

**DEPARTMENT OF FINANCE AND ADMINISTRATION SUMMARY  
REVENUE INCREASE PROPOSALS  
84TH GENERAL ASSEMBLY**

- Governor Huckabee Proposed a 5/8% increase in the current 5 1/8% Sales and Use Tax to fund the Governor's balanced budget proposal that was presented in November. With the current forecast this would raise \$218M FY 2004 and \$248M FY 2005.
- The Governor announced that this increase amount was needed but he would consider alternatives that the General Assembly might propose to fund the budget. The 5/8% sales and use tax increase would raise the amount of money needed for the budget in one proposal and requires only a majority vote.
- In addition to a bill for a 5/8% increase in Sales and Use Tax there have been 105 additional bills that have been filed this session to increase revenue. None of these proposals alone raises the money needed to fund the proposed budget. A list of these bills is included in this document at page 2.
- The main reason that there are so many revenue proposals is that the General Assembly had not settled on a revenue proposal as the deadline approached for bill filing and the members did not want to foreclose any viable alternatives.
- In the House and Senate Revenue and Tax Committees summaries of sales tax exemptions and excluded services were presented and discussed. None of these alone, or no single subcategory would raise revenue equal to the 5/8% sales tax. Several of the 105 bills propose to tax some of these exemptions and exclusions to broaden the base of the sales tax. Studies indicate that our sales tax is as broad or broader than most states. Also, most of the exemptions were enacted to keep our tax structure competitive with other states. Taxing many of the excluded services would result in a competitive disadvantage with other states and loss of business. Taxed services that can be easily purchased outside the state would cause compliance and administration problems.
- The Revenue and Tax Committees and individual members have requested lists of alternatives for raising existing taxes. One consideration in increasing taxes is the 1934 constitutional amendment, which requires a 3/4 vote of both houses to raise the rate of taxes that existed in 1934. This only applies to tax rates. New taxes may be levied or taxes may be levied in a different way, or exemptions repealed by a majority vote. Another consideration is that if a tax is increased so far out of line that consumers will buy out of state the revenue increase may be greatly diminished.
- It should be noted that all the revenue impacts on tax bills assume that they will be effective to provide cash flow for the next two fiscal years. If excise taxes are increased later in the year in a recessed or extended session the revenue impact will be less the first year. Also, any income tax increase must be passed by October so that forms and computer programs can be set for the next filing season.
- Many members have asked about the opportunity to tax "internet sales" to increase revenue. The Senate has passed SB 483, the Streamlined Sales Tax Bill, to address this problem but Congress must also act before we can collect additional revenue.

## 84<sup>th</sup> General Assembly – Revenue Increase Bills

| Bill No.   | Explanation   | Revenue Impact             | \$ Type |
|--|---|----------------------------|---------|
| HB 1681<br>Mahony  | 5/8% sales & use tax increase.<br>(current rate-5.125%)   | FY04 \$218M<br>FY05 \$248M | G       |
| HB 2546<br>Hickinbotham<br>SB 782<br>Sen. R&T<br>HB 2622<br>Mahony | 10% income tax surcharge.   | FY04 \$141M<br>FY05 \$184M | G       |
| HB 1318<br>Lendall   | 10% income tax surcharge.   | FY05 \$134M<br>FY06 \$145M | G       |
| HB 1586<br>Roebuck<br>SB 776<br>Sen. R&T<br>HB 2666<br>Mahony      | Repeal Working Taxpayer Credit.   | FY04 \$23M                 | G       |
| HB 2658<br>Mahony<br>SB 901<br>Sen. R&T                            | Transfer \$10M per year from property tax relief trust fund.  | \$10M per yr.              | G       |
| HB 2660<br>Mahony<br>SB 791<br>Sen. R&T                            | 1% additional tobacco excise tax.<br>(Current rate-25%)   | \$625,000 per yr.          | G       |
| HB 1756<br>Judy  | \$.05 per pack tax on cigarettes.<br>(Current rate-\$.34 per pack)                                      | FY04 \$6.1M<br>FY05 7.7M   | G+S     |
| HB 2323<br>Lamoureux   | \$.15 per pack cigarette tax.<br>(Current rate-\$.34 per pack)  | FY04 \$18 M<br>FY05 \$22M  | G+S     |
| HB 2662<br>Mahony  | \$.50 per pack cigarette tax increase.<br>(Current rate-\$.34 per pack)                                 | FY04 \$78.6M<br>FY05 \$87M | G       |
| SB 768<br>Gullett  | Additional 30% retail sales tax on cigarettes and tobacco products.                                     | FY04 \$133M<br>FY05 \$200M | G+S     |
| SB 920<br>Bisbee   | \$.085 per pack cigarette tax increase.   | \$19M per yr.              | G+S     |
| HB 2453<br>Bright  | 7.5% retail sales tax increase on cigarettes and tobacco products and \$.01 per pack cigarette tax.     | \$56M per yr.              | S       |
| HB 2631<br>Mahony<br>SB 779<br>Sen. R&T                            | \$.25 per package increase on cigarette papers.<br>(Current rate-\$.25 per pack)                        | \$410,000 per yr.          | G       |
| SB 960<br>Critcher   | \$2.00 increase in cigarette paper tax.<br>(Current rate-\$.25 per pack)                                | \$1.7M per yr.             | G       |
| HB 2621<br>Mahony<br>SB 778<br>Sen. R&T                            | 6.5% flat income tax on certain corporations and 10% income tax surcharge.<br>(Current maximum rate-6%) | FY04 \$142M<br>FY05 \$187M | G       |

|   |  |                                  |   |
|---|--|----------------------------------|---|
| HB 2613<br>Mahony<br>SB 801<br>Sen. R&T | 6.5% flat income tax on certain corporations.<br>(Current maximum rate-6%) | FY04 \$1.2M<br>FY05 \$2.3M       | G |
| HB 2612<br>Mahony<br>SB 792<br>Sen. R&T | Impose sales tax on subscription publications.                             | FY04 \$900,000<br>FY05 \$1M      | G |
| HB 2620<br>Mahony<br>SB 786<br>Sen. R&T | 1% wholesale gasoline sales tax.   | \$15.1M per yr.                  | G |
| HB 2623<br>Mahony<br>SB 795<br>Sen. R&T | Impose sales tax on garbage collection services.                           | FY04 \$3.2M<br>FY05 \$3.5M       | G |
| HB 2624<br>Mahony<br>SB 796<br>Sen. R&T | Impose sales tax on bank service charges.                                  | FY04 \$18M<br>FY05 \$20M         | G |
| HB 2632<br>Mahony<br>SB 800<br>Sen. R&T | Wholesale vending tax.   | \$9M per yr.                     | G |
| HB 2633<br>Mahony<br>SB 788<br>Sen. R&T | Impose sales tax on auction sales.   | FY04 \$3.5M<br>FY05 \$4M         | G |
| HB 2634<br>Mahony<br>SB 789<br>Sen. R&T | 4% privilege tax on utility services.                                      | FY04 \$183M<br>FY05 \$202M       | G |
| HB 2638<br>Mahony                       | Motor vehicle and driver license fee increases.                            | \$4.1M per yr.                   | G |
| HB 2639<br>Mahony<br>SB 790<br>Sen. R&T | Impose sales tax on initial installation.                                  | FY04 \$900,000<br>FY05 \$1M      | G |
| HB 2664<br>Mahony<br>SB824<br>Sen. R&T  | Impose sales tax on advertising space and time.                            | FY04 \$19.4M<br>FY05 \$21.2M     | G |
| HB 2665<br>Mahony<br>SB 825<br>Sen. R&T | Impose sales tax on software and software licensing.                       | FY04 \$11M<br>FY05 \$12M         | G |
| HB 2667<br>Mahony<br>SB 793<br>Sen. R&T | Impose sales tax on boarding or training horses.                           | FY04 \$675,000<br>FY05 \$750,000 | G |
| HB 2668<br>Mahony<br>SB 777<br>Sen. R&T | Impose sales tax on security services.                                     | FY04 \$900,000<br>FY05 \$1M      | G |

|   |   |                                  |     |
|---|---|----------------------------------|-----|
| HB 2669<br>Mahony<br>SB 798<br>Sen. R&T | Impose sales tax on mini-storage and boat storage.  | FY04 \$1.1M<br>FY05 \$1.2M       | G   |
| HB 2692<br>Mahony                       | Severance tax on natural gas increase to \$.30 per MCF.<br>(Current rate-3/10 of \$.01 per MCF) | FY04 \$42.4M<br>FY05 \$46.2M     | G   |
| SB 783<br>Sen. R&T                      | Increase natural gas severance tax to \$.20 MCF.<br>(Current rate-3/10 of \$.01 per MCF)        | FY04 \$28M<br>FY05 \$30.8M       | G   |
| HB 2682<br>Mahony                       | Increase natural gas severance tax to 6%.<br>(Current rate-3/10 of \$.01 per MCF)               | \$25.3M                          | S   |
| HB 1319<br>Lendall                      | Increase severance tax on natural gas.<br>(Current rate-3/10 of \$.01 per MCF)                  | FY04 \$19.4M<br>FY05 \$21M       | G+S |
| HB 2687<br>Mahony<br>SB 787<br>Sen. R&T | Impose sales tax on dry cleaning and laundering.  | FY04 \$4.5M<br>FY05 \$5.1M       | G   |
| HB 2688<br>Mahony<br>SB 785<br>Sen. R&T | Impose sales tax on real estate fees.   | FY04 \$3.5M<br>FY05 \$4M         | G   |
| HB 2690<br>Mahony<br>SB 781<br>Sen. R&T | Sales tax on towing and wrecker service.  | FY04 \$675,000<br>FY05 \$750,000 | G   |
| HB 2691<br>Mahony<br>SB 784<br>Sen. R&T | Increase severance tax on natural resources.  | FY04 \$5.3M<br>FY05 \$5.8M       | G   |
| HB 2693<br>Mahony<br>SB 797<br>Sen. R&T | Impose sales tax on professional services.  | FY04 \$33.5M<br>FY05 \$36.7M     | G   |
| HB 2694<br>Mahony<br>SB 799<br>Sen. R&T | Impose sales tax on pest control services.  | FY04 \$2.5M<br>FY05 \$2.7M       | G   |
| SB 780<br>Sen. R&T                      | Increase various driver license fees.   | \$1.6M per yr.                   | G   |
| SB 794<br>Sen. R&T                      | Impose sales tax on bank service charges.   | FY04 \$18M<br>FY05 \$20M         | G   |
| HB 1317<br>Lendall                      | Impose sales tax on advertising services.   | FY04 \$15.9M<br>FY05 \$21.2M     | G   |
| HB 1323<br>Stovall                      | Transfer \$30M from property tax relief fund.   | FY04 \$30M<br>FY05 \$30M         | G   |
| HB 1522<br>Hathorn                      | Impose a 20% excise tax on hunting and fishing licenses.  | FY04 \$1.4M<br>FY05 \$1.9M       | S   |
| HB 1528<br>Lamoureux                    | Additional 4% supplemental tax on mixed drinks.<br>(Current rate-14%)                           | FY04 \$1.1M<br>FY05 \$1.7M       | S   |

|                                     |  |                                  |     |
|-------------------------------------|--|----------------------------------|-----|
| HB 2224<br>Lendall                  | Adopt a state estate tax.  | \$35M per yr.                    | G+S |
| HB 2228<br>Rosenbaum                | Reduce sales tax vendor discount to 1%.<br>(Current discount-2%)                             | \$6.3M per yr.                   | S   |
| HB 2257<br>Biggs                    | 3/8% sales and use tax increase.<br>(Current rate-5.125%)                                    | FY04 \$131M<br>FY05 \$149M       | G   |
| HB 2259<br>Lendall                  | Repeal sales and use tax exemptions.   | FY04 \$618M<br>FY05 \$1.49B      | G   |
| HB 2265<br>Judy                     | Reduce vendor discount limit from \$1,000 to \$100.  | FY04 \$4.4M<br>FY05 \$5.8M       | G   |
| HB 2266<br>Judy                     | Impose sales tax on additional services.   | FY04 \$93M<br>FY05 \$124M        | G   |
| HB 2280<br>Milligan                 | Impose ¼% temporary sales tax.<br>(Current rate-5.125%)                                      | \$99M per yr.                    | S   |
| HB 2282<br>Nichols                  | 1% wholesale tax on junk food.   | \$2M per yr.                     | S   |
| HB 2322<br>Verkamp                  | Delete "coming to rest" use tax language.  | FY04<br>\$800,000<br>FY05 \$1.1M | G+S |
| HB 2329<br>Jones<br>SB 504<br>Smith | Wagering on electronic games of skill.   | \$19.7M                          | G+S |
| HB 2427<br>Boyd                     | Waste tire fee increase.   | \$1.8 M per yr.                  | S   |
| HB 2468<br>Mathis                   | Liquor tax increase of \$.50 per gallon.<br>(Current rate-\$2.50 per gallon)                 | \$1.1M per yr.                   | G   |
| HB 2490<br>J. Johnson               | ¼% sales and use tax increase.<br>(Current rate-5.125%)                                      | FY04 \$87M<br>FY05 \$99M         | G   |
| HB 2684<br>Mahony                   | Soft drink tax increase to \$.27 per gallon.<br>(Current rate \$.21 per gallon)              | FY04 \$10.7M<br>FY05 \$11.7M     | S   |
| HB 2780<br>Bradford                 | Impose 6% maximum capital gains tax.   | FY04 \$8.9M<br>FY05 \$9.1M       | G   |
| HB 2832<br>King                     | Increase wholesale vending tax.  | \$9M per yr.                     | G   |
| HB 2861<br>Ledbetter                | Severance tax increase on bromine to \$10.50 per barrel.<br>(Current rate-\$2.45 per barrel) | FY04 \$1.4M<br>FY05 \$1.8M       | S   |
| HB 2867<br>Walters                  | Repeal motor fuel border exemption.  | \$4.1M per yr.                   | S   |
| SB 659<br>Wooldridge                | Increase various driver license fees.  | \$5.3M per yr.                   | S   |
| SB 708<br>Brown                     | 5% tax on direct broadcast satellite service.  | FY04 \$4M<br>FY05 \$6M           | S   |

|                       |  |   |     |
|-----------------------|--|---|-----|
| SB 715<br>Argue       | Increase severance tax on natural gas to 5% of market value.<br>(Current rate 3/10 of \$.01 per MCF) | FY04 \$15.8M<br>FY05 \$21.2M  | G+S |
| SB 844<br>Broadway    | Temporary sales tax to address fiscal emergency.   | \$95M-\$380M<br>per yr. de-<br>pending on<br>nature of<br>emergency | G   |
| SB 878<br>Bookout     | New 4% sales tax on video rentals.   | FY04 \$1.5M<br>FY05 \$2.3M  | G   |
| SB 970<br>Critcher    | New 9% tax on video rentals.   | FY04 \$3.3M<br>FY05 \$5M  | S   |
| HB 2757<br>Walters    | Repeal cigarette border zone.  | \$1.1M per yr.  | G   |
| HB 2735<br>Hutchinson | Voters to approve tax increase for education.  | Bill contains<br>insufficient<br>data to deter-<br>mine impact.     |     |
| HB 2575<br>Thomas     | Repeals various income and sales tax credits.  | Bill contains<br>insufficient<br>data to deter-<br>mine impact.     |     |
| HB 2734<br>Stovall    | Re-instate taxes eliminated within last 6 years.   | Bill contains<br>insufficient<br>data to deter-<br>mine impact.     |     |
| SB 880<br>Malone      | Revenue Investment Act.  | Bill contains<br>insufficient<br>data to deter-<br>mine impact.     |     |
| SB 900<br>Sen. R&T    | Sales and use tax enhancement and exemption<br>repeal.   | Bill contains<br>insufficient<br>data to deter-<br>mine impact.     |     |
| SB 947<br>Bisbee      | Additional wholesale cigarette tax.  | Bill contains<br>insufficient<br>data to deter-<br>mine impact.     |     |

G = General Revenue

S = Special Revenue