

Senator Jim Hendren
Representative Lane Jean
Arkansas State Capitol
500 Woodlane St.
Little Rock, AR 72201

Gentlemen:

On behalf of our nearly 1,200-member businesses let us first say thank you for the leadership you have provided the Tax Reform & Relief Legislative Task Force. In addition, we thank all the Task Force members for the exceptional time commitment and good faith efforts they have invested in pursuit of the goal of a more equitable and more competitive tax structure for Arkansas.

The time is right for this tax overhaul. Economic conditions are positive and will likely remain so for some time. Tax revenues are growing as record numbers of Arkansans are working and our state's population is growing.

The challenge lies in selecting the right levers to pull that will result in even more growth and better opportunities for more Arkansans. We believe our members' views on these choices can be helpful in your deliberations and should be considered carefully as you formulate your recommendations. AR businesses and their employees pay the lion's share of the taxes collected for state and local government.

In descending order of preference here are our policy preferences.

- Adopt the singles sales factor method of income apportionment for corporate earnings and eliminate the throw back rule. DF&A scores this as a modest revenue generator but the primary reason to adopt this is to simplify corporate return preparation and align with surrounding states.
- Net Operating Loss Carryforward Period. AR allows five years to carry operating losses forward, the most restrictive period allowed in the country. The federal period is twenty years. This issue is especially negative for corporations in their early years when operating losses are commonly incurred. A longer period of carry forward to average out tax liabilities would be very helpful to startup companies, the primary source of new employment opportunities. One approach to mitigating this tax impact would be to add one year to the carryforward period each year for five years then reassess at the end of that time to be sure the desired result is in fact achieved.
- Brackets and rates. Our brackets are needlessly complex and should be restructured to no more than three for equity and understanding by taxpayers. The top rate of 6.9% should be reduced to at least 6.5%, perhaps decreasing by 0.1% per year to allow budget pressures to be evaluated in an orderly way.
- Capital gains tax. We should sustain the current 50% exemption and the \$10 million cap on this tax. While we recognize this applies to only a small number of taxpayers each year, it's a different group of individuals each year. Sales of businesses, farms and other assets subject to

the current "cap" on capital gains occur infrequently only once in a lifetime or several lifetimes. This tax is among the most easily avoided if the stakes are high enough and as a result we have run off some of our brightest, most talented and prosperous citizens. Not a good idea.

- Inventory tax. Our freeport rules protect most large manufacturers from this tax but smaller, local businesses catch the full brunt of it. Perhaps a long-term scale back could be devised by exempting an increasing share of the liability over a period of years.

Thank you for the opportunity to express the preferences of our members on this vital topic. We all share the goal of making Arkansas a more attractive place for businesses to invest and grow to provide our children and grandchildren more and better career opportunities.

Best regards,

Randy Zook
President & CEO