¢/ 10 cigars	Mississippi	15% Manufacturer's Price
Tobacco/Snuff	2¢-8¢/ ounce	Missouri	10% Manufacturer's Price
Alaska	75% Wholesale Price	Montana [4]	50% Wholesale Price
Arizona		Nebraska [4]	20% Wholesale Price
Cigars	22.01¢-$2.18/10 cigars	Nevada	30% Wholesale Price
Tobacco/Snuff	22.3¢/ounce	New Hampshire	65.03% Wholesale Price
Arkansas	**68% Manufacturer's Price**	New Jersey [4]	30% Wholesale Price
California [7][8]	27.3% Wholesale Price	New Mexico	25% Product value
Colorado	40% Manufacturer's Price	New York [4]	75% Wholesale Price
Connecticut [4]	50% Wholesale Price	North Carolina [7]	12.8% Wholesale Price
Delaware [4]	15% Wholesale Price	North Dakota	
Florida [5]		Cigars & Tobacco	28% Wholesale Price
Tobacco/Snuff	85% Wholesale Price	Chew Tobacco & Snuff	16¢-60¢ /ounce
Georgia		Ohio	17% Wholesale Price
Little Cigars	2.5¢/10 cigars	Oklahoma	
Other Cigars	23% Wholesale Price	Cigars Little&Large	$1.20/ 10 cigars
Tobacco	10% Wholesale Price	Snuff & Tobacco	60%-80% Factory list price
Hawaii [6]		Oregon [4]	65% Wholesale Price
Large Cigars	50% Wholesale Price	Pennsylvania [6] [7]	$0.55/ounce - tobacco
Tobacco/Snuff	70% Wholesale Price	Rhode Island	80% Wholesale Price
Idaho	40% Wholesale Price	South Carolina	5% Manufacturer's Price
Illinois [4]	36% Wholesale Price	South Dakota	35% Wholesale Price
Indiana	24% Wholesale Price	Tennessee	6.6% Wholesale Price
Iowa [6]	50% Wholesale Price	Texas	
Kansas [7]	10% Wholesale Price	Cigar	1.0¢-15.0¢/10 cigars
Kentucky	15% Wholesale Price	Tobacco/Snuff	1.22/ounce
Louisiana [7]		Utah [4] [6]	86% Manufacturer's Price
Cigars	8%-20% Manufacturer's Price	Virginia [4]	10% Manufacturer's Price
Snuff/Smoking Tobacco	20%-33% Manufacturer's Price	Vermont [4]	92% Wholesale Price
Maine		Cigar	$20-$40/10 cigars
Chewing Tob./Snuff	$2.02/ounce	Tobacco/Snuff	$2.57/ounce
Smoking Tob./Cigars	20% Wholesale Price	Washington [4] [6]	95% Wholesale Price
Maryland		West Virginia	12% Wholesale Price
Tobacco/Snuff	30% Wholesale Price	Wisconsin	71% Manufacturer's Price
Cigars	70% Wholesale Price	Wyoming [4]	20% Wholesale Price
Massachusetts	40% Wholesale Price		
Michigan	32% Wholesale Price	Dist.of Columbia [3] [7]	65% Wholesale Price

Source: Compiled by FTA from various sources.

[1] The volume-based tax rates were converted to cents per 10 cigars or per ounce for consistency.
[2] Alabama's cigar tax rate rises with the retail price; the rate on smoking tobacco and snuff depends on package weight.
[3] The Dist. of Columbia adjusts the tax rate annually, effective October 1st each year.
[4] Tax rate on Snuff per ounce is $1.00 in CT, 54¢ in DE, 30¢ in IL, 19¢ in KY, 85¢ in MT, 44¢ in NE, 75¢ in NJ, $2.00 in NY, $1.78 in OR, $1.83 in UT, 18¢ in VA, $2.57 in VT, $2.105 in WA and 60¢ in WY.
[5] Florida's rate includes a 60% surtax.
[6] Little cigars are taxed as cigarettes.
[7] Six states apply tax to E-cigarette/Vapor Products. DC and MN apply general OTP tax. LA and NC applies a 5 cent/milliliter of vapor product. KS applies a $0.20/milliliter tax. PA applies a 40% tax on the wholesale price. CA will apply OTP tax beginning 4/1/17.
[8] Proposition 56 will increase the OTP rate effective July 1, 2017. A rate that is equivalent to cigarettes will be determined.

Appendix I5: Liquor Tax Rates

State	Tax Rate ($/Gallon)	State	Tax Rate ($/Gallon)
Washington [2]	$14.27	**Arkansas**	**$2.50**
Alaska	$12.80	Kansas	$2.50
Illinois	$8.55	North Dakota	$2.50
Florida	$6.50	Texas	$2.40
New York	$6.44	Colorado	$2.28
New Mexico	$6.06	Missouri	$2.00
Hawaii	$5.98	Kentucky	$1.92
Oklahoma	$5.56	Maryland	$1.50
New Jersey	$5.50	Alabama	see footnote [1]
Connecticut	$5.40	Idaho	see footnote [1]
Rhode Island	$5.40	Iowa	see footnote [1]
Minnesota	$5.03	Maine	see footnote [1]
Tennessee	$4.40	Michigan	see footnote [1]
Massachusetts	$4.05	Mississippi	see footnote [1]
South Dakota	$3.93	Montana	see footnote [1]
Georgia	$3.79	New Hampshire	see footnote [1]
Delaware	$3.75	North Carolina	see footnote [1]
Nebraska	$3.75	Ohio	see footnote [1]
Nevada	$3.60	Oregon	see footnote [1]
California	$3.30	Pennsylvania	see footnote [1]
Wisconsin	$3.25	Utah	see footnote [1]
Louisiana	$3.03	Vermont	see footnote [1]
Arizona	$3.00	Virginia	see footnote [1]
South Carolina	$2.72	West Virginia	see footnote [1]
Indiana	$2.68	Wyoming	see footnote [1]
Dist. of Columbia	$1.50		
U.S. Median	$3.75		

Source: Compiled by FTA from state sources.

Notes:
[1] In 17 states, the government directly controls the sales of distilled spirits. Revenue in these states is generated from various taxes, fees, price mark-ups, and net liquor profits.
[2] Washington privatized liquor sales effective June 1, 2012.

Appendix I6: Wine Tax Rates

State	Tax Rate ($/Gallon)	State	Tax Rate ($/Gallon)
Alaska	$2.50	Nevada	$0.70
Florida	$2.25	Oregon	$0.67
Iowa	$1.75	Maine	$0.60
New Mexico	$1.70	Massachusetts	$0.55
Alabama	$1.70	Vermont	$0.55
Georgia	$1.51	Michigan	$0.51
Virginia	$1.51	Kentucky	$0.50
Rhode Island	$1.40	North Dakota	$0.50
Illinois	$1.39	Indiana	$0.47
Hawaii	$1.38	Idaho	$0.45
Tennessee	$1.21	Missouri	$0.42
Montana	$1.02	Maryland	$0.40
West Virginia	$1.00	Mississippi	$0.35
North Carolina	$1.00	Ohio	$0.32
Delaware	$0.97	Kansas	$0.30
Nebraska	$0.95	Minnesota	$0.30
South Dakota	$0.93	New Hampshire	$0.30
South Carolina	$0.90	New York	$0.30
New Jersey	$0.88	Colorado	$0.28
Washington	$0.87	Wisconsin	$0.25
Arizona	$0.84	Texas	$0.20
Louisiana	$0.76	California	$0.20
Arkansas	**$0.75**	Pennsylvania	see footnote [1]
Connecticut	$0.72	Utah	see footnote [1]
Oklahoma	$0.72	Wyoming	see footnote [1]
Dist. of Columbia	$0.30		
U.S. Median	$0.72		

Source: Compiled by FTA from state sources.

Notes:
[1] All wine sales are through state stores. Revenue in these states is generated from various taxes, fees, price mark-ups, and net profits.

Appendix I7: Beer Tax Rates

State	Tax Rate ($/Gallon)	State	Tax Rate ($/Gallon)
Tennessee	$1.29	Texas	$0.20
Alaska	$1.07	Iowa	$0.19
Hawaii	$0.93	Kansas	$0.18
South Carolina	$0.77	Ohio	$0.18
North Carolina	$0.62	West Virginia	$0.18
Alabama	$0.53	Arizona	$0.16
Florida	$0.48	Nevada	$0.16
Mississippi	$0.43	North Dakota	$0.16
Utah	$0.41	Delaware	$0.16
New Mexico	$0.41	Idaho	$0.15
Louisiana	$0.40	Minnesota	$0.15
Oklahoma	$0.40	New York	$0.14
Maine	$0.35	Montana	$0.14
Georgia	$0.32	New Jersey	$0.12
Nebraska	$0.31	Indiana	$0.12
New Hampshire	$0.30	Massachusetts	$0.11
South Dakota	$0.27	Rhode Island	$0.11
Vermont	$0.27	Maryland	$0.09
Washington	$0.26	Oregon	$0.08
Virginia	$0.26	Kentucky	$0.08
Connecticut	$0.24	Colorado	$0.08
Arkansas	**$0.23**	Pennsylvania	$0.08
Illinois	$0.23	Wisconsin	$0.06
Michigan	$0.20	Missouri	$0.06
California	$0.20	Wyoming	$0.02
Dist. of Columbia	$0.09		
U.S. Median	$0.20		

Source: Compiled by FTA from state sources.

Appendix I8: Lodging Tax Rates

State	Lodging Tax
*Connecticut	15.0%
District of Columbia	14.8%
*Hawaii	9.3%
*Maine	9.0%
*New Hampshire	9.0%
Vermont	9.0%
*Delaware	8.0%
Illinois	6.0%
Michigan	6.0% [2]
Pennsylvania	6.0%
Texas	6.0%
Massachusetts	5.7%
Arizona	5.5%
Iowa	5.0%
New Jersey	5.0%
Rhode Island	5.0%
Alabama	4.0% [1]
Montana	4.0%
Arkansas	**2.0%**
Idaho	2.0%
South Carolina	2.0%
Virginia	2.0% [5]
Oregon	1.8% [3]
South Dakota	1.5% [4]
Kentucky	1.0%
Nebraska	1.0%

Source: National Conference of State Legislatures – State Lodging Taxes as of October 1, 2017.

* = no additional local tax on accommodations

[1] State lodging tax rate raised to 5.0% in mountain lakes area.

[2] State levied lodging tax varies. Convention hotels located within a qualified local government unit with 81-160 rooms rate is 3.0% and 6.0% for hotels with more than 160 rooms. All other hotels with 81-160 rooms is 1.5% and 5.0% for hotels with more than 160 rooms.

[3] The rate becomes 1.5% after 7/1/2020.

[4] Seasonal (June-September)

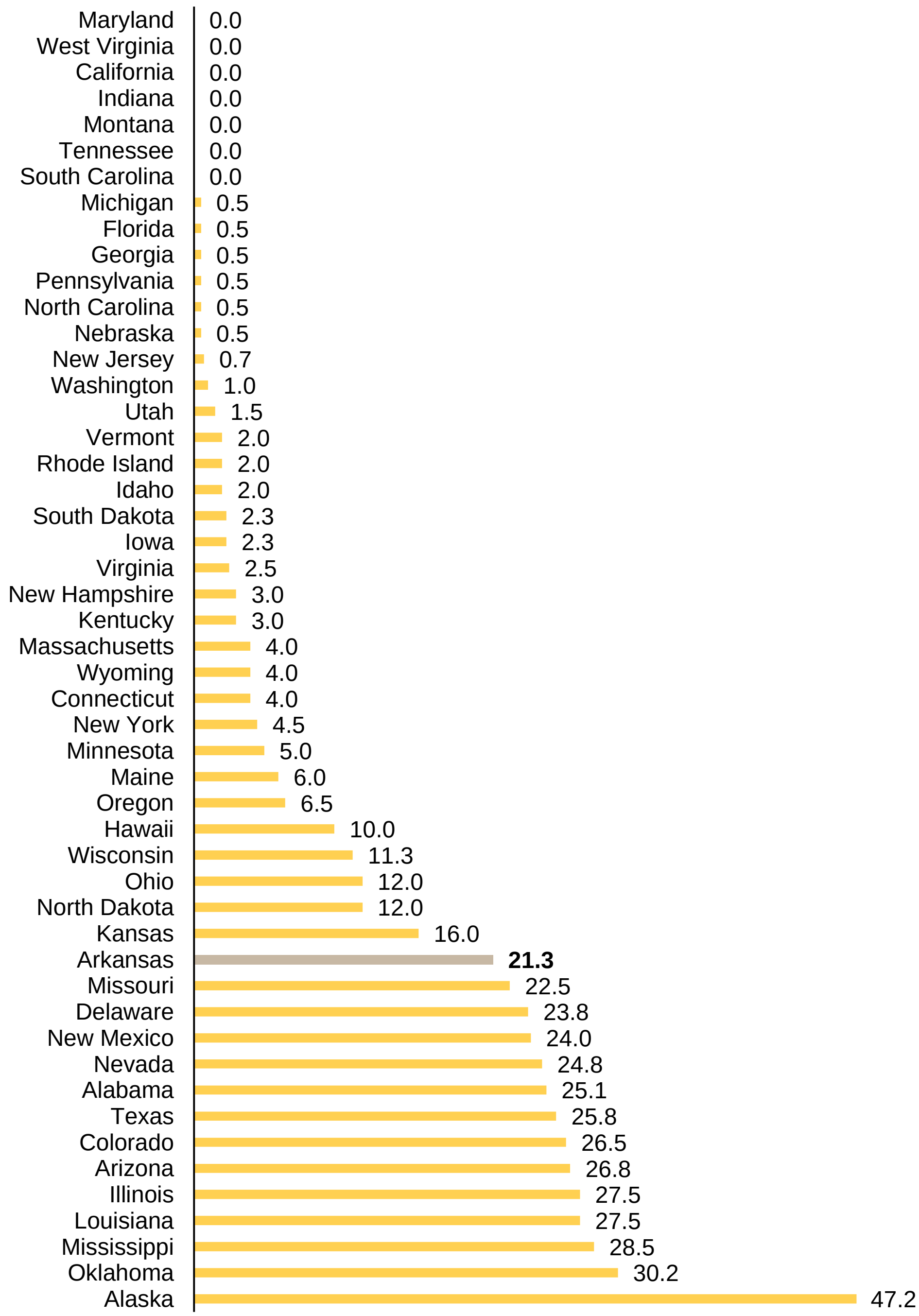
[5] Only applies to certain planning districts in the state (Northern Virginia and Hampton Roads)

Appendix I9: Rental Vehicle Taxes

State	Tax Rate	State	Tax Rate
Minnesota	9.2% + 5% fee	Indiana	4%
Maryland	11.50%	Missouri	4%
Alaska	10%	Montana	4%
Arkansas	**10%**	Wyoming	4% surcharge
Maine	10%	Kansas	3.50%
Nevada	10%	Connecticut	3% plus $1/day
Texas	10%	North Dakota	3%
Virginia	10%*	Tennessee	3%
New Hampshire	9%	Utah	2.50%
Vermont	9%	Pennsylvania	2% + $2/day
North Carolina	8%	Delaware	1.99%
Rhode Island	8%	Alabama	1.50%
Kentucky	6%	New Jersey	$5/day
Michigan	6%	Hawaii	$3/day
Mississippi	6%	Colorado	$2/day
New York	6%	Florida	$2/day
Oklahoma	6%	West Virginia	$1-$1.50/day
Washington	5.90%	California	None
Arizona	5%	Idaho	None
Illinois	5%	Georgia	None
Iowa	5%	Louisiana	None
New Mexico	5% (“Leased”) + $2/day	Massachusetts	None
South Carolina	5% surcharge	Nebraska	None
Wisconsin	5% fee	Ohio	None
South Dakota	4.50%	Oregon	None
District of Columbia	10%		

Source: National Conference of State Legislatures, 2017

Appendix J: Years Since Last State Gas Tax Increase



Source: Institute on Taxation and Economic Policy, “How Long Has It Been Since Your State Raised Its Gas Tax?”, June 28,2017

Appendix K: Local Governments by Type and State, 2012

State	Total	General Purpose				Special Purpose		
		Total	County	Municipal	Town or Township	Total	Special Districts	Indep. School Districts
United States	**90,056**	**38,910**	3,031	19,519	16,360	**51,146**	38,266	12,880
Alabama	**1,208**	**528**	67	461	-	**680**	548	132
Alaska	**177**	**162**	14	148	-	**15**	15	-
Arizona	**674**	**106**	15	91	-	**568**	326	242
Arkansas	**1,556**	**577**	**75**	**502**	**-**	**979**	**740**	**239**
California	**4,425**	**539**	57	482	-	**3,886**	2,861	1,025
Colorado	**2,905**	**333**	62	271	-	**2,572**	2,392	180
Connecticut	**643**	**179**	-	30	149	**464**	447	17
Delaware	**339**	**60**	3	57	-	**279**	260	19
District of Columbia	**2**	**1**	-	1	-	**1**	1	-
Florida	**1,650**	**476**	66	410	-	**1,174**	1,079	95
Georgia	**1,378**	**688**	153	535	-	**690**	510	180
Hawaii	**21**	**4**	3	1	-	**17**	17	-
Idaho	**1,168**	**244**	44	200	-	**924**	806	118
Illinois	**6,963**	**2,831**	102	1,298	1,431	**4,132**	3,227	905
Indiana	**2,709**	**1,666**	91	569	1,006	**1,043**	752	291
Iowa	**1,947**	**1,046**	99	947	-	**901**	535	366
Kansas	**3,826**	**1,997**	103	626	1,268	**1,829**	1,523	306
Kentucky	**1,338**	**536**	118	418	-	**802**	628	174
Louisiana	**529**	**364**	60	304	-	**165**	96	69
Maine	**840**	**504**	16	22	466	**336**	237	99
Maryland	**347**	**180**	23	157	-	**167**	167	-
Massachusetts	**857**	**356**	5	53	298	**501**	417	84
Michigan	**2,875**	**1,856**	83	533	1,240	**1,019**	443	576
Minnesota	**3,672**	**2,724**	87	853	1,784	**948**	610	338
Mississippi	**983**	**380**	82	298	-	**603**	439	164
Missouri	**3,768**	**1,380**	114	954	312	**2,388**	1,854	534
Montana	**1,265**	**183**	54	129	-	**1,082**	763	319
Nebraska	**2,581**	**1,040**	93	530	417	**1,541**	1,269	272
Nevada	**191**	**35**	16	19	-	**156**	139	17
New Hampshire	**541**	**244**	10	13	221	**297**	131	166
New Jersey	**1,344**	**587**	21	324	242	**757**	234	523
New Mexico	**863**	**136**	33	103	-	**727**	631	96
New York	**3,453**	**1,600**	57	614	929	**1,853**	1,174	679
North Carolina	**973**	**653**	100	553	-	**320**	320	-
North Dakota	**2,685**	**1,723**	53	357	1,313	**962**	779	183
Ohio	**3,842**	**2,333**	88	937	1,308	**1,509**	841	668
Oklahoma	**1,852**	**667**	77	590	-	**1,185**	635	550
Oregon	**1,542**	**277**	36	241	-	**1,265**	1,035	230
Pennsylvania	**4,897**	**2,627**	66	1,015	1,546	**2,270**	1,756	514
Rhode Island	**133**	**39**	-	8	31	**94**	90	4
South Carolina	**678**	**316**	46	270	-	**362**	279	83
South Dakota	**1,983**	**1,284**	66	311	907	**699**	547	152

State	Total	General Purpose				Special Purpose		
		Total	County	Municipal	Town or Township	Total	Special Districts	Indep. School Districts
Tennessee	**916**	**437**	92	345	-	**479**	465	14
Texas	**5,147**	**1,468**	254	1,214	-	**3,679**	2,600	1,079
Utah	**622**	**274**	29	245	-	**348**	307	41
Vermont	**738**	**294**	14	43	237	**444**	153	291
Virginia	**518**	**324**	95	229	-	**194**	193	1
Washington	**1,900**	**320**	39	281	-	**1,580**	1,285	295
West Virginia	**659**	**287**	55	232	-	**372**	317	55
Wisconsin	**3,128**	**1,923**	72	596	1,255	**1,205**	765	440
Wyoming	**805**	**122**	23	99	-	**683**	628	55

Source: U.S. Census Bureau Local Governments by Type and State, 2012

Appendix L: Local Tax Revenues by Source, All States

	Local Government Tax Revenues						
State	**Property (Real & Personal)**	**Sales & Gross Receipts**	**Individual Income**	**Corporate Income**	**Motor Vehicle License**	**Other Taxes**	**Total**
Alabama	41.5%	44.2%	2.0%	0.0%	0.4%	11.9%	100.0%
Alaska	78.4%	19.1%	0.0%	0.0%	1.3%	1.1%	100.0%
Arizona	64.0%	32.0%	0.0%	0.0%	0.0%	3.9%	100.0%
Arkansas	**42.6%**	**55.9%**	**0.0%**	**0.0%**	**0.0%**	**1.5%**	**100.0%**
California	70.3%	22.2%	0.0%	0.0%	0.1%	7.4%	100.0%
Colorado	61.6%	34.2%	0.0%	0.0%	0.7%	3.6%	100.0%
Connecticut	98.4%	0.0%	0.0%	0.0%	0.0%	1.6%	100.0%
Delaware	81.9%	1.7%	5.9%	0.6%	0.0%	10.0%	100.0%
Florida	76.4%	17.5%	0.0%	0.0%	0.0%	6.0%	100.0%
Georgia	65.7%	31.6%	0.0%	0.0%	0.0%	2.7%	100.0%
Hawaii	68.9%	20.5%	0.0%	0.0%	8.3%	2.4%	100.0%
Idaho	93.5%	2.5%	0.0%	0.0%	0.5%	3.5%	100.0%
Illinois	81.1%	16.3%	0.0%	0.0%	0.2%	2.4%	100.0%
Indiana	80.7%	2.4%	15.2%	0.0%	0.6%	1.1%	100.0%
Iowa	86.4%	10.2%	1.8%	0.0%	0.4%	1.2%	100.0%
Kansas	72.3%	25.2%	0.0%	0.0%	0.5%	1.9%	100.0%
Kentucky	56.3%	13.4%	25.4%	3.1%	0.2%	1.6%	100.0%
Louisiana	45.7%	51.9%	0.0%	0.0%	0.0%	2.3%	100.0%
Maine	99.0%	0.4%	0.0%	0.0%	0.0%	0.7%	100.0%
Maryland	56.9%	5.7%	32.2%	0.0%	0.0%	5.2%	100.0%
Massachusetts	95.5%	2.3%	0.0%	0.0%	0.0%	2.2%	100.0%
Michigan	91.7%	2.2%	3.8%	0.0%	0.0%	2.3%	100.0%
Minnesota	92.4%	4.2%	0.0%	0.0%	0.1%	3.3%	100.0%
Mississippi	93.7%	3.7%	0.0%	0.0%	0.0%	2.7%	100.0%
Missouri	58.7%	30.6%	3.7%	0.8%	0.1%	6.1%	100.0%
Montana	96.9%	0.7%	0.0%	0.0%	0.5%	1.9%	100.0%
Nebraska	80.0%	10.1%	0.0%	0.0%	2.1%	7.7%	100.0%
Nevada	58.6%	32.4%	0.0%	0.0%	0.0%	8.9%	100.0%
New Hampshire	99.0%	0.0%	0.0%	0.0%	0.0%	1.0%	100.0%
New Jersey	97.9%	0.7%	0.0%	0.0%	0.0%	1.4%	100.0%
New Mexico	56.6%	40.9%	0.0%	0.0%	0.5%	1.9%	100.0%
New York	56.5%	19.2%	12.2%	7.5%	0.1%	4.5%	100.0%
North Carolina	73.8%	23.5%	0.0%	0.0%	0.6%	2.1%	100.0%
North Dakota	76.1%	20.6%	0.0%	0.0%	0.1%	3.2%	100.0%
Ohio	64.3%	10.7%	21.3%	1.1%	0.5%	2.0%	100.0%
Oklahoma	52.5%	45.5%	0.0%	0.0%	0.2%	1.9%	100.0%
Oregon	80.6%	6.9%	0.0%	1.1%	0.2%	11.2%	100.0%
Pennsylvania	69.4%	5.5%	17.8%	1.7%	0.0%	5.6%	100.0%
Rhode Island	97.7%	1.0%	0.0%	0.0%	0.0%	1.3%	100.0%
South Carolina	77.1%	11.3%	0.0%	0.0%	1.1%	10.5%	100.0%
South Dakota	73.2%	24.4%	0.0%	0.0%	0.9%	1.5%	100.0%
Tennessee	64.2%	31.3%	0.0%	0.0%	1.9%	2.6%	100.0%

State	Local Government Tax Revenues						
	Property (Real & Personal)	Sales & Gross Receipts	Individual Income	Corporate Income	Motor Vehicle License	Other Taxes	Total
Texas	81.9%	16.4%	0.0%	0.0%	0.6%	1.1%	100.0%
Utah	70.5%	26.0%	0.0%	0.0%	0.0%	3.5%	100.0%
Vermont	94.5%	3.6%	0.0%	0.0%	0.0%	2.0%	100.0%
Virginia	75.5%	16.5%	0.0%	0.0%	1.1%	6.9%	100.0%
Washington	59.8%	34.1%	0.0%	0.0%	0.3%	5.9%	100.0%
West Virginia	81.9%	7.1%	0.0%	0.0%	0.0%	11.0%	100.0%
Wisconsin	92.7%	5.1%	0.0%	0.0%	0.0%	2.2%	100.0%
Wyoming	76.0%	20.0%	0.0%	0.0%	1.7%	2.3%	100.0%
United States	**72.1%**	**17.3%**	**4.8%**	**1.3%**	**0.3%**	**4.2%**	**100.0%**

Source: U.S. Census Bureau, 2015 Annual Survey of State and Local Government Finances

Appendix M: Median Real Estate Taxes Paid, Units with a Mortgage (2016)

Geography	Median Home Value	Median Household Income	Median Real Estate Taxes	% of Median Home Value	% of Median Household Income
Alabama	$153,900	$73,126	$639	0.4%	0.9%
Alaska	$286,600	$106,840	$3,436	1.2%	3.2%
Arizona	$222,900	$77,219	$1,494	0.7%	1.9%
Arkansas	**$139,700**	**$69,016**	**$927**	**0.7%**	**1.3%**
California	$491,100	$103,266	$3,962	0.8%	3.8%
Colorado	$322,100	$91,592	$1,671	0.5%	1.8%
Connecticut	$281,800	$109,821	$5,803	2.1%	5.3%
Delaware	$246,500	$85,415	$1,437	0.6%	1.7%
District of Columbia	$602,700	$143,414	$3,492	0.6%	2.4%
Florida	$213,800	$74,005	$1,944	0.9%	2.6%
Georgia	$179,600	$81,035	$1,725	1.0%	2.1%
Hawaii	$592,700	$106,629	$1,654	0.3%	1.6%
Idaho	$196,800	$70,991	$1,430	0.7%	2.0%
Illinois	$200,000	$90,533	$4,572	2.3%	5.1%
Indiana	$142,900	$75,390	$1,228	0.9%	1.6%
Iowa	$152,200	$81,234	$2,382	1.6%	2.9%
Kansas	$158,700	$81,296	$2,196	1.4%	2.7%
Kentucky	$149,100	$73,377	$1,325	0.9%	1.8%
Louisiana	$173,200	$77,908	$1,081	0.6%	1.4%
Maine	$199,200	$77,452	$2,686	1.3%	3.5%
Maryland	$315,600	$108,107	$3,379	1.1%	3.1%
Massachusetts	$373,300	$113,106	$4,484	1.2%	4.0%
Michigan	$159,700	$78,235	$2,451	1.5%	3.1%
Minnesota	$221,700	$91,862	$2,468	1.1%	2.7%
Mississippi	$137,300	$68,744	$1,092	0.8%	1.6%
Missouri	$161,700	$77,479	$1,590	1.0%	2.1%
Montana	$233,300	$72,303	$1,934	0.8%	2.7%
Nebraska	$158,000	$85,963	$2,778	1.8%	3.2%
Nevada	$246,700	$78,642	$1,590	0.6%	2.0%
New Hampshire	$259,600	$99,597	$5,688	2.2%	5.7%
New Jersey	$335,700	$115,384	$8,116	2.4%	7.0%
New Mexico	$179,800	$68,849	$1,478	0.8%	2.1%
New York	$321,800	$101,607	$5,423	1.7%	5.3%
North Carolina	$179,100	$76,171	$1,537	0.9%	2.0%
North Dakota	$207,000	$90,238	$2,019	1.0%	2.2%
Ohio	$149,400	$78,868	$2,374	1.6%	3.0%
Oklahoma	$148,900	$76,096	$1,409	0.9%	1.9%
Oregon	$301,200	$85,793	$2,951	1.0%	3.4%
Pennsylvania	$191,700	$86,032	$3,088	1.6%	3.6%
Rhode Island	$246,400	$94,233	$4,066	1.7%	4.3%
South Carolina	$170,500	$72,908	$1,002	0.6%	1.4%
South Dakota	$171,000	$81,363	$2,279	1.3%	2.8%
Tennessee	$166,700	$72,255	$1,241	0.7%	1.7%
Texas	$183,300	$90,109	$3,555	1.9%	3.9%
Utah	$253,200	$85,961	$1,635	0.6%	1.9%

Geography	Median Home Value	Median Household Income	Median Real Estate Taxes	% of Median Home Value	% of Median Household Income
Vermont	$228,800	$81,958	$4,231	1.8%	5.2%
Virginia	$285,800	$98,918	$2,346	0.8%	2.4%
Washington	$320,100	$95,645	$3,145	1.0%	3.3%
West Virginia	$144,500	$70,639	$839	0.6%	1.2%
Wisconsin	$179,800	$82,406	$3,363	1.9%	4.1%
Wyoming	$223,900	$85,234	$1,348	0.6%	1.6%

Source: American Community Survey 1-Year Estimates

Appendix N: State Treatment of Personal Property

State	Is Personal Property Taxed?	Notes
ALABAMA	Yes, but see explanation	The following are exempt: goods in transit, family portraits, farm animals, provisions and supplies on hand for the current year exclusively for family use, and household and personal effects.
ALASKA	Yes	Property taxes on personal property are levied at local option. A municipality may levy a flat tax on personal property owned by a fully tax exempt entity.
ARIZONA	Yes, but see explanation	Personal property used by owners for private, domestic purposes is exempt. Personal property of certain commercial and industrial companies is exempt, up to $146,973. (See Classification for the exact classes of personal property that are exempt.)
ARKANSAS	Yes	"Personal property" includes every tangible thing being the subject of ownership, and not forming a part of any parcel of real property. It does not include money.
CALIFORNIA	Yes, but see explanation	The following are exempt: intangible personal property, seed potatoes, fruit trees, nut trees, grapevines, and household goods.
COLORADO	Yes, but see explanation	Personal property, not otherwise exempted, is exempt if its total actual value is equal to or less than $5,500.
CONNECTICUT	Yes, but see explanation	Household furniture, personal apparel, and most farm animals are exempt. Horses and ponies used for farming are exempt up to $1,000 in value. 2014 Conn. Pub. Acts no. 14-122, §§ 88, 89 amends Section 4-124s of the 2014 supplement to the general statutes , as amended by section 254 of public act 13-247, is repealed
DELAWARE	No	
DISTRICT OF COLUMBIA	Yes, but see explanation	Personal property less than or equal to $225,000 in assessed value is exempt. Solar energy systems are exempt as long as funds are available in the Renewable Energy Development Fund.
FLORIDA	Yes, but see explanation	Personal property less than or equal to $25,000 is exempt. Household goods, personal effects, and agricultural crops are exempt.
GEORGIA	Yes, but see explanation	Tangible personal property, except motor vehicles, trailers, and mobile homes, is exempt up to $7,500 of fair market value. Personal property used within the home are exempt. Domestic animals are exempt up to $300 in actual value. Internal Revenue Code 1986 has been pushed back to be effective beginning 2016 per § 48-1-2
HAWAII	No	
IDAHO	Yes, but see explanation	Locally assessed taxable personal property is exempt up to $100,000. Effective January 1, 2015 those mentioned in 63-602KK (8) are no longer exempt to property up to $100,000 per 63-602KK(2). Added 63-602KK (8) stating operating property assigned to more than one county will be subtracted from the Idaho allocated value prior to apportionment. For private railcar companies, this will happen prior to determining whether their values are to be apportioned. The amount of exemption will be calculated as follows: Take the lesser amount of: The number of counties in which a company has operating property multiplied by $100,000 OR The total statewide value of eligible personal property reported by the company. Then: Reduce the amount calculated in paragraph (a) of this subsection by the value of any nonoperating personal property granted the exemption otherwise found in subsection (2) of this section, as reported by county assessors.
ILLINOIS	No	
INDIANA	Yes, but see explanation	Effective 1 July 2015, business personal property with total acquisition cost under $20,000 in a county is exempt. The original exemption was optional for the county, but SEA 436 §3 (P.L. 249) made it no longer optional. Counties may adopt a local service fee, not to exceed $50 per taxpayer who applies for such exemption. The optional exemption was enacted as part of SEA 001 in 2014. Intangible personal property, all-terrain vehicles, snowmobiles, human powered boats, wheelchairs, and yard and garden tractors used for non-businesses purposes are exempt.
IOWA	No	
KANSAS	Yes, but see explanation	Household and personal effects, goods in transit, and grain are exempt.

State	Is Personal Property Taxed?	Notes
KENTUCKY	Yes, but see explanation	Intangible personal property is generally exempt from state and local property taxes. Livestock, ratite birds, and domestic fowl are exempt from local property taxes only. Change made to L. 2013, ch. 94, § 3, effective June 25, 2013. Tangible personal property which has been certified as a pollution control facility as defined in KRS 224.1-300 is subject to state tax. Effective 2016 § 132.200(8) about tangible property adds that those certified as a pollution control facility which is incorporated into a landfill facility, the tangible personal property shall remain tangible personal property for purposes of this subsection if the tangible personal property is being used for its intended purposes
LOUISIANA	Yes, but see explanation	Intangible personal property is exempt.
MAINE	Yes, but see explanation	Agricultural produce and forest products, farm animals, household furniture, radium used in the practice of medicine, and non-business personal property with an assessed value less than or equal to $1,000 are exempt.
MARYLAND	Yes, but see explanation	For tax years beginning after 30 June 2015, businesses with personal property assessed at $10,000 or less are exempt from the personal property tax. The state reimburses the local jurisdictions, phasing out the reimbursement over 4 years. Senate bill 590 provided the exemption and reimbursement. All personal property is exempt from state property taxes. Intangible personal property, agricultural products and commodities, including livestock, farming machinery and equipment, working tools of artisans or mechanics, rolling stock, personal property belonging to financial institutions used for processing deposits or loans, and personal property in residences are exempt from all state, county, and municipal property taxes.
MASSACHUSETTS	Yes, but see explanation	Intangible personal property and household furniture and effects are exempt. At local option, personal property may be exempted up to $10,000 in value. Personal property belonging to veterans organizations is exempt up to $200,000, which at local option may be increased to $400,000, $700,000, or $1,500,000. The following young farm animals are exempt: mules, horses and neat cattle less than one year old; swine, sheep and goats less than six months old; domestic fowl not exceeding $15 in value; mules, horses, neat cattle, swine, sheep, goats and domestic fowl subject to the interstate trade excise tax imposed; and neat cattle which are less than three years old and held for the personal use and consumption of the owner.
MICHIGAN	No, but see explanation	Effective 28 March 2013 and beginning with the assessment year starting 31 December 2015, new personal property purchased on or after 31 December 2012 and personal property in service for the last 10 preceding years is exempt.
MINNESOTA	No, but see explanation	Utility personal property is generally taxable. The following are taxable: (1) property which is part of an electric generating, transmission, or distribution system; (2) property used in a pipeline system; (3) railroad docks and wharves which are part of the operating property of a railroad company; (4) improvements on land owned by a corporation whose property is not subject to the same mode and rule of taxation as other property; (5) leasehold or other personal property interests; (6) manufactured homes and sectional structures, including storage sheds, decks, and similar removable improvements; and (7) property used in connection with air commerce. Subdivision 1 is repealed by L. 2014, c. 308, art. 9, § 94(b), eff. 5-21-2014.
MISSISSIPPI	Yes, but see explanation	Commodities in transit, computer software, and leasehold interests in personal property used to manufacture, transmit and/or distribute electricity or used in the service of higher education are exempt. At local option, itinerant vessels docked at a state port, leasehold interests in non-producing oil, gas, and mineral deposits are fully exempt. At local option personal property used by furniture enterprises, by hotels located in counties and municipalities bordering the Gulf of Mexico, and for certain new factories or enterprises may be fully or partially exempted from all property taxes except those imposed for school district purposes. In the case of furniture and targeted enterprises, the exemptions are in effect for no longer than 10 years. In the case of hotels, county exemptions are in effect for no longer than 5 years and municipal exemptions for no longer than 10 years.

State	Is Personal Property Taxed?	Notes
MISSOURI	Yes, but see explanation	Household goods, personal effects, intangible property, and goods in transit are exempt.
MONTANA	Yes, but see explanation	Intangible personal property, livestock, bees, and poultry are exempt.
NEBRASKA	Yes, but see explanation	Intangible property, non-depreciable property, household goods, personal effects, livestock, and personal property belonging to qualified businesses under the Employment and Investment Growth Act or Nebraska Advantage Act is exempt. Neb. Rev. Stat. § 77-202 - As of 2015, every person who is required to list out his or her tangible personal property shall receive an exemption from taxation for the first ten thousand dollars of valuation of his or her tangible personal property in each tax district as defined in section 77-127 in which a personal property return is required to be filed.
NEVADA	Yes, but see explanation	Boats, household effects not used to produce income, slide-in campers and camper shells, personal property with de minimis value, personal property used in the service of low-income housing, goods in transit, and fine art for public display are exempt.
NEW HAMPSHIRE	No	Note: § 72:15 is cited as a source statute, but is repealed. When pulling it up it has been repealed for years.
NEW JERSEY	No, but see explanation	Only business personal property used in the direct service of petroleum or telecommunication production are taxable.
NEW MEXICO	No, but see explanation	Only the following types of tangible personal property are taxable: (1) livestock; (2) manufactured homes; (3) unregistered aircraft; (4) certain private railroad cars; (5) property used in the production, distribution, and storage of minerals, petroleum, water, communications, or electrical power; and (6) generally any property produced or held for sale, including unregistered motor vehicles, for which the owner has claimed federal income tax deductions.
NEW YORK	No	
NORTH CAROLINA	Yes, but see explanation	Intangible personal property other than a leasehold interest, personal property not used to produce income, un-embedded computer software, poultry, livestock, feed for poultry and livestock, and goods in transit from a foreign country are exempt.
NORTH DAKOTA	No, but see explanation	Centrally assessed personal property owned by utilities or railroad companies is taxable.
OHIO	No	
OKLAHOMA	Yes, but see explanation	Household goods, tools, implements and livestock used in support of a family not exceeding $100 in value are exempt. At local option, the exemption can be increased to the full value. One year's worth of food and fuel, one year's worth of grain and forage for livestock, family portraits, animals, fowls, and reptiles used for exhibition or propagation, and all growing crops are exempt. Household personal property less than $300 in value owned by an honorably discharged or active duty veteran that served or is serving during a national emergency, or their surviving spouse, and household property owned by honorably discharged veterans that are 100% disabled, or their surviving spouse, is exempt.
OREGON	Yes, but see explanation	Intangible personal property, personal property held for personal use, telephonic personal property for personal use with a market value of less than $1,500, and agricultural products used for farm operations are exempt.
PENNSYLVANIA	No, but see explanation	At local option, certain counties and cities may tax intangible personal property. Since 1998, no county or city has levied the tax.
RHODE ISLAND	Yes, but see explanation	Intangible personal property, household goods, livestock, and poultry are exempt.
SOUTH CAROLINA	Yes, but see explanation	Household goods, intangible personal property, farm products including livestock and live poultry, goods in transit, watercraft and motors with value less than $50, and watercraft trailers are exempt. At local option, counties may grant watercraft a partial exemption of 42.75% of assessed value.
SOUTH DAKOTA	No, but see explanation	Only centrally assessed personal property is taxable.
TENNESSEE	Yes, but see explanation	Household and personal effects up to $7,500 in worth, deposits, growing crops, and goods in transit are exempt.
TEXAS	Yes, but see explanation	Non-income producing property (excluding manufactured homes), incoming producing property and mineral interests up to $500 in value, household supplies, and farm products, are exempt. Most intangible personal property is exempt. To promote economic development in the State, goods, wares, merchandise, other tangible personal property, and ores, other than oil, natural gas, and other petroleum products, are exempt from ad valorem taxation effective 1 January 2014.

State	Is Personal Property Taxed?	Notes
UTAH	Yes, but see explanation	The following is exempt: intangible personal property, household furniture and effects, livestock, personal property with a market value equal per county of $10,000 or if the acquisition cost of $1,000 or less than $1,000 and a residual value of no more than 15% its cost. For calendar years beginning on or after 1 January 2015, the commission shall increase the dollar value exempted by the percentage increase in the consumer price index.
VERMONT	Yes, but see explanation	The following personal property is exempt: household furniture and effects, shrubs and plants located in a commercial greenhouse or nursery, and farm animals, generally. Intangible personal property is exempt from local taxation only. Effective 1 July 2014, in the event that a fraternity or society loses its charter from the affiliated national organization or university, the fraternity or society shall automatically and immediately be ineligible for the exemption.
VIRGINIA	Yes, but see explanation	Intangible personal property is subject to state taxation only. At local option, household goods and personal effects, farm animals, animal feed including grains, and farm trailers may be exempt. The governing body of any locality may exempt or in whole or in part electronic communications and processing devices and equipment, including but not limited to cell phones and tablet and personal computers, including peripheral equipment such as printers.
WASHINGTON	Yes, but see explanation	The following are exempt: personal property less than $500 in value, intangible personal property, household effects up to $15,000 in assessed value, and computer software not embedded.
WEST VIRGINIA	Yes, but see explanation	The following are exempt: goods in transit, non-incoming producing household goods, household goods valued under $200, personal effects, personal bank deposits and money on hand, fire extinguishers, and animal feed.
WISCONSIN	Yes, but see explanation	The following are exempt: household goods, personal effects, farm animals, animal feed, horses and mules and associated implements, intangible property, and any property rented for one month or less.
WYOMING	Yes, but see explanation	The following are exempt: household goods, goods in transit, intangible property excluding water rights, and livestock.

Source: Lincoln Institute of Land Policy – Significant Features of the Property Tax. Accessed 12/7/17.

Appendix O: Residential Property Tax Relief Programs by Type and State, 2015

Residential Property Tax Relief Programs: Circuit Breakers		
State	**Program Name**	**Eligibility Criteria**
ARIZONA	Senior Citizen Property Tax Refund Credit	Age, Homeowner, Income Ceiling, Principal Residence, Renter, Other Criteria
CALIFORNIA	Homeowner and Renter Assistance (HRA)	Age, Disability, Homeowner, Income Ceiling, Renter
COLORADO	Property Tax and Rent Rebate	Age, Disability, Homeowner, Income Ceiling, Renter, Surviving Spouse
CONNECTICUT	Income Tax Credit for Property Taxes Paid	Homeowner, Income Ceiling
CONNECTICUT	Circuit Breaker for Elderly or Disabled Homeowners	Age, Disability, Homeowner, Income Ceiling, Surviving Spouse
DISTRICT OF COLUMBIA	Regular Circuit Breaker	Homeowner, Income Ceiling, Principal Residence, Renter
DISTRICT OF COLUMBIA	Elderly Circuit Breaker	Age, Homeowner, Income Ceiling, Principal Residence, Renter
HAWAII	Local Option Circuit Breaker (Honolulu and Maui Counties)	Homeowner, Income Ceiling, Principal Residence, Property Value Limit, Other Criteria
IDAHO	Property Tax Reduction Program - Circuit Breaker	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Veteran, Surviving Spouse, Other Criteria
ILLINOIS	Long-time Occupant Homestead Exemption (LOHE)	Homeowner, Income Ceiling, Principal Residence, Other Criteria
IOWA	Elderly and Disabled Homeowner and Renters Property Tax Credit	Age, Disability, Homeowner, Income Ceiling, Renter
KANSAS	Homestead Property Tax Refund	Age, Disability, Homeowner, Income Ceiling, Property Value Limit, Veteran, Surviving Spouse, Other Criteria
MAINE	Property Tax Fairness Credit (Previously Maine Residents Property Tax and Rent Refund Program: General and Senior Refund Programs)	Age, Homeowner, Income Ceiling, Principal Residence, Renter
MARYLAND	State Renters' Tax Credit with Local Option	Age, Disability, Income Ceiling, Renter, Wealth Limit
MARYLAND	Homeowners' Property Tax Credit Program and Local Option (Circuit Breaker)	Homeowner, Income Ceiling, Principal Residence, Property Value Limit, Wealth Limit
MASSACHUSETTS	Real Estate Tax Credit for Persons Age 65 and Older (Circuit Breaker Credit)	Age, Homeowner, Income Ceiling, Principal Residence, Property Value Limit, Renter, Other Criteria
MICHIGAN	Homestead Property Tax Credit (Circuit Breaker)	Homeowner, Income Ceiling, Principal Residence, Property Value Limit, Renter
MICHIGAN	Homestead Property Tax for Seniors and Disabled (Circuit Breaker)	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Renter
MINNESOTA	Refund for Homeowners and Renters (Regular Property Tax Refund)	Homeowner, Income Ceiling, Renter

Residential Property Tax Relief Programs: Circuit Breakers		
State	**Program Name**	**Eligibility Criteria**
MISSOURI	Property Tax Credit Claim	Age, Disability, Homeowner, Income Ceiling, Property Value Limit, Renter, Veteran, Surviving Spouse, Other Criteria
MONTANA	Property Tax Assistance Program (PTAP)	Homeowner, Income Ceiling
MONTANA	Disabled Veterans and Surviving Spouse Exemption	Disability, Homeowner, Income Ceiling, Veteran, Surviving Spouse
MONTANA	Elderly Homeowner/Renter Credit	Age, Homeowner, Income Ceiling, Renter
MONTANA	Extended Property Tax Assistance Program (EPTAP)	Homeowner, Income Ceiling, Other Criteria
NEBRASKA	Homestead Exemption for Senior Citizens	Age, Homeowner, Income Ceiling, Principal Residence, Property Value Limit
NEBRASKA	Homestead Exemption for Disabled Citizens and Veterans	Disability, Homeowner, Income Ceiling, Property Value Limit, Veteran, Surviving Spouse, Other Criteria
NEW HAMPSHIRE	Low and Moderate Income Homeowner's Property Tax Relief	Homeowner, Income Ceiling, Principal Residence
NEW JERSEY	Homestead Benefit Program	Homeowner, Income Ceiling, Principal Residence
NEW JERSEY	Homestead Benefit Program for Senior Citizens and Disabled Persons	Age, Disability, Homeowner, Income Ceiling, Principal Residence
NEW MEXICO	Property Tax Rebate for Elderly with Local Option	Age, Homeowner, Income Ceiling, Principal Residence, Renter, Other Criteria
NEW MEXICO	Local Option Property Tax Rebate for Low-income Tax Payers	Homeowner, Income Ceiling, Principal Residence, Other Criteria
NEW YORK	Real Property Tax Credit for Homeowners and Renters	Homeowner, Income Ceiling, Renter, Other Criteria
NEW YORK	Local Option Exemption for Person with Disabilities	Disability, Income Ceiling
NORTH CAROLINA	Homestead Circuit Breaker Tax Deferment Senior or Disabled Citizens	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Other Criteria
NORTH DAKOTA	Homestead Credit	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Renter, Wealth Limit
OKLAHOMA	Oklahoma Claim For Credit or Refund of Property Taxes	Age, Disability, Homeowner, Income Ceiling
PENNSYLVANIA	Circuit Breaker for Seniors or Disabled Persons (PTRR Program)	Age, Disability, Homeowner, Income Ceiling, Renter, Surviving Spouse
RHODE ISLAND	Property Tax Relief Act	Age, Disability, Homeowner, Income Ceiling, Renter
SOUTH DAKOTA	Sales and Property Tax Refund for Senior and Disabled Citizens	Age, Disability, Homeowner, Income Ceiling, Veteran
SOUTH DAKOTA	Property Tax Reduction from Municipal Taxes for the Elderly and Disabled	Age, Disability, Homeowner, Income Ceiling, Surviving Spouse

Residential Property Tax Relief Programs: Circuit Breakers		
State	**Program Name**	**Eligibility Criteria**
UTAH	Property Tax Circuit Breaker	Age, Homeowner, Income Ceiling, Renter, Surviving Spouse, Other Criteria
VERMONT	Education Property Tax Adjustment	Homeowner, Income Ceiling, Principal Residence
VERMONT	Homestead and Renter Property Tax Rebate	Homeowner, Income Ceiling, Renter
WASHINGTON	Property Tax Exemption for the Elderly, Disabled or Veterans	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Veteran, Surviving Spouse
WEST VIRGINIA	Tax Relief for Elderly Homeowners and Renters	Age, Homeowner, Income Ceiling, Renter, Surviving Spouse, Other Criteria
WEST VIRGINIA	Credit for Property Taxes Paid	Homeowner, Income Ceiling
WISCONSIN	Homestead Credit	Age, Homeowner, Income Ceiling, Renter, Other Criteria
WYOMING	Tax Rebate to Elderly and Disabled Program	Age, Disability, Homeowner, Income Ceiling, Renter, Wealth Limit

Residential Property Tax Relief Programs: Credits		
State	**Program Name**	**Eligibility Criteria**
ARIZONA	Homeowner Rebate for School Primary Levy	Homeowner, Principal Residence
ARKANSAS	Homestead Tax Credit (Amendment 79)	Homeowner, Principal Residence
DELAWARE	Senior School Property Tax Credit	Age, Homeowner, Principal Residence
DISTRICT OF COLUMBIA	First Time Lower Income Home Ownership Tax Abatement	Homeowner, Income Ceiling, Principal Residence, Property Value Limit, Other Criteria
DISTRICT OF COLUMBIA	District Government and Charter School Employees First Time Home Buyers Program	Homeowner, Other Criteria
DISTRICT OF COLUMBIA	Senior Citizen or Disabled Property Owner Tax Relief	Age, Disability, Homeowner, Income Ceiling, Principal Residence
DISTRICT OF COLUMBIA	Lower Income Long-Term Homeowner Credit	Homeowner, Income Ceiling, Principal Residence, Other Criteria
FLORIDA	Property Tax Discount for Senior Disabled Veterans	Age, Disability, Homeowner, Veteran, Surviving Spouse
GEORGIA	Property Tax Credit for All Homeowners	Homeowner, Other Criteria
ILLINOIS	Tax Credit for Residential Real Property Taxes	Homeowner, Principal Residence
ILLINOIS	Local Option Senior Citizen Property Tax Refund	Age, Homeowner, Principal Residence
INDIANA	Over 65 Credit - Circuit Breaker Credit	Age, Homeowner, Income Ceiling, Principal Residence, Property Value Limit
IOWA	Homestead Credit	Homeowner
KANSAS	Property Tax Relief for Low Income Seniors (Safe Seniors)	Age, Homeowner, Income Ceiling, Principal Residence
KANSAS	Refund for Homestead Assessment Increases	Homeowner, Principal Residence, Other Criteria

Residential Property Tax Relief Programs: Credits		
State	**Program Name**	**Eligibility Criteria**
MAINE	Local Option Municipal Property Tax Assistance	Age, Homeowner, Principal Residence, Other Criteria
MARYLAND	Local Option Property Tax Credit for Residential Property in Airport Noise Zones	Other Criteria
MARYLAND	Local Option Property Tax Credit for Surviving Spouses of Law Enforcement Officers and Rescue Workers	Disability, Homeowner, Surviving Spouse, Other Criteria
MARYLAND	Local Option Credit on Rental Properties for Elderly or Disabled Tenants	Age, Disability, Homeowner, Renter
MARYLAND	Local Option Property Tax Credit for Elderly Individuals with a Limited Income	Age, Income Ceiling, Principal Residence
MARYLAND	Local Option Property Tax Credit for Family Assistance Dwellings	Income Ceiling, Renter, Other Criteria
MARYLAND	Local Option Property Tax Credit for Acquired Dwellings	Homeowner, Other Criteria
MASSACHUSETTS	Program for Persons Over Age 60 to Provide Volunteer Service for Reductions in Real Property Tax Obligations (Work-Off Abatement)	Age, Homeowner, Other Criteria
MICHIGAN	Homestead Property Tax Credit for Veterans and Military	Homeowner, Income Ceiling, Renter, Veteran, Surviving Spouse
MICHIGAN	Homestead Property Tax for Blind	Disability, Homeowner, Principal Residence, Renter
MINNESOTA	Taconite Homestead Credit	Homeowner, Other Criteria
MINNESOTA	Credit for Farmstead Property	Homeowner
MISSISSIPPI	Homestead Exemption for Taxpayers Under 65 Years Old	Age, Homeowner, Principal Residence
NEBRASKA	Real Property Tax Credit for All Properties	No Criteria
NEW HAMPSHIRE	Veterans' Standard and Optional Tax Credit	Principal Residence, Veteran, Surviving Spouse
NEW HAMPSHIRE	Totally Disabled Veterans' Credit with Local Option	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse, Other Criteria
NEW JERSEY	Annual Property Tax Deduction for Senior Citizens, Disabled Persons	Age, Disability, Homeowner, Income Ceiling, Surviving Spouse
NEW JERSEY	Property Tax Reimbursement (Senior Freeze)	Age, Disability, Homeowner, Income Ceiling
NEW JERSEY	Annual Deductions for Veterans	Veteran, Surviving Spouse
NEW YORK	Real Property Tax Freeze Credit	Income Ceiling, Principal Residence, Other Criteria
NORTH DAKOTA	Property Tax Credit for Disabled Veterans	Disability, Veteran, Surviving Spouse
OHIO	Two and Half Percent Rollback	Homeowner
OHIO	Ten Percent Rollback	Homeowner, Other Criteria
RHODE ISLAND	Local Option Tax Rate and Valuation Freeze for Disabled Persons	Age, Disability, Income Ceiling
TENNESSEE	Property Tax Relief for the Elderly and Disabled with Local Option	Age, Disability, Homeowner, Income Ceiling

TENNESSEE	Property Tax Relief for Disabled Veterans with Local Option	Disability, Homeowner, Income Ceiling, Veteran, Surviving Spouse
TEXAS	Senior School Tax Freeze with Local Option for Other Local Taxes	Age, Disability, Surviving Spouse
UTAH	Additional Homeowner Credit	Age, Homeowner, Income Ceiling, Surviving Spouse, Other Criteria
WEST VIRGINIA	Senior Citizens' Tax Credit	Age, Homeowner, Income Ceiling
WISCONSIN	School Property Tax Credit for Renters and Homeowners	Homeowner, Principal Residence, Renter, Other Criteria
WISCONSIN	First Dollar Credit	Other Criteria
WISCONSIN	School Levy Tax Credit	No Criteria
WISCONSIN	Disabled Veteran and Surviving Spouse Property Tax Credit	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
WYOMING	Property Tax Relief Program for Low Income Homeowners	Homeowner, Income Ceiling, Principal Residence, Wealth Limit

Residential Property Tax Relief Programs: Exemptions		
State	**Program Name**	**Eligibility Criteria**
ALABAMA	Under 65 Years of Age Homestead Exemption with Local Option	Age, Homeowner
ALABAMA	Veteran, Incompetent Veteran, Widow Exemption	Disability, Homeowner, Veteran, Surviving Spouse
ALABAMA	Disabled Homestead Exemption	Disability, Homeowner, Principal Residence
ALABAMA	Senior or Blind Homestead Exemption	Age, Disability, Homeowner, Income Ceiling, Principal Residence
ALASKA	Exemption for Senior Citizens and Disabled Veterans with Local Option	Age, Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse, Other Criteria
ALASKA	Local Option Exemption for Special Assessments	No Criteria
ARIZONA	Widow, Widower and, Disabled Exemption	Disability, Homeowner, Income Ceiling, Property Value Limit, Surviving Spouse
ARKANSAS	Homestead Property Tax Exemption for Veterans	Disability, Homeowner, Veteran, Surviving Spouse
CALIFORNIA	Homeowners' Exemption	Homeowner, Principal Residence
CALIFORNIA	Disabled Veteran's Exemption	Disability, Homeowner, Income Ceiling, Principal Residence, Veteran, Surviving Spouse
CALIFORNIA	Veterans' Exemption	Homeowner, Property Value Limit, Veteran, Surviving Spouse, Other Criteria
COLORADO	Senior Property Tax Exemption	Age, Homeowner, Surviving Spouse, Other Criteria
COLORADO	Disabled Veteran Exemption	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
CONNECTICUT	Exemption with Local Option for the Disabled	Age, Disability, Homeowner, Income Ceiling
CONNECTICUT	Standard and Additional Exemptions for Veterans with Local Option	Active Military, Homeowner, Income Ceiling, Principal Residence, Veteran, Surviving Spouse

Residential Property Tax Relief Programs: Exemptions		
State	**Program Name**	**Eligibility Criteria**
CONNECTICUT	Exemption and Additional Exemption with Local Option for Disabled Veterans	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Veteran, Surviving Spouse
CONNECTICUT	Exemption for the Blind with Local Option	Homeowner, Other Criteria
DELAWARE	Homestead Exemption for Elderly Persons	Age, Homeowner, Income Ceiling
DELAWARE	Municipal Homestead Exemption for Elderly Persons	Age, Homeowner
DISTRICT OF COLUMBIA	Homestead Deduction	Homeowner, Principal Residence
FLORIDA	Property Tax Exemption for Deployed Active Duty Military Combat Duty	Active Military, Homeowner, Principal Residence, Other Criteria
FLORIDA	Exemption for Totally and Permanently Disabled Persons	Disability, Homeowner, Income Ceiling, Principal Residence
FLORIDA	Exemption for Disabled Ex-Service Member	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
FLORIDA	Service Connected Total and Permanent Disability Exemption	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse, Other Criteria
FLORIDA	Homestead Exemption	Homeowner, Principal Residence
FLORIDA	Exemption for Widows, Widowers, the Blind, and the Disabled	Disability, Homeowner, Principal Residence, Surviving Spouse
FLORIDA	Local Option Homestead Exemption for Seniors	Age, Homeowner, Income Ceiling, Principal Residence
GEORGIA	Homestead Exemption for the Elderly	Age, Homeowner, Income Ceiling, Principal Residence
GEORGIA	General Homestead Exemption	Homeowner, Principal Residence
GEORGIA	Homestead Exemption for Disabled Veterans	Age, Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse, Other Criteria
GEORGIA	Homestead Exemption for Unremarried Spouses of Servicemen Killed in Action	Homeowner, Principal Residence, Surviving Spouse
GEORGIA	School Property Tax Exemption for the Elderly	Age, Homeowner, Income Ceiling
GEORGIA	State Homestead Exemption for the Elderly	Age, Homeowner, Principal Residence
GEORGIA	Homestead Exemption for Unremarried Spouses of Peace Officers and Firefighters Killed in Line of Duty	Homeowner, Principal Residence, Surviving Spouse
HAWAII	Basic Home Exemption	Age, Homeowner, Principal Residence
HAWAII	Additional Homestead Exemption (Low-Income)	Age, Homeowner, Income Ceiling, Principal Residence
IDAHO	Homeowner's Exemption	Homeowner, Principal Residence
ILLINOIS	General Homestead Exemption	Homeowner, Principal Residence
ILLINOIS	Senior Citizens Homestead Exemption	Age, Homeowner
ILLINOIS	Returning Veterans Homestead Exemption	Homeowner, Veteran
ILLINOIS	Disabled Persons' Homestead Exemption	Disability, Homeowner, Principal Residence
ILLINOIS	Disabled Veterans Standard Homestead Exemption	Disability, Homeowner, Veteran, Surviving Spouse

Residential Property Tax Relief Programs: Exemptions		
State	**Program Name**	**Eligibility Criteria**
ILLINOIS	Natural Disaster Homestead Exemption	Other Criteria
INDIANA	Homestead Standard Deduction	Homeowner, Principal Residence
INDIANA	Exemption for Mortgage or Contract Deductions	Homeowner, Other Criteria
INDIANA	Exemption for Residents Over 65	Age, Homeowner, Income Ceiling, Principal Residence, Property Value Limit, Surviving Spouse, Other Criteria
INDIANA	Deduction for Blind or Disabled Person	Disability, Homeowner, Income Ceiling, Principal Residence
INDIANA	Deduction for Veterans with a Partial Disability	Disability, Homeowner, Veteran, Surviving Spouse
INDIANA	Deduction for Totally Disabled Veteran or Veteran Age 62 and Partially Disabled	Age, Disability, Homeowner, Property Value Limit, Veteran, Surviving Spouse
INDIANA	Exemption for World War I Veterans or Spouses	Homeowner, Principal Residence, Property Value Limit, Veteran, Surviving Spouse, Other Criteria
INDIANA	Supplemental Homestead Deduction	Homeowner, Principal Residence
IOWA	Military Service Tax Exemption	Active Military, Homeowner, Veteran
KANSAS	Exemption from School Levy	Homeowner
LOUISIANA	Homestead Exemption	Homeowner, Principal Residence
LOUISIANA	Head of Family Local Option Tax Relief	Homeowner, Other Criteria
LOUISIANA	Local Option Homestead Exemption for Disabled Veterans	Disability, Homeowner, Veteran, Surviving Spouse, Other Criteria
MAINE	Veteran Exemption	Age, Disability, Veteran, Surviving Spouse
MAINE	Blind Exemption	Disability, Homeowner
MAINE	Maine Resident Homestead Property Tax Exemption	Homeowner, Principal Residence, Other Criteria
MARYLAND	Exemption for Disabled Veterans	Disability, Homeowner, Veteran, Surviving Spouse
MARYLAND	Exemption for Blind Individuals	Disability, Homeowner, Surviving Spouse
MASSACHUSETTS	Exemption for Surviving Spouses and Minor Children of Firefighters and Police Officers Killed in the Line of Duty (Clauses 42 and 43)	Homeowner, Principal Residence, Surviving Spouse, Other Criteria
MASSACHUSETTS	Local Option Exemption for all Class 1 Residential Properties	Homeowner, Principal Residence
MICHIGAN	Poverty Exemption	Homeowner, Principal Residence, Other Criteria
MICHIGAN	Principal Residence Exemption for Local School Levy	Homeowner, Principal Residence
MINNESOTA	Disabled Veteran Homestead Valuation Exemption	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
MINNESOTA	Homestead Market Value Exclusion (Previously:Credit for Homestead and Farmstead Property)	Homeowner
MISSISSIPPI	Homestead Exemption for Seniors or the Disabled	Age, Disability, Homeowner, Principal Residence

Residential Property Tax Relief Programs: Exemptions		
State	**Program Name**	**Eligibility Criteria**
MISSISSIPPI	Homestead Exemption for Disabled Veterans	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
NEVADA	Property Tax Exemption for Blind Persons	Disability, Homeowner
NEVADA	Property Tax Exemption for Veterans	Active Military, Homeowner, Veteran
NEVADA	Property Tax Exemption for Surviving Spouses	Homeowner, Surviving Spouse
NEVADA	Property Tax Exemption for Disabled Veterans and their Surviving Spouses	Disability, Homeowner, Veteran, Surviving Spouse
NEW HAMPSHIRE	Exemption for Deaf and Severely Hearing Impaired Persons	Disability, Homeowner, Income Ceiling, Principal Residence, Wealth Limit, Other Criteria
NEW HAMPSHIRE	Local Option Exemption for Disabled Persons	Disability, Homeowner, Income Ceiling, Principal Residence, Wealth Limit, Other Criteria
NEW HAMPSHIRE	Local Option Elderly Exemption	Age, Homeowner, Income Ceiling, Principal Residence, Wealth Limit, Other Criteria
NEW HAMPSHIRE	Exemption for the Blind with Local Option	Disability
NEW JERSEY	Property Tax Exemption for Disabled Veterans	Disability, Homeowner, Veteran, Surviving Spouse
NEW MEXICO	Head-of-Family Exemption	Homeowner, Other Criteria
NEW MEXICO	Veteran Exemption	Homeowner, Veteran, Surviving Spouse
NEW MEXICO	Disabled Veteran Exemption	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
NEW YORK	Senior Citizen Homestead Exemption	Age, Homeowner, Income Ceiling, Surviving Spouse, Other Criteria
NEW YORK	Basic/Enhanced STAR Exemption	Age, Homeowner, Income Ceiling, Principal Residence
NEW YORK	Eligible Fund Veterans Exemption/ Seriously Disabled	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse, Other Criteria
NEW YORK	Alternative Veterans Exemption	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
NEW YORK	Volunteer Fire Fighter and Ambulance Worker Exemption	Homeowner, Principal Residence
NEW YORK	Exemption for Clergy	Age, Disability, Homeowner, Surviving Spouse
NORTH CAROLINA	Homestead Exclusion for Senior and Disabled Citizens	Age, Disability, Homeowner, Income Ceiling
NORTH CAROLINA	Disabled Veteran Homestead Property Tax Exclusion	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
NORTH DAKOTA	Disabled Veteran and Disabled Resident Property Tax Exemption	Disability, Veteran, Surviving Spouse
NORTH DAKOTA	Local Option Partial Exemption for New Residential Property	No Criteria
OHIO	Senior and Disabled Property Tax Homestead Exemption	Age, Disability, Homeowner, Income Ceiling, Surviving Spouse

Residential Property Tax Relief Programs: Exemptions		
State	**Program Name**	**Eligibility Criteria**
OHIO	Disabled Veteran Property Tax Homestead Exemption	Disability, Homeowner, Surviving Spouse
OKLAHOMA	Property Tax Exemption for Disabled Veterans	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
OKLAHOMA	Homestead Exemption	Homeowner
OKLAHOMA	Additional Homestead Exemption	Homeowner, Income Ceiling
OREGON	Homestead Exemption for Active Duty Military	Active Military, Homeowner, Surviving Spouse, Other Criteria
OREGON	Disabled Veterans' and Veterans' Surviving Spouses Exemption	Disability, Homeowner, Income Ceiling, Principal Residence, Veteran, Surviving Spouse
PENNSYLVANIA	School District Exemption for Owners of Homestead or Farmstead Property	Homeowner, Other Criteria
PENNSYLVANIA	Local Option County or City Homestead and Farmstead Exemption (Act 50)	Homeowner, Other Criteria
PENNSYLVANIA	Exemption for Disabled Veterans	Disability, Homeowner, Income Ceiling, Veteran, Surviving Spouse
SOUTH CAROLINA	Homestead Exemption for Paraplegic or Hemiplegic Persons	Disability, Homeowner, Surviving Spouse
SOUTH CAROLINA	Exemption for Disabled Veterans, Former Law Enforcement Officers, and Former Fire Fighters	Disability, Homeowner, Veteran, Surviving Spouse, Other Criteria
SOUTH CAROLINA	Homestead Exemption for Blind Persons, Disabled Persons, or Senior Citizens	Age, Disability, Homeowner, Principal Residence, Surviving Spouse
SOUTH CAROLINA	School Property Tax Exemption for All Homeowners	Homeowner, Principal Residence
SOUTH DAKOTA	Property Tax Exemption for Totally Disabled and Paraplegic Veterans	Disability, Homeowner, Veteran, Surviving Spouse
TEXAS	Residence Homestead Exemption with Local Options	Age, Disability, Homeowner, Surviving Spouse
TEXAS	Disabled Veterans Exemption	Active Military, Age, Disability, Homeowner, Veteran, Surviving Spouse
TEXAS	100 Percent Disabled Veterans Exemption	Disability, Veteran, Surviving Spouse
UTAH	Primary Residential Property Exemption	Homeowner, Principal Residence, Renter
UTAH	Veterans with a Disability Exemption	Disability, Homeowner, Veteran, Surviving Spouse, Other Criteria
UTAH	Blind Exemption	Disability, Surviving Spouse, Other Criteria
VERMONT	Veterans' Property Tax Exemption	Disability, Homeowner, Veteran, Surviving Spouse
VIRGINIA	Exemption for Disabled Veterans	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse
VIRGINIA	Exemption for Surviving Spouses of Members of the Armed Forces Killed in Action	Homeowner, Principal Residence, Property Value Limit, Surviving Spouse
WASHINGTON	Property Tax Exemption for Widow or Widowers of Veterans	Age, Income Ceiling, Surviving Spouse

Residential Property Tax Relief Programs: Exemptions		
State	**Program Name**	**Eligibility Criteria**
WEST VIRGINIA	Senior Citizens' or Disabled Homeowners' Homestead Property Tax Exemption	Age, Disability, Homeowner, Other Criteria
WISCONSIN	Homeowner Property Tax Relief (Lottery and Gaming Credit)	Homeowner, Principal Residence
WYOMING	Exemption for Veterans	Disability, Homeowner, Principal Residence, Veteran, Surviving Spouse

Residential Property Tax Relief Programs: Assessment Freezes		
State	**Program Name**	**Eligibility Criteria**
ARIZONA	Senior Property Valuation Protection	Age, Homeowner, Income Ceiling, Principal Residence, Other Criteria
ARKANSAS	Senior or Disabled Resident Assessment Freeze (Amendment 79)	Age, Disability, Homeowner, Principal Residence, Veteran
GEORGIA	Inflation-Proof Exemption for the Elderly	Age, Homeowner, Income Ceiling
ILLINOIS	Senior Citizen Assessment Freeze Homestead Exemption	Age, Homeowner, Income Ceiling, Surviving Spouse
KENTUCKY	Elderly Homestead Exemption	Age, Disability, Homeowner, Principal Residence
LOUISIANA	Special Assessment Level	Age, Disability, Homeowner, Income Ceiling, Veteran, Other Criteria
NEW MEXICO	Assessment Limitation for Low-income Disabled or Elderly Homeowners	Age, Disability, Homeowner, Income Ceiling
OKLAHOMA	Senior Homestead Property Tax Freeze	Age, Homeowner, Income Ceiling, Principal Residence
RHODE ISLAND	Local Assessment Freezes	Age, Disability, Income Ceiling, Surviving Spouse
SOUTH DAKOTA	Assessment Freeze for the Elderly and Disabled	Age, Disability, Homeowner, Income Ceiling, Property Value Limit, Surviving Spouse

Residential Property Tax Relief Programs: Deferrals		
State	**Program Name**	**Eligibility Criteria**
ALASKA	Senior Citizen Special Assessment Deferment Program	Age, Homeowner, Other Criteria
ALASKA	Tax Deferral for Primary Residences	Homeowner, Income Ceiling, Principal Residence, Other Criteria
ARIZONA	Senior Citizen Property Tax Deferral	Age, Homeowner, Income Ceiling, Principal Residence, Property Value Limit, Other Criteria
CALIFORNIA	Local Option County Property Tax Postponement for Senior Citizens, Blind or Disabled Citizens	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Other Criteria
COLORADO	Property Tax Deferral for Seniors and Active Military Personnel	Active Military, Age, Homeowner
CONNECTICUT	Local Option Deferral	Homeowner, Principal Residence
DISTRICT OF COLUMBIA	Property Tax Deferral	Age, Homeowner, Income Ceiling, Principal Residence, Other Criteria

Residential Property Tax Relief Programs: Deferrals		
State	**Program Name**	**Eligibility Criteria**
FLORIDA	Homestead Tax Deferral	Age, Homeowner, Principal Residence
GEORGIA	Property Tax Deferral for the Elderly	Age, Homeowner, Income Ceiling
IDAHO	Property Tax Deferral Program	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Veteran, Surviving Spouse, Other Criteria
ILLINOIS	Senior Citizen Real Estate Tax Deferral	Age, Homeowner, Income Ceiling, Principal Residence, Other Criteria
MAINE	Deferred Collection of Homestead Property Taxes	Age, Homeowner, Income Ceiling
MAINE	Municipal Property Tax Deferral for Senior Citizens	Age, Homeowner, Income Ceiling, Principal Residence
MARYLAND	Local Property Tax Deferral Options	Age, Other Criteria
MASSACHUSETTS	Tax Deferral and Recovery for Members of the Armed Forces	Active Military, Age, Disability, Homeowner, Principal Residence, Veteran, Other Criteria
MASSACHUSETTS	Property Tax Deferral for Persons Aged 65 or Older (Clause 41A)	Age, Homeowner, Income Ceiling, Principal Residence
MASSACHUSETTS	Local Option Deferral for Members of the Massachusetts National Guard in Active Service	Active Military
MICHIGAN	Special Assessment Deferral Program	Age, Disability, Homeowner, Income Ceiling, Other Criteria
MINNESOTA	Deferral for Senior Citizens	Age, Homeowner, Income Ceiling, Other Criteria
MONTANA	Property Tax Suspension for Military Personnel	Active Military, Homeowner, Principal Residence
NEVADA	Tax Deferral for Low-Income Homeowners	Disability, Homeowner, Income Ceiling, Principal Residence, Property Value Limit, Other Criteria
NEW HAMPSHIRE	Local Option Deferral for Elderly and Disabled Persons	Age, Disability, Homeowner, Principal Residence, Other Criteria
OHIO	Property Tax Extension for Military Personnel	Active Military, Homeowner, Principal Residence
OREGON	Property Tax Deferral for Disabled or Senior Citizens	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Property Value Limit, Wealth Limit, Surviving Spouse, Other Criteria
VIRGINIA	Local Option Deferral of Real Estate Tax Increases	Homeowner, Income Ceiling
WASHINGTON	Property Tax Deferral for the Elderly or Disabled	Age, Disability, Homeowner, Income Ceiling, Surviving Spouse
WASHINGTON	Property Tax Deferral for Homeowners with Limited Income	Homeowner, Income Ceiling, Principal Residence, Other Criteria
WISCONSIN	Property Tax Deferral Loan Program	Age, Homeowner, Income Ceiling, Veteran, Other Criteria
WYOMING	Local Option Property Tax Deferral Program	Age, Disability, Homeowner, Income Ceiling, Principal Residence, Other Criteria

Appendix P: Enacted State Revenue Changes, Fiscal 1979 to Fiscal 2018

Fiscal Year	Revenue Change (Billions)
1979	($2.3)
1980	($2.0)
1981	$0.4
1982	$3.8
1983	$3.5
1984	$10.1
1985	$0.9
1986	($1.1)
1987	$0.6
1988	$6.0
1989	$0.8
1990	$4.4
1991	$10.3
1992	$15.0
1993	$3.0
1994	$3.0
1995	($2.6)
1996	($3.8)
1997	($4.1)
1998	($4.6)
1999	($7.0)
2000	($5.2)
2001	($5.8)
2002	$0.3
2003	$8.3
2004	$9.6
2005	$3.5
2006	$2.5
2007	($2.1)
2008	$4.5
2009	$1.5
2010	$23.9
2011	$6.2
2012	($0.7)
2013	$6.9
2014	($2.1)
2015	($2.3)
2016	$0.5
2017	$1.3
2018	$9.9

Source: NASBO Fall 2017 Fiscal Survey

Appendix Q: Enacted Fiscal 2018 Revenue Actions by Type of Revenue and Net Increase or Decrease (Millions)

State	Sales	Personal Income	Corporate Income	Cigarette	Motor Fuel	Alcohol	Other Taxes	Fees	Total
Alabama									$0.0
Alaska									$0.0
Arizona	($7.9)	($10.3)							($18.2)
Arkansas	$1.2	($2.3)				($0.1)		$4.4	$3.2
California	($43.0)	($140.0)			$2,086.0			$728.5	$2,631.5
Colorado									$0.0
Connecticut	$2.9	$98.3	$20.3	$35.3			$334.7	$18.2	$509.7
Delaware				$12.0		$5.2	$157.9	$4.6	$179.7
Florida	($61.9)		($10.4)				($11.5)	($8.6)	($92.4)
Georgia	($3.1)	($4.9)	($1.2)				($15.7)		($24.9)
Hawaii									$0.0
Idaho									$0.0
Illinois	$90.0	$3,900.0	$460.0						$4,450.0
Indiana	($18.9)		($6.8)		$328.2		$52.8		$355.3
Iowa									$0.0
Kansas	($2.0)	$582.0					($1.6)		$578.4
Kentucky									$0.0
Louisiana									$0.0
Maine		($176.3)							($176.3)
Maryland	($0.1)	($9.1)	($4.5)		($0.8)		($2.9)	$4.2	($13.2)
Massachusetts									$0.0
Michigan	$13.2								$13.2
Minnesota	($126.8)	($123.6)	($2.5)	($3.0)			($45.6)	($1.2)	($302.7)
Mississippi		($14.4)	($0.2)				($3.4)		($18.0)
Missouri			($80.0)						($80.0)
Montana					$27.8				$27.8
Nebraska		($3.2)							($3.2)
Nevada							$50.3	$7.6	$57.9
New Hampshire									$0.0
New Jersey								$2.8	$2.8
New Mexico									$0.0
New York	$6.0	$40.0					$12.0	$6.0	$64.0
North Carolina	($6.4)								($6.4)
North Dakota									$0.0
Ohio	($16.5)	($1.6)		($1.4)					($19.5)
Oklahoma								$235.5	$235.5
Oregon		$5.4	$5.5		$160.0		$180.0		$350.9
Pennsylvania	$8.1	$9.3	$269.2				$2.6		$289.2

State	Sales	Personal Income	Corporate Income	Cigarette	Motor Fuel	Alcohol	Other Taxes	Fees	Total
Rhode Island	$24.4	$4.9	$1.1	$7.6			$4.3	$0.6	$42.9
South Carolina	$74.4	($1.0)			$68.9			$33.5	$175.8
South Dakota									$0.0
Tennessee*	($125.2)	($54.4)	($105.8)		$179.6			$33.9	($71.9)
Texas									$0.0
Utah						$1.7			$1.7
Vermont									$0.0
Virginia		($6.1)					$9.9		$3.8
Washington	$156.0						$541.0		$697.0
West Virginia	$41.2				$44.9			$44.8	$130.9
Wisconsin	$7.7	$21.0					($89.2)	$2.3	($58.2)
Wyoming									$0.0
Total	**$13.3**	**$4,113.7**	**$544.7**	**$50.5**	**$2,894.6**	**$6.8**	**$1,175.6**	**$1,117.1**	**$9,916.3**
Increases	11	8	5	3	7	2	10	14	21
Decreases	11	13	8	2	1	1	7	2	13

Source: NASBO Fall 2017 Fiscal Survey

Notes:
** Tennessee - Sales tax and personal income changes also impact the Local Government Fund. Fuel taxes also impact the Highway Fund and the Local Government Fund.*

Appendix R: Enacted Mid-Year Fiscal 2017 Revenue Actions by Type of Revenue and Net Increase or Decrease (Millions)

State	Sales	Personal Income	Corporate Income	Cigarette	Motor Fuel	Alcohol	Other Taxes	Fees	Total
Alabama									$0.0
Alaska									$0.0
Arizona	($11.9)	($20.7)					($3.0)		($35.6)
Arkansas									$0.0
California									$0.0
Colorado									$0.0
Connecticut									$0.0
Delaware									$0.0
Florida									$0.0
Georgia									$0.0
Hawaii		($36.0)							($36.0)
Idaho									$0.0
Illinois									$0.0
Indiana									$0.0
Iowa									$0.0
Kansas	($1.0)						($1.0)		($2.0)
Kentucky									$0.0
Louisiana									$0.0
Maine	($3.6)	$31.2	($6.8)						$20.8
Maryland									$0.0
Massachusetts									$0.0
Michigan									$0.0
Minnesota									$0.0
Mississippi	($11.0)								($11.0)
Missouri									$0.0
Montana									$0.0
Nebraska									$0.0
Nevada									$0.0
New Hampshire									$0.0
New Jersey	($92.4)	($62.0)			$714.8		($16.0)		$544.4
New Mexico									$0.0
New York	($5.0)								($5.0)
North Carolina									$0.0
North Dakota									$0.0
Ohio	($33.9)		($10.9)						($44.8)
Oklahoma									$0.0
Oregon									$0.0
Pennsylvania									$0.0
Rhode Island									$0.0

State	Sales	Personal Income	Corporate Income	Cigarette	Motor Fuel	Alcohol	Other Taxes	Fees	Total
South Carolina									$0.0
South Dakota									$0.0
Tennessee*									$0.0
Texas									$0.0
Utah									$0.0
Vermont									$0.0
Virginia									$0.0
Washington									$0.0
West Virginia									$0.0
Wisconsin									$0.0
Wyoming								$30.0	$30.0
Total	**($158.8)**	**($87.5)**	**($17.7)**	**$0.0**	**$714.8**	**$0.0**	**($20.0)**	**$30.0**	**$460.8**
Increases	0	1	0	0	1	0	0	1	3
Decreases	7	3	2	0	0	0	3	0	6

Source: NASBO Fall 2017 Fiscal Survey