EXHIBIT D

Arkansas:

Options for Tax Reform

Presentation to the Arkansas Tax Reform and Relief Task Force
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TAX FOUNDATION Since 1937

TOPICS OF DISCUSSION

- The Impact of Tax Changes on Arkansas's Residents and Competitiveness
- Revenue Impacts
- Prioritizing Tax Changes
- Designing a Tax Trigger

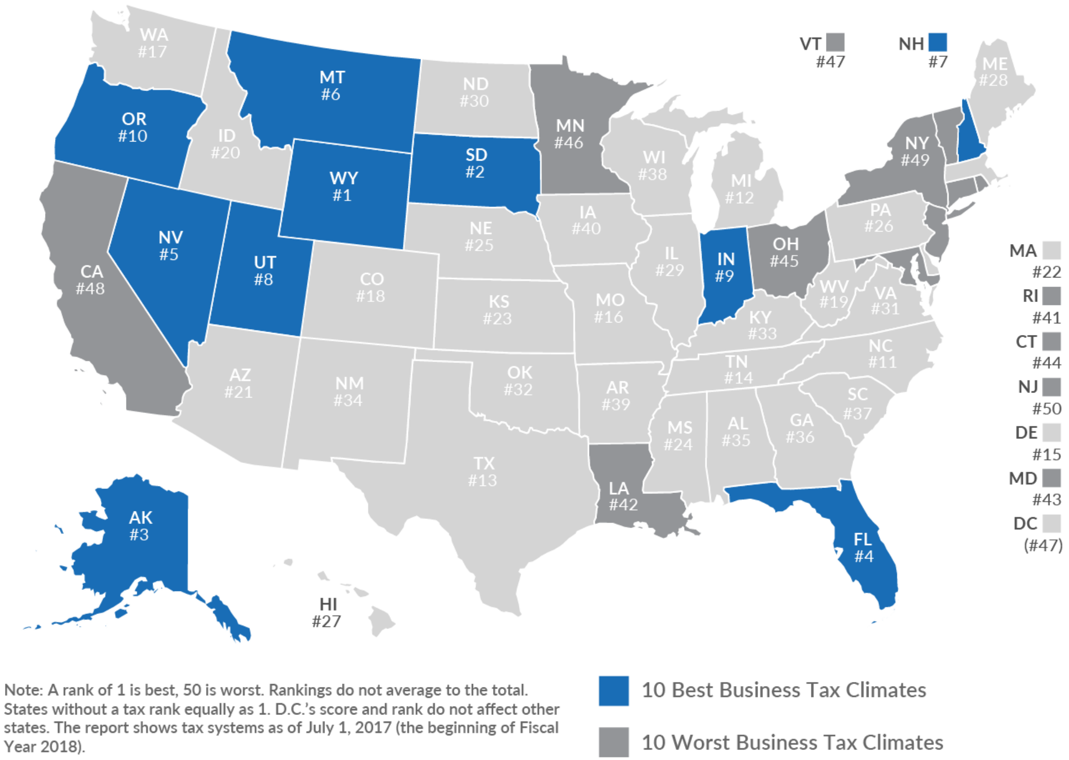
TAX REFORM

- First of all, congratulations for making it this far in the progress.
- These reforms will make Arkansas more competitive and lower taxes for residents and businesses in the state.

STATE BUSINESS TAX CLIMATE INDEX

TASK FORCE REPORT

2018 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2017 (the beginning of Fiscal Year 2018).

Source: Tax Foundation.

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STATE BUSINESS TAX CLIMATE INDEX
TASK FORCE REPORT

- We’ve projected Arkansas’s score on the State Business Tax Climate Index using the task force’s final recommendations.

Projected *State Business Tax Climate Index* Ranking

	Current	Proposed
Overall	**39**	**36**
Individual Income	30	30
Corporate Income	39	26
Sales	44	44
Property	22	22
Unemployment Insurance	32	32

STATE BUSINESS TAX CLIMATE INDEX

TASK FORCE REPORT

- These results assume all of the changes have been instituted into law, so it will take several years to reach this point.
- Additionally, as the legislature considers additional changes to the sales tax in the future, Arkansas's score could increase quickly.

TAX REFORM
CHANGES IN TAX LIABILITY

- Another way to measure the impact of the tax changes is to look at the change in individuals' tax liabilities.
- I ran sample tax calculations for individuals are varying income levels.
- These are based on "taxable income."
  - Due to Arkansas's married filing separate status, some of these results could actually be higher in a dual-income household.

TAX REFORM

CHANGES IN TAX LIABILITY

Taxable Income	Net Tax Savings	Percentage of Taxable Income
$20,999	$0.00	0%
$25,000	$166.12	0.66%
$35,000	$166.12	0.47%
$50,000	$166.12	0.33%
$81,000	$620.67	0.77%
$100,000	$696.67	0.70%
$250,000	$1,296.67	0.52%

TAX REFORM
REVENUE IMPACT

- In the report, there are 22 specific recommendations.
- Ten of those have direct revenue impact.
- And, as mentioned before, there could be interaction effects among these recommendations.

Revenue Increases	
Sales Tax on Magazine Subscriptions	$1,556,000
Capital Gains Exemption	$4,650,000
Electric Vehicles	$1,082,634
Remote Sales	$35,374,000
Single Sales	$8,800,000
Total	**$51,462,634**

TAX REFORM
REVENUE IMPACT

Revenue Decreases	
Throwback Rule	($24,500,000)
Net Operating Losses	$0
Option A	($276,437,336)
Corporate Income Tax	($38,700,000)
Inventory Tax Credit	($70,210,000)
Total	**($409,847,336)**

TAX REFORM
REVENUE IMPACT

Total	**($409,847,336)**
Revenue Increases	$51,462,634
Net Cost	**($358,384,702)**

TAX REFORM
REVENUE IMPACT

- The question becomes: How does the task force limit the revenue impacts of their proposals?
- The first is to limit the income tax changes in the first year.

Net Cost	**($358,384,702)**
Add back PIT 6.9% to 6.5%	$157,007,099
Add back CIT 6.5 to 5.9%	$32,200,000
Net Cost	**($169,177,603)**

TAX REFORM

REVENUE IMPACT

- The task force should then move to lower top rates for the individual and corporate income tax rates over time.

Net Cost	**($375,984,702)**
Add back PIT 6.9% to 6.5%	$157,007,099
Add back CIT 6.5 to 5.9%	$32,200,000
Net Cost	**($186,777,603)**

TAX REFORM
REVENUE IMPACT

- I recalculated the sample tax savings using the modified version of Option A.

	Option A		Modified Option A	
Taxable Income	Net Tax Savings	Percentage of Taxable Income	Net Tax Savings	Percentage of Taxable Income
$20,999	$0.00	0%	$0.00	0.00%
$25,000	$166.12	0.66%	$166.12	0.66%
$35,000	$166.12	0.47%	$166.12	0.47%
$50,000	$166.12	0.33%	$166.12	0.33%
$81,000	$620.67	0.77%	$616.67	0.76%
$100,000	$696.67	0.70%	$616.67	0.62%
$250,000	$1,296.67	0.52%	$616.67	0.25%

TAX REFORM
REVENUE IMPACT

- Yesterday, DFA presented an updated version of bracket consolidation.
- It includes an expanded standard deduction and a two-phase bracket consolidation process.
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Phase One	
Taxable Income	Tax Rate
$0-$8,000	2%
$8,001-$18,000	4%
$18,001-$65,000	5.90%
$65,001+	6.50%
Phase Two	
Taxable Income	Tax Rate
$0-$8,000	2%
$8,001-$18,000	4%
$18,001+	5.90%
Standard Deductions	
Single	$6,800
Married	$13,600
Head of Household	$6,800

TAX REFORM
REVENUE IMPACT

- This plan changes many of those previous calculations.

Revenue Decreases	
Throwback Rule	($24,500,000)
Net Operating Losses	$0
2/4/5.9/6.5 Phase One	($94,827,469)
Corporate Income Tax	($38,700,000)
Inventory Tax Credit	($70,210,000)
Total	**($228,237,469)**
Revenue Increases	$51,462,634
Net Cost	**($176,774,835)**

TAX REFORM
REVENUE IMPACT

Net Cost	**($176,774,835)**
Phase Two	($96,907,004)
Net Cost	**($273,681,839)**

TAX TRIGGERS
SUGGESTED REFORMS

- Tax Triggers
  - There are several key components to include when designing a properly constructed tax trigger.
    - Any tax cuts should be triggered based on revenue, not spending, growth.
    - Need to consider what measure of revenue. Tax collections, general revenues, etc.
    - Also, generally want to build in some natural growth, such as population growth plus inflation.
    - Triggers can also be combined with tax phaseouts.
      - They can help accelerate reforms.

TAX TRIGGERS
SUGGESTED REFORMS

- Designing a trigger for Arkansas:
  - Baseline: Arkansas has a number of diversions to its revenue streams, I'd focus on general revenues, after those diversions.
  - Revenue Measure: I prefer using tax collections, not projected revenues.
  - Growth Measure: I would build in a baseline percentage (generally around 3 percent)

TAX TRIGGERS
SUGGESTED REFORMS

- Combining these aspects:
  - At the end of the fiscal year when the state certifies its revenue for the year, any growth in general revenues, exceeding 3 percent, would be used to lower the individual and corporate income tax rates.
    - The 3 percent annually would be based on an adjusted baseline (inflation) to ensure revenue increases after a revenue decrease do not trigger a tax cut during an economic downturn.

TAX TRIGGERS
SUGGESTED REFORMS

- Combining these aspects:
  - Using Option A:
    - Rates would be lowered in 0.05 percentage point blocks, alternating between individual and corporate income tax until top marginal rates reach 6.5 percent and 5.9 percent respectively.
  - Using the Two-Phase Approach:
    - There are two possible options here.
    - You could use a similar approach as above (without the alternating) or you could do calculated adjustments annually, until the target rate is reached.

TAX TRIGGERS
SUGGESTED REFORMS

- Combining these aspects:
  - Still open issues:
    - Residual revenue amounts?
    - What measure of inflation?

TAX REFORM
REVENUE IMPACT

- The other option would be delaying implementation of the inventory tax credit, which would allow all other provisions to take effect immediately.

Revenue Decreases	
Throwback Rule	($24,500,000)
Net Operating Losses	$0
2/4/5.9/6.5 Phase One	($94,827,469)
Corporate Income Tax	($38,700,000)
Total	**($158,027,469)**
Revenue Increases	$51,462,634
Net Cost	**($106,564,835)**
Phase Two	($96,907,004)
Net Cost	**($203,471,839)**

CONCLUSION

- Questions?

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