EXHIBIT B

MINUTES
TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE
FEBRUARY 5, 2018

The Tax Reform and Relief Legislative Task Force met Monday, February 5, 2018, at 9:00 a.m., in Room B-MAC, Little Rock, Arkansas.

Task Force members present: Senators Jim Hendren, chair, Jonathan Dismang, Joyce Elliott, Bart Hester, Missy Irvin, and Larry Teague; Representatives Lane Jean, chair, Frances Cavenaugh, Jim Dotson, Kenneth B. Ferguson, Joe Jett, Bob Johnson, and Mathew Pitsch.

Other legislators present: Senators Ronald Caldwell, John Cooper, Trent Garner, Jimmy Hickey, Jr., Jason Rapert, and Bill Sample; Representatives Fred Allen, Charles Blake, Ken Bragg, Charlie Collins, Carol Dalby, Andy Davis, Trevor Drown, Les Eaves, Justin Gonzales, Steve Hollowell, Douglas House, Jack Ladyman, John Maddox, Austin McCollum, Aaron Pilkington, Marcus Richmond, Laurie Rushing, Johnny Rye, Danny Watson, Jeff Williams, and Carlton Wing.

Representative Jean called the meeting to order.

Consideration to Approve Minutes of the January 8, 2018, Meeting [Exhibit B]

The minutes from the January 8, 2018, Tax Reform and Relief Legislative Task Force meeting were approved without objection.

PFM Wrap Up Report – Analysis by Bureau of Legislative Research [Exhibits C-1, C-2, C-3]

Mr. Richard Wilson, Assistant Director, Bureau of Legislative Research (BLR), was recognized to give a detailed overview of PFM's handouts [Exhibits C-1 and C-2] and cited errors in some of the information provided to the task force. Mr. Wilson presented a history of Arkansas individual income tax tables and rates beginning in TY1929 through TY2017 [Exhibit C-3]. Mr. Wilson explained that Act 78 of 2017 will be enacted in TY2019, with a fiscal impact of $25 million in FY2019 and the full impact of $50 million in FY2020. He indicated that although the state's income tax tables are complicated, it has the intended effect to provide tax relief to targeted income earners.

Overview of the Federal Tax Law Changes and the Impact to Arkansas [Handout #1]

Mr. Walter Anger, Deputy Director and Commissioner of Revenue; Mr. Paul Gehring, Assistant Commissioner of Revenue; and Mr. Joel DiPippa, Senior Counsel, Department of Finance and Administration (DFA), were recognized to give an overview of the federal Tax Cuts and Jobs Act of 2017 and how it impacts federal rates and brackets on individual income tax returns and deductions. It was noted that Arkansas is a non-conformity state, which affords the state of Arkansas the sovereign authority to write its own tax code. Mr. Gehring explained that under the new federal tax changes, the standard deductions will double for single, head of household, and married filers from $6,500 to $12,000; $9,500 to $18,000; and $12,000 to $24,000. Child tax credit and family tax credit will increase from $1,000 to $2,000 with $1,400 refundable. Mr. DiPippa explained how the federal tax cuts will affect pass through entities, businesses, and corporations. Under the new tax law, corporate tax rates and brackets on taxable income will have a flat rate of 21%. The new tax law raises the gross receipts maximum of a cash accounting business from $5 million to $25 million annually and allows a broader range of businesses to use cash basis accounting versus accrual accounting. This change will result in an approximate loss of $10 million for the state.

Presentation on Telecommunication and Severance Fees, Miscellaneous Revenue Streams, and Other Cash Funds [Handout #2]

Mr. Duncan Baird, Budget Administrator; Mr. Paul Gehring, Assistant Commissioner of Revenue; and Mr. Joel DiPippa, Senior Counsel, DFA, were recognized to present a handout regarding Miscellaneous Revenue Sources that included expenditures and distributions for FY2016 and FY2017. Cash Fund expenditures total $2.7 billion annually and are distributed to Higher Education, State Agencies, and Boards and Commissions. Telephone and telecommunication charges for 911 funding totaled $19.7 million in FY2016. Total revenue from the telephone surcharge totaled $440.6 million in FY2017. Cigarette and Tobacco Tax averaged $49 million per year from tobacco companies. Reduction in the Soft Drink Syrup Tax brought about a $6.3 million transfer from General Revenue into the Medicaid Trust Fund to replace the lowered revenue. Corporate Franchise Tax collections totaled $23 million, of which $8 million was allocated to General Revenue and the remainder was distributed to the Educational Adequacy Fund. Collection totals from the Insurance Premium Tax are dispersed with 53% ($112.6 million) allocated to General Revenue and 47% ($100.6 million) designated as Special Revenue. The Motor Fuel Tax is designated as Special Revenue with 70% dispersed to the Highway Department Fund, 15% to cities and 15% to counties. Collections from Dyed Diesel Tax are distributed as listed: $8.4 million into General Revenue, $1.65 million into Educational Adequacy Fund, and $0.941 million into Property Tax Relief Trust Fund. Other items discussed included Racing and Gaming Taxes, Real Property Transfer Tax, Severance Tax, and Educational Excellence Trust Fund.

Summary of Quill v. North Dakota and 2017 Arkansas Legislation introduced regarding Collecting Sales Taxes from Out-of-State Sellers [Exhibit F]

Mr. George Ernst, Legislative Attorney; Ms. Joi Leonard, Administrator, Legal Research and Drafting Section; and Mr. Richard Wilson, Assistant Director, Bureau of Legislative Research (BLR), were recognized to discuss the ongoing issue states have regarding efforts to collect sales and use tax from purchases made from sellers outside the state. Ms. Leonard gave an overview of HB1388 and SB140 which failed to pass during the 2017 Regular Session. HB1388 is similar to Colorado's method of an online reporting requirement; and SB140 is similar to South Dakota's law and includes clarity for the collection of sales and use taxes by remote sellers.

Mr. Ernst gave a brief overview of Quill v. North Dakota and other states that were brought before the Supreme Court regarding how they collect sales and use tax on out-of-state purchases. He said South Dakota is currently before the United States Supreme Court and waiting for a decision to be released in June 2018.

Mr. Wilson gave a report regarding the national growth rate on internet sales. Combined internet sales totaled $35 billion in 1992; $114 billion in FY2000; and $534 billion in FY2017. As of date, internet sales total $545 billion. It is estimated that in FY2018, internet sales will total $600 billion.

Mr. Wilson advised that the Colorado Department of Revenue (DOR) does not have any systematic evidence that vendors are complying with the transactional notice requirements. DOR said they expect to see reports coming in by the January 31, 2018, deadline. Mr. Wilson said he will contact DOR in May for an update.

Challenges of Truly Capturing Revenues Collected from Sellers Solely for Internet Purchases

Mr. Gehring said individuals are either unaware of their obligation to pay the sales tax on their online purchases or those who want to pay are not aware of how to do so. He said forms can be accessed on DFA's website. Sellers have an option to pay on use tax purchases the following year or pay the following month that the tax is due. It is difficult to calculate how much revenue the state is losing from buyers not paying sales tax for online purchases. Currently the state has over 75,000 sales tax accounts of which 16,000 are out-of-state taxpayers. Of those 16,000, there are 3,700 taxpayers signed up through the Streamline Sales and Use Tax Agreement. Approximately $100 million has been collected over a ten year period from the streamline sales tax agreement. Use tax collections from businesses total $400 million annually.

Discussion on the Methodology for Recommendations

Senator Hendren gave a brief overview of the task force working timeline. The task force will hold two-day meetings each month. Agency personnel will be invited to speak during the morning meetings followed by afternoon presentations made by stakeholders and advocacy groups. During the March meetings the task force will discuss potential changes to the state's sales tax structure and bring forward sales tax recommendations and items for consideration. BLR staff will take note of all recommendations and items proffered by task force members and compile memos containing a write up of the components of the recommendation, fiscal impacts, legal analysis, etc., to be sent electronically to task force members prior to the April meetings. Task force members will vote on recommendations and items for consideration and begin the next phase starting in May to discuss income tax changes. June and July meeting discussions include finalizing recommendations for drafting of the final report and bills. The task force may seek an outside group if dynamic scoring is required. The task force will meet in August to finalize recommendations and authorize task force chairs to approve the final form of the report that is due September 1, 2018.

The next Tax Reform task force meetings will be Monday and Tuesday, March 19 and 20, 2018.

The meeting adjourned at 12:20 p.m.