

Arkansas: Options for Excise Tax Reform

Presentation to the Arkansas Tax
Reform and Relief Task Force
June 20, 2018

Nicole Kaeding
Director of Special Projects
kaeding@taxfoundation.org
www.taxfoundation.org



TOPICS OF DISCUSSION

- Overview of Excise Taxation
- Gas Tax
- Alcohol Taxes
- Cigarette
- Suggested Reforms

ABOUT THE TAX FOUNDATION

The Tax Policy Blog

A Visual Guide to Business, Taxes, and the Economy

November 11, 2014
By Andrew Lundeen, By Kyle Pomerleau

Americans often look at business profits and don't do much to think that business taxes are a burden.

But the reality is that business shareholders. This means that lower wages, consumers think.

Continue Reading...

How Corporate Income Tax Eliminates Double Taxation

IOWA ILLUSTRATED: A VISUAL GUIDE TO TAXES & THE ECONOMY

PRINCIPLED. INSIGHTFUL. ENGAGED.

International Tax Competitiveness Index 2015

By Kyle Pomerleau
Alan Cole

2016 State Business Tax Climate Index

By Jared Walczak
Scott Drenkard
Joseph Henchman

PRINCIPLED. INSIGHTFUL. ENGAGED.

North Carolina Tax Reform Options: A Guide to Fair, Simple, Pro-Growth Reform

January 2013
Joseph Henchman & Scott Drenkard

TAX FOUNDATION

How do the 2016 Presidential Tax Plans Compare So Far?

	Bush	Carson	Cruz	Paul	Rubio	Santorum	Trump
10-Year GDP Growth	10%	16.0%	13.9%	12.9%	15%	10.2%	11.5%
10-Year Capital Investment Growth	28.8%	46.6%	43.9%	40.5%	48.9%	29%	29%
10-Year Wage Rate Growth	7.4%	10.9%	12.2%	11.4%	12.5%	7.3%	6.5%
Added Jobs (millions)	2.7	5.2	4.9	4.3	2.7	3.1	5.3
10-Year Static Revenue Estimate (billions)	-\$3,665	-\$5,617	-\$3,666	-\$1,797	-\$6,055	-\$3,223	-\$11,980
10-Year Dynamic Revenue Estimate (billions)	-\$1,610	-\$2,472	-\$768	+\$737	-\$2,401	-\$1,093	-\$10,135

TaxFoundation.org

@TaxFoundation

we've worked for
81 years
on objective
research,
data,
& analysis
at the
federal,
state,
& local levels

INTRODUCING
FACTS & FIGURES
FOR YOUR SMARTPHONE



EXCISE TAXES

GENERAL OVERVIEW

- Imposed on specific (rather than general) sales, sometimes *ad valorem* but more often based on volume
- Generally thought of as an attempt to internalize the externalities associated with consumption of a particular good or service, which cannot be adequately addressed by a general sales tax

EXCISE TAXES

GENERAL OVERVIEW

- Frequently, though, excise tax rates have more to do with revenue targets than any accounting of external costs
- Excise taxes are often a declining source of revenue because the taxes themselves discourage consumption and favor substitutes
 - Particularly true when excise taxes are levied in part to discourage or moderate consumption, e.g., cigarette taxes or soft drink taxes
 - Even more significant when there's an existing trend toward lower use

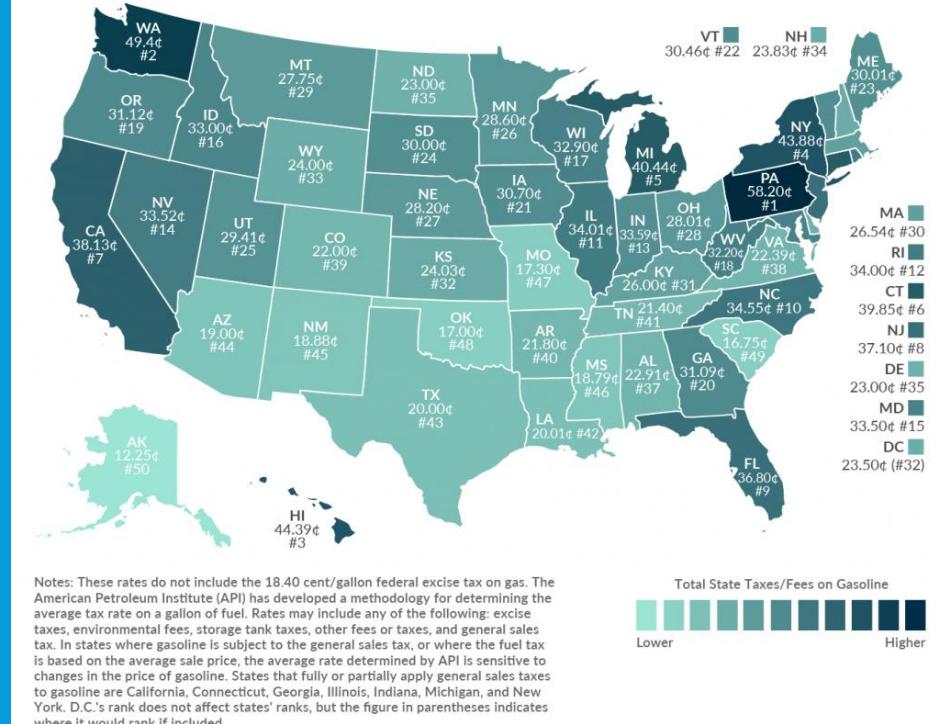
EXCISE TAXES

GAS TAX

- At 21.8 cpg (including 0.3 cpg environmental assurance fee), Arkansas' gas tax has the 40th-highest rate nationwide.
- In fiscal year 2015, 36.6 percent of state and local road spending was financed by gasoline and license taxes, 30th nationally.
- Only 37 percent of state and local road spending is covered by gasoline and license taxes, plus tolls and other user fees, 42nd nationally.

How High Are Gas Taxes in Your State?

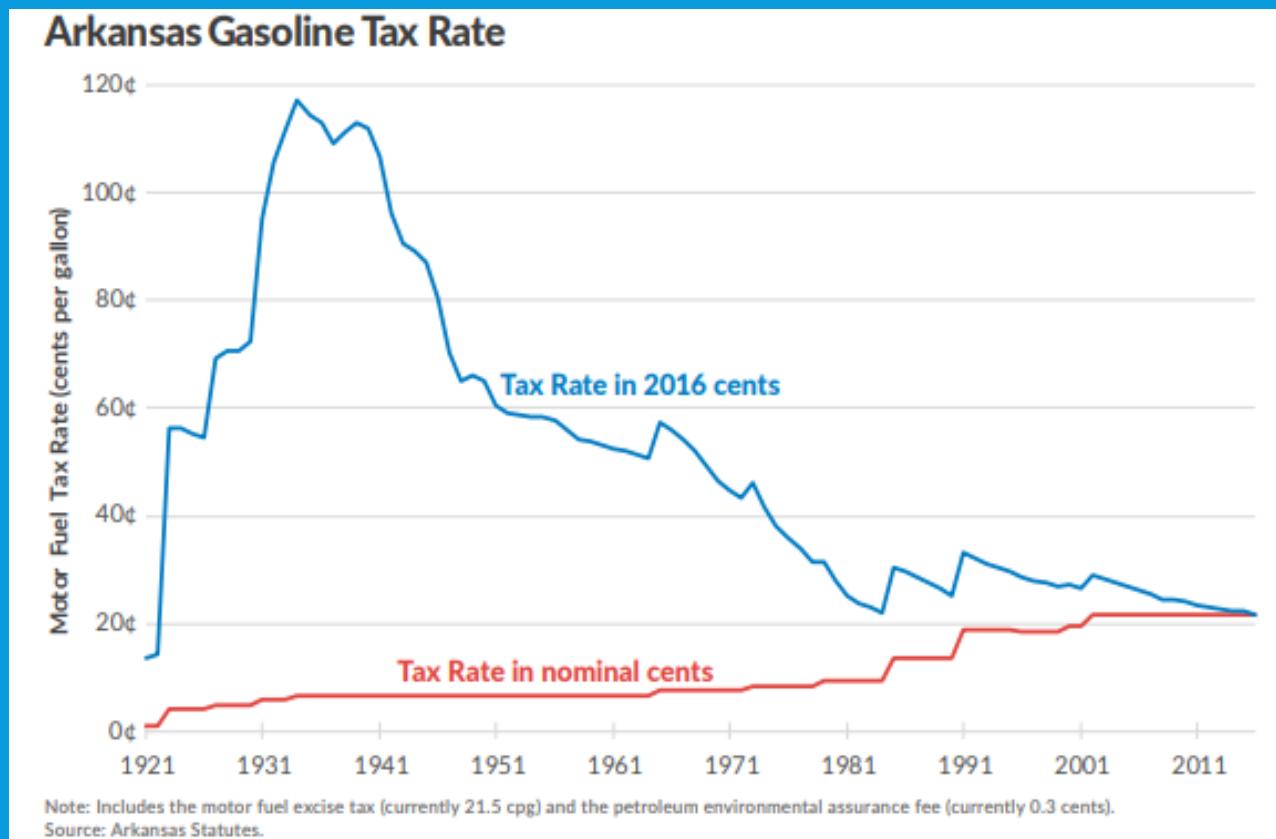
Total State Taxes and Fees on Gasoline, as of January 2017 (cents per gallon)



EXCISE TAXES

GAS TAX

- The tax rate has not kept up with inflation.

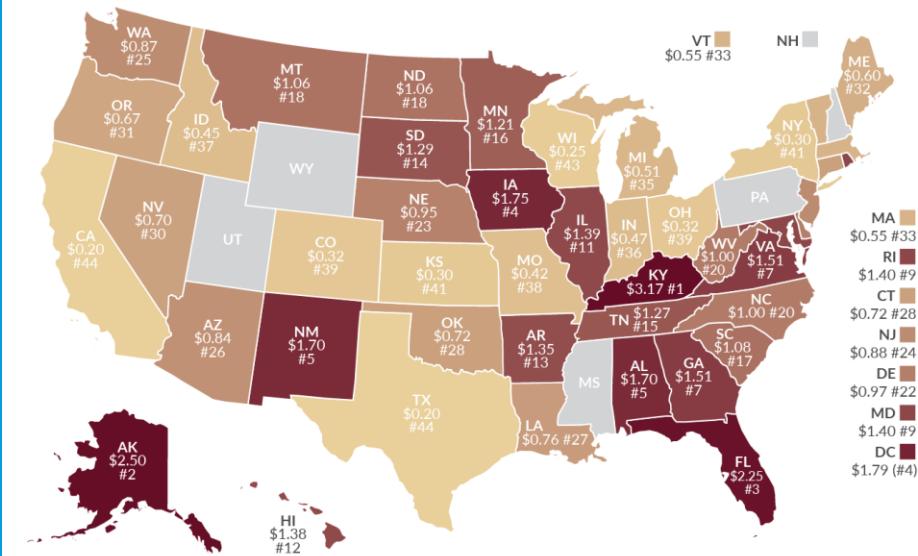


EXCISE TAXES

ALCOHOL TAXES

- Wine: \$0.75 / gallon
- Liquor: \$2.50 / gallon

How High Are Wine Taxes in Your State?
State Wine Excise Tax Rates (Dollars Per Gallon), As of January 1, 2017



Note: Rates are those applicable to off-premise sales of 11% alcohol by volume (a.b.v.) non-carbonated wine in 750ml containers. Federal rates vary by alcohol content and type of wine, ranging up to \$3.15 for 21-24 percent alcohol and \$3.40 for sparkling wine. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

AL, AZ, CA, CO, CT, FL, GA, HI, ID, IL, IN, IA, KS, LA, ME, MA, MI, MS, MT, NE, NV, NH, NM, NC, ND, OH, OK, OR, RI, SC, SD, TX, VT, VA, WA, WV, WI, DC: Different rates also applicable to alcohol content, place of production, size of container, place purchased (on- or off-premise or on board airlines) or type of wine (carbonated, vermouth, etc.).

MS, NH, UT, PA, WV: Control states, where the government controls all sales. Products can be subject to ad valorem mark-up as well as excise taxes.

KY: Includes the wholesale tax rate of 11%, converted to a gallonage excise tax rate.

AR, MN, TN: Includes case fees and/or bottle fees which may vary with size of container.

AR, MD, MN, SD, DC: Includes sales taxes specific to alcoholic beverages.

Source: Distilled Spirits Council of the United States.

State Wine Excise Tax Rate
(Dollars Per Gallon)



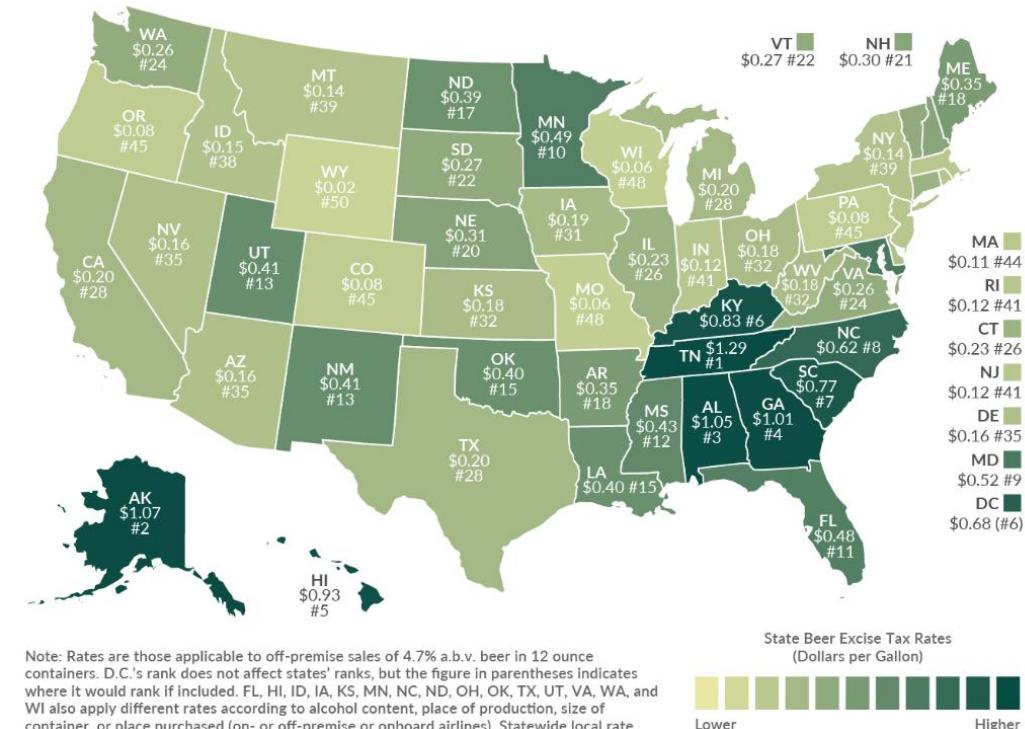
EXCISE TAXES

ALCOHOL TAXES

- Beer: \$ 0.23 / gallon

How High Are Beer Taxes in Your State?

State Beer Excise Tax Rates (Dollars per Gallon), as of January 2017



Source: Distilled Spirits Council of the United States.

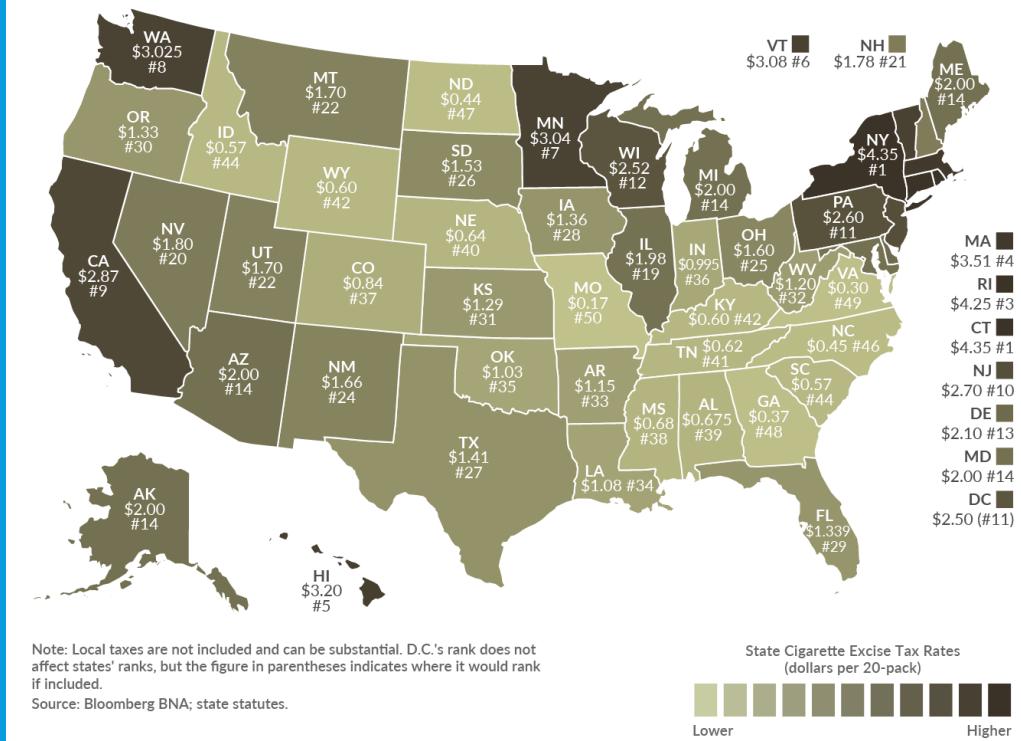
EXCISE TAXES

CIGARETTE TAX

- At \$1.15 / pack, Arkansas' cigarette tax is the second-highest in the region after Texas, and well higher than neighboring MO (\$0.17), TN (\$0.62), or MS (\$0.68)

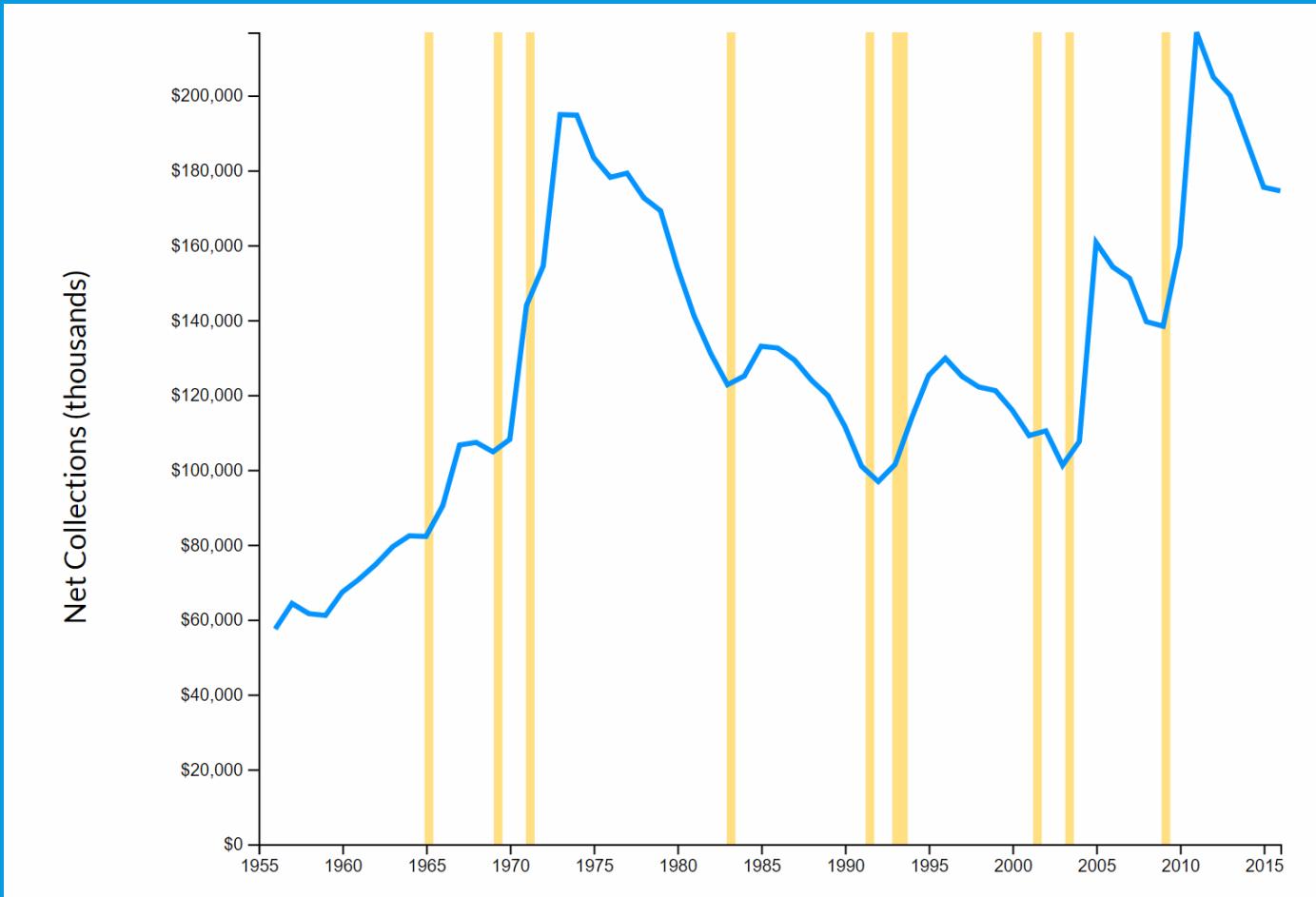
How High Are Cigarette Taxes in Your State?

State Cigarette Excise Tax Rates, 2018 (dollars per 20-pack)



EXCISE TAXES

CIGARETTE TAX

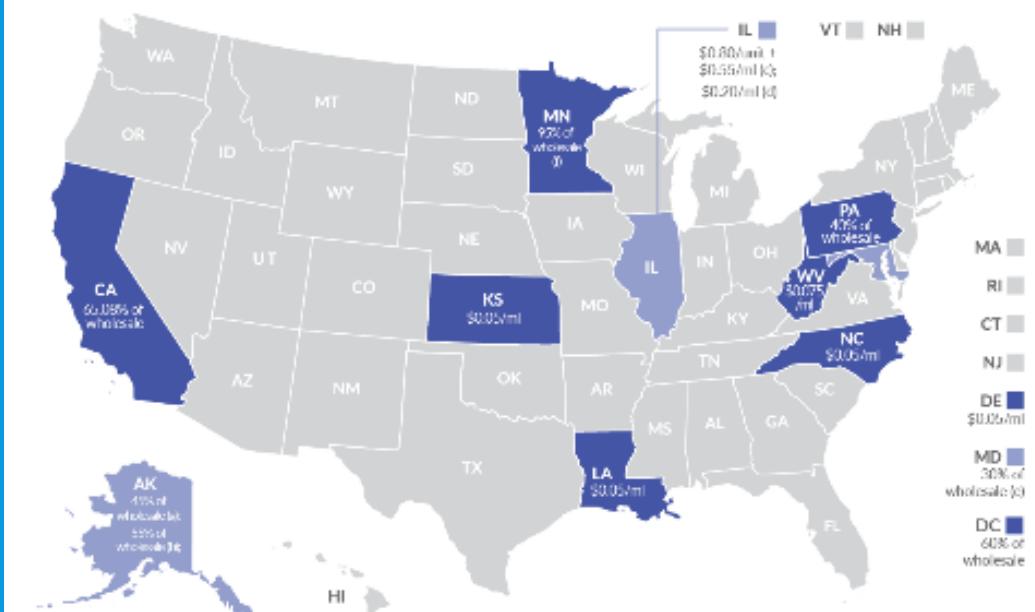


EXCISE TAXES

VAPOR TAXES

How High Are Vapor Excise Taxes in Your State?

State & Local Vapor Excise Tax Rates, as of January 1, 2018



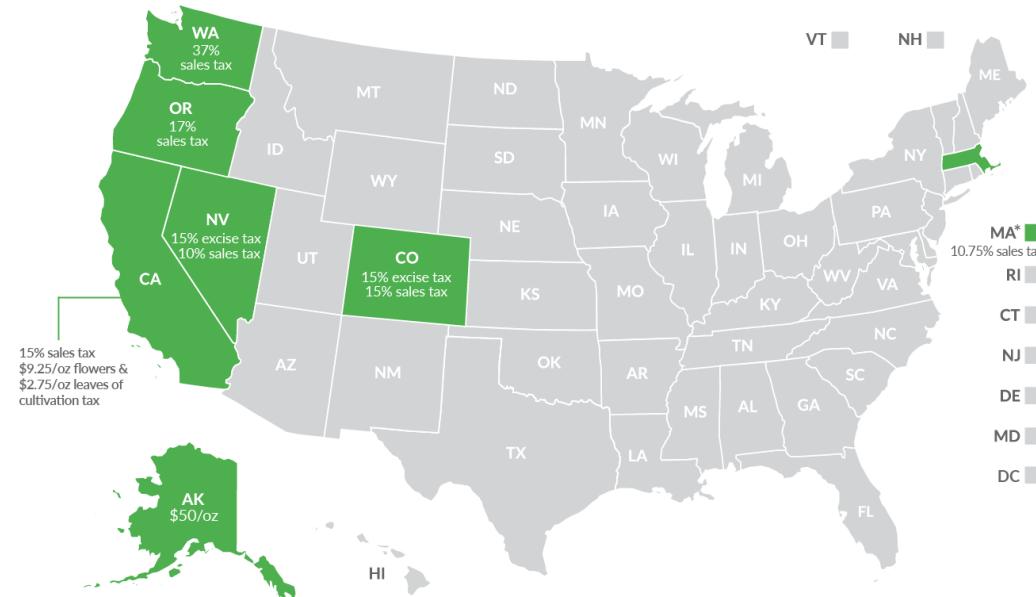
Note: (a) Tax is only applicable in Juneau, NW Arctic Borough, and Petersburg. (b) Tax is only applicable in Mat-Su Valley. (c) Tax is only applicable in the city of Chicago. (d) Tax is only applicable in Clark County. (e) Tax is only applicable in Montgomery County. (f) Tax is on the wholesale cost of any product containing or derived from tobacco. The tax on an e-cigarette starter kit is calculated on the total cost unless the nicotine cartridges are sold separately and then the tax is levied only on the value of the nicotine cartridge.

Source: State statutes; Bloomberg L.P.

EXCISE TAXES MARIJUANA TAXES

How High Are Marijuana Taxes in Your State?

State Recreational Marijuana Excise Tax Rates, January 2018



Note: (*) Massachusetts has not yet begun recreational sales.

D.C. voters approved legalization and purchase of marijuana in 2014 but federal law prohibits any action to implement it. The New Hampshire Legislature voted this year to legalize the possession and growing of marijuana, but sales are not permitted. Alabama, Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Nebraska, Oklahoma, Rhode Island, Tennessee, and Wisconsin impose a controlled substance tax on the purchase of illegal products. Vermont legalized the possession of recreational marijuana legislatively in January 2018, but is not implementing a legal recreational market. Maine legalized recreational marijuana in November 2016 by ballot initiative, but the state has not implemented a legal recreational market. Legislation is pending that would create a taxing structure.

Source: Tax Foundation, "Massachusetts Increases Marijuana Tax Rate" (2017); state statutes; Bloomberg BNA.

EXCISE TAXES

RECOMMENDATIONS

- Arkansas should consider raising the state's gas tax to better fund transportation needs.

CONCLUSION

- Questions?
- Contact Information:
 - Kaeding@Taxfoundation.org