

MINUTES FROM THE JOINT COMMITTEE ON ECONOMIC AND TAX POLICY MEETING

Monday, November 14, 2016
Room B, MAC, Little Rock, Arkansas

The Joint Committee on Economic and Tax Policy met at 1:30 p.m., Monday, November 14, 2016, in Room B-MAC.

Committee members in attendance: Representatives Jim Dotson (Co-Chair), Lane Jean, Joe Jett, and Clarke Tucker

Other members of the General Assembly in attendance: Representatives Andy Davis, Charles Blake, R. Trevor Drown, John Eubanks, David Fielding, Michael John Gray, Bob Johnson, Greg Leding, Micah S. Neal, Laurie Rushing, Nelda Speaks, and Jeff Wardlaw

Representative Jim Dotson (Co-Chair) called the meeting to order and without objection, the minutes for May 13, 2016, were approved as written.

Rep. Jim Dotson recognized Dr. Jeremy Horpedahl, Assistant Professor of Economics, University of Central Arkansas.

Dr. Horpedahl handed out a book titled *Arkansas: the Road Map to Tax Reform*. Mr. Horpedahl stated they and the Tax Foundation have been working together on this project. He discussed the history of Arkansas's tax system and where the State is now:

- Tax rates are very confusing, many different tables for many different areas that could be simplified. Collections have increased dramatically over time.
- Arkansas personal income tax rate is 6.9%, which is higher than surrounding states.
- Arkansas corporate income tax rate is 6.5%, which is the second highest in the south and has the most brackets. Corporate income tax is a very volatile revenue.
- Arkansas sales tax rate is 9.3%, which is the third highest in the nation. It has been increase 6 times since 1984 (3 by constitutional amendment).
- Arkansas local options sales tax started in the 1980s. In 1977, personal consumption was taxed 78% now it is down to 44%. The rates are going up based on fewer items are being taxed. By law Arkansas does not tax *services* which the sales tax base is eroding because the economy is moving toward more *services*. If your base is eroding, you have to raise the rates. Arkansas sales tax base is too broad in other ways, they include a number of business inputs that are not taxed in other states.

Ms. Nicole Kaeding, Economist, Tax Foundation, Washington, D.C. discussed where we go from here. Mr. Kaeding stated they met with over 100 individuals representing tax payers, businesses groups, and policy makers. They found that the tax codes are too complex, costly, and unfair. In their book, they recommend three options for tax reform (listed on the next page). Below are items that should be included in all three options:

1. Tax Credits: Elimination of all major tax credits, such as InvestArk, the Create Rebate, and Waste and Recycling Credit.
2. Franchise Tax: Elimination of the Franchise Tax.
3. Corporate Income Tax: Structural reforms to include elimination of the throwback rule, and extending net operating loss carry forwards. Arkansas allows only 5 years most states allows up to 20 years.
4. Texarkana Exemption: Elimination of the income tax exemption and the higher sales tax rate.

The following are the three tax reform options.

	Option A:	Option B:	Option C:																								
Individual Income Tax	Flat tax of 4.95%	Consolidate the three rate schedules into one and lower rates. All Arkansans get a tax cut.	Changes would dramatically lower the income tax burdens for many Arkansas families.																								
		<table><tr><th>Taxable Income</th><th>Tax Rate</th></tr><tr><td>\$0-4,299</td><td>0%</td></tr><tr><td>\$4,300-12,599</td><td>2%</td></tr><tr><td>\$12,600-\$35,099</td><td>4%</td></tr><tr><td>\$35,100+</td><td>5%</td></tr></table>	Taxable Income	Tax Rate	\$0-4,299	0%	\$4,300-12,599	2%	\$12,600-\$35,099	4%	\$35,100+	5%	<table><tr><th>Taxable Income</th><th>Tax Rate</th></tr><tr><td>\$0-4,299</td><td>0%</td></tr><tr><td>\$4300-8399</td><td>2%</td></tr><tr><td>\$8,400-12,599</td><td>3%</td></tr><tr><td>\$12,600-\$21,099</td><td>4%</td></tr><tr><td>\$21,000-\$35,000</td><td>5%</td></tr><tr><td>\$35,100+</td><td>6%</td></tr></table>	Taxable Income	Tax Rate	\$0-4,299	0%	\$4300-8399	2%	\$8,400-12,599	3%	\$12,600-\$21,099	4%	\$21,000-\$35,000	5%	\$35,100+	6%
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Corporate Income Tax	Flat tax of 4.95%	Consolidate into two rates.	Consolidate the three rates.																								
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Sales Tax	Expanded Base	Expanded Base	Expanded Base																								

Tax triggers and phase-ins are a key component of many state's tax reform efforts in recent years. Eleven states and DC have use tax triggers in recent years. Ms. Kaeding gave examples of using tax triggers. Setting appropriate benchmarks, baselines, and implementation mechanisms are important.

Other discussions:

- Elimination of state inventory tax and state soft drink tax.
- Arkansas competitiveness nationally.
- The point of tax reform is to insure the tax structure is not disincentivizing economic growth.
- States that have done Tax reform well have used tax triggers and phase-ins.
 - Tax reform done well: North Carolina – changes to a number of taxes and phase-ins.
 - Tax reform not done well: Kansas – tax changes not paid for by governor.
 - Louisiana changed the sales tax base – issues with State and Parishes taxes.
- Fiscal Impact on Revenues
- Transportation Funding Structure not part of option
- Option B and sales tax burden

Meeting adjourned at 2:14 p.m.