TAX ADVISORY COUNCIL

2012 YEAR-ENDING REPORT

(Meetings Chaired by Jane Strike, Arkansas Bar Association)

Definition

Purpose: The Tax Advisory Council (TAC) was created by Act 998 of 1991. It consists of tax professionals and representatives of interested public and professional groups, including the Arkansas Bar Association Tax Section, the Arkansas Society of Accountants, the Arkansas Society of Certified Public Accountants, and employees of the Department of Finance and Administration's Revenue Division. The Council provides input to the General Assembly during the legislative process by studying and recommending changes to tax laws. It also promotes a better understanding of those tax laws and changes. At the end of every calendar year, a report summarizing discussions and decisions made by the TAC is prepared to inform the chairmen of the Revenue and Taxation Committees and members of the State's House of Representatives and Senate.

Membership
(Arranged by Organization)

Arkansas Bar Association:
Michael Parker, and Jane Strike

Arkansas Society of Accountants:
A.W. Bailey

Arkansas Society of Certified Public Accountants:
Jerry Burchfield, Phyllis Holifield, Stan Kozij, and Mike Watts

Arkansas Department of Finance and Administration (DFA), Revenue Division:
David Foster, Assistant Commissioner of Operations and Administration;
John H. Theis, Assistant Commissioner of Revenue for Policy and Legal;
Martha Hunt, Chief Counsel, Revenue Legal Counsel;
Tom Atchley, Administrator, Excise Tax;
Walter Anger, Administrator, Field Audit;
Clarence Collins, Administrator (Retired on June 30, 2012), Income Tax;
Warren Fagan, Administrator (As of July 1, 2012), Income Tax;
Roberta Overman, Manager, Sales and Use Tax;
Scott Fryer, Manager (As of July 1, 2012), Corporation Income Tax;
Kathy Horner, Manager, (As of July 1, 2012), Individual Income Tax;
Robert Pugh, Audit Manager, Individual Income Tax
Matthew Turner, Manager I, Individual Income Tax;
Travis Venable, Tax Division Manager, Arkansas Integrated Revenue System (AIRS);

David Rector, Problem Resolution Officer;
Lynne Reynolds, Problem Resolution Officer; and
Monica Carmichael, Public Information Specialist.

Pricewaterhouse Coopers
Mike Goral, State and Local Tax Director

Meetings

Members of the TAC met four times during 2012 on the following dates:

Meeting dates	Total Present
February 14, 2012	15
May 8, 2012	17
August 14, 2012	16
November 13, 2012	15

These meetings were held in Conference Room 2330 of the Joel Ledbetter Building. Meetings averaged one (1) to one and one-half (1 ½) hours in length and were open to the public and to all representatives of the State Senate and House of Representative Revenue and Taxation Committees.

Summary

Tax Advisory Council Activities: The following is a brief summary of what transpired during the TAC's 2012 meetings.

Office of Revenue Legal Counsel:

Summary of litigation:

Status of Other Lawsuits Filed:

Theresa Holbrook v. Healthport, Inc., Pope County Circuit Court, Case Number CV2010-588—As of the February 14, 2012 TAC Meeting, Ms. Hunt stated the original complaint was filed by Holbrook against Healthport requesting a refund of sales tax collected by Healthport in connection with providing medical records to Holbrook for a fee and requesting the court to certify a class of persons or entities who had paid tax on the sale of medical records. DFA interprets the sales tax law to impose sales tax on the sale of medical records for a fee.

Mr. Parker asked if other sources of records people ask for could be affected by the ruling in this case, and he also asked why courthouse or secretary of state documents are not taxable. Ms. Hunt answered by giving background information on the case. She stated there is a law in Title XVI that governs the way in which medical records are produced. Ms. Hunt stated that part of the law is silent on tax. Ms. Hunt explained the original argument made on the *Theresa Holbrook v. Healthport, Inc.* case. Since part of the law in Title XVI is silent on tax when medical records were provided, Ms Hunt added Ms. Holbrook argued that medical records were not subject to tax.

Mr. Theis added cases such as *Theresa Holbrook v. Healthport, Inc*. originated from requests from third party record providers who would copy all the medical records in a doctor's office or hospital which established a record library. Mr. Theis added people visited these third party record providers for a copy of their medical records. He also stated the third party record provider is in the business of selling medical records unlike the secretary of state's office or a courthouse which is not in the business of selling records.

As of the May 8, 2012 TAC Meeting, Ms. Hunt stated the DFA won on the legal issue on whether the medical records are subject to tax. She stated the plaintiff has filed an appeal. Ms. Hunt added the record is due to be lodged in June 2012.

As of the August 14, 2012 TAC Meeting, Ms. Hunt stated DFA's brief was due on August 30, 2012.

Lowe's HIW, Inc. v. Department of Finance and Administration, Pulaski County Circuit Court, Case Number 60CV-10-1488—During the August 14, 2012 TAC Meeting, Ms. Hunt stated the taxpayer in this case alleged the apportionment method used by DFA in making the assessment was discriminatory under the Commerce Clause and was accordingly unconstitutionally applied. Ms. Hunt stated this case had been dismissed on motion of the taxpayer.

H&S Maintenance, Inc. v. Weiss, Pulaski County Circuit Court, Case Number 60CV-2011-4268—During the August 14, 2012 TAC Meeting, Ms. Hunt stated this case is a challenge by a company that installs lawn sprinklers regarding the tax on the initial installation of lawn sprinklers. Ms. Hunt stated DFA's argument was that sprinklers contain mechanical and electrical components, and the installation was taxable. She stated the taxpayer filed the original lawsuit as an illegal exaction and asked that two subclasses be certified. Previously, during the May 8, 2012 TAC meeting, Ms. Hunt stated the plaintiff amended their lawsuit again stating the illegal exaction claim remained. She added DFA filed another motion to dismiss on the illegal exaction claim. Ms. Hunt stated the plaintiff did not plead out the illegal exaction in the amended complaint. She stated that DFA had filed a pending motion to dismiss on the illegal exaction claim. Ms. Hunt stated a hearing date had not been set on the motion to dismiss.

New Cases

Larry Baxter v. Weiss, Miller County Circuit Court, Case Number CV2012-0104-2—During the May 8, 2012 TAC Meeting, Ms. Hunt stated this case involved whether an individual was a Texarkana resident or not for the purposes of Arkansas individual income tax. She stated these types of cases were always fact specific. Ms. Hunt stated the taxpayer lost at the administrative hearing, and the taxpayer appealed to the circuit court. As of the August 14, 2012 TAC Meeting, the case had been dismissed on motion of the taxpayer.

L.A. Darling Company v. Weiss, Green County Circuit Court, Case Number CV-2012-173—During the November 13, 2012 TAC Meeting, Ms. Hunt stated the Legal Section was served with the case in September 2012. She stated discovery would be needed to determine exactly what issues and transactions were being appealed since those were not clearly identified in the taxpayer's complaint. Ms. Hunt stated the plaintiff was a direct pay taxpayer, and one of the issues in the taxpayer's complaint concerns some transactions in which the taxpayer paid tax to the vendor and also accrued and paid tax on some of those same transactions but never submitted a refund request or a vendor assignment request for refund of the tax on these transactions. A second issue involved in the complaint was whether machinery and equipment purchased by the plaintiff is exempt as manufacturing machinery and equipment.

Ms. Hunt stated there seems to be a trend of class action lawsuits that focus on tax that was collected and should not have been. She also stated some class action lawsuits focused on tax that was not collected, and it should have been. She stated these cases were not brought under the Arkansas Tax Procedure Act, and DFA was not named as the party.

Mr. Parker asked who the attorney of record was representing L. A. Darling Company, and she stated it was Mr. Mark Mayfield an attorney with Womack, Phelps, and McNeil located at 301 West Washington, Jonesboro, AR 72403.

Business Closures Challenges

As of the February 14, 2012 TAC Meeting, Ms. Hunt stated the Legal Section had seen a steady rise in business closures challenges since the downturn in the economy. Ms. Hunt stated none of the plaintiffs in the business closure challenge cases had a legitimate defense to the business closure. She told TAC members that a list of businesses currently in business closure could be found on the Arkansas DFA website at the following link: https://www.ark.org/dfa_bcn/app/result.html.

Office of Field Audit Administration:

Reporting Suspicious Tax Activities—During the May 8, 2012 TAC Meeting, Mr. Anger stated individuals could report suspicious tax activities such as reporting fraudulent information on a tax form on the Arkansas DFA webpage located at the following link: http://www.dfa.arkansas.gov/offices/fieldAudit/Pages/SuspiciousTaxActivityReporting.aspx. After the information has been submitted to the suspicious tax activity webpage, Mr. Anger stated the information is submitted to him and the supervisor in the Nexus and Discovery Section. He stated the Field Audit Section had received over 800 claims concerning suspicious tax activities. If claims meet certain requirements, Mr. Anger stated the claims are submitted to the respective audit district offices to see if it warrants an audit. He estimated that over 1.3 million dollars had been assessed off of suspicious tax activity claims, and he added over 100 of those cases were processed through audit district offices. Mr. Anger added every case is reviewed to see if it warrants further review for an audit.

Office of Excise Tax Administration:

Update on Real Estate Transfer Stamp Project—As of the February 14, 2012 TAC Meeting, Mr. Atchley stated the task force group consisting of staff employees within Arkansas DFA's Excise Tax Section had met with the Arkansas Bar Association (ABA), additional county clerks' offices that wanted their electronic transfer stamp processing observed, and other title companies as well. He added the task force is currently reviewing all of the information that was gathered, and they would prepare a written report which is due in the summer of 2012. Mr. Atchley reiterated the current processing of real estate transfer stamps is similar to the processing of other states, but he believes the Arkansas Excise Tax Section could advance the process for individuals to assist people involved with purchasing the real estate transfer stamps to reflect tax payment. Mr. Atchley added the Arkansas Excise Tax Section is considering implementation through modification of the Arkansas Integrated Revenue System (AIRS) by providing real estate transfer stamps electronically for companies and individuals, or through a different method at Arkansas revenue offices by streamlining the system internally, eliminating tax reports from title companies who process real estate transfer stamps on consignment, and generally improved the system.

Status of Permanent Rule 2012-2, Arkansas Sales Tax Holiday—As of the February 14, 2012 TAC Meeting, Mr. Atchley stated the Excise Tax Section asked businesses for suggestions after the implementation of the first Arkansas Sales Tax Holiday which was held during August 6-7, 2011 that was implemented through Emergency Rule 2011-2. He stated some of the businesses suggestions were included in permanent Rule 2012-2, Arkansas Sales Tax Holiday. Mr. Atchley stated a public hearing was held on February 9, 2012, and he stated the Sales Tax Section received written comments pertaining to Rule 2012-2, Arkansas Sales Tax Holiday. The comment period for Rule 2012-2 ended March 2, 2012. Mr. Atchley stated Rule 2012-2 included a definition for the term "cosmetics". He stated the definition was included as a result of suggestions by some businesses. Mr. Atchley stated cosmetics are defined as clothing and accessories in Rule 2012-2. He added that cosmetics are listed as tax exempt if the cost is less than $50 per item during the Arkansas Sales Tax Holiday. Mr. Atchley also stated the definitions of "rain check" and "layaway" had been added in Rule 2012-2. He stated definitions for these items were taken from language from the Streamlined Sales Tax Agreement. He stated definitions for "rain check" and "layaway" were not included in Emergency Rule 2011-2.

During the May 8, 2012 TAC Meeting, Mr. Atchley stated that on May 16, 2012 Rule 2012-2, Arkansas Sales Tax Holiday, would be reviewed by the Administrative Rules Subcommittee of the Legislative Council. He stated the Sales Tax Section would notify taxpayers of the permanent status of Rule 2012-2. Mr. Theis explained that Rule 2012-2 did not change much information that was included in Emergency Rule 2011-2, Arkansas Sales Tax Holiday. Mr. Theis stated the main changes were the definition of layaways, rain checks, cosmetics, and soaps. He stated the changes for the definition of cosmetics came from request by retailers. Mr. Theis stated to TAC Members that their clients would hopefully find it easier to understand what to include and exclude as tax exempt items during the Arkansas Sales Tax Holiday.

Status of Arkansas Act 1001 of 2011—During the May 8, 2012 TAC Meeting, Mr. Atchley stated Act 1001 of the 2011 Arkansas Regular Session was effective October 24, 2011. He stated Act 1001 requires out-of-state sellers that have agreements with Arkansas residents who refer potential purchasers to an Internet website or otherwise to collect Arkansas state and local sales and use tax. He added the in-state sellers receive a commission for providing that service, and Arkansas receives the taxes. Mr. Atchley also stated the out-of-state sellers must have at least $10,000.00 in sale volumes. He stated the Sales Tax Section's combined registration unit registers an estimated 800 to 1,000 new businesses each month. Because the businesses are not only located in Arkansas but throughout the United States (U.S.), Mr. Atchley stated the Sales Tax Section does not have the ability to determine if a business is registering with Arkansas as a result of Act 1001 of 2011. Mr. Atchley stated the Sales Tax Section is actively pursuing compliance procedures by reviewing businesses that appear to meet the requirement for collecting Arkansas sales and use tax. He stated these types of business compliance procedures are mainly administered by the Field Audit Section. Mr. Theis added Arkansas DFA currently has one assessment pertaining to Act 1001 of 2011 going through the appeal process. In the future, Mr. Theis expects more assessments pertaining to Act 1001 of 2011.

Update on Streamlined Sales Tax Collections—During the May 8, 2012 TAC Meeting, Mr. Atchley presented TAC members with a spreadsheet providing the most recent Streamlined Sales Tax Collections. He stated Arkansas became an associate member state on October 1, 2005 which was the first date any state became a member of the Streamlined Sales Tax Project. Mr. Atchley stated Arkansas became a full time member of the Arkansas Streamlined Sales Tax Project on January 1, 2008.

As of February 2012, he stated the following state and local taxes were collected from the Streamlined Sales Tax Collections:

- **State Tax Total: $29,283,012.02**
- **Local Tax Total: $11,232,080.92**
- **Total Taxes Collected from Streamlined Sales Tax Collections: $40,515,092.94**

He stated that businesses file tax returns using a simplified reporting system. He added the system is user friendly for businesses that have elected to collect tax on a voluntary basis and have money to report. Mr. Atchley stated the Sales Tax Section does not deem the business as delinquent if they do not file a report. He stated there are a few businesses that do not file reports on a monthly basis which may be due to their products not being consistently sold in Arkansas. As of April 2012, Mr. Atchley reported that to date a total of 1,739 businesses have voluntarily registered with Arkansas under the Streamlined Sales Tax Project.

Local Tax Rebates for a Single Transaction Business Purchase of $2,500.00—As of August 14, 2012 TAC Meeting, Mr. Atchley stated the processing of local tax rebates for a single transaction business purchase in excess of $2,500.00 started in January 2008. He stated Ms. Overman would discuss local rebates since she oversees them in the Sales and Use Tax Section. For local tax rebates, Ms. Overman stated there are three ways to claim those rebates. The three ways to claim the rebates are listed in the following paragraphs.

First, a local tax rebate is available for a business purchase that is eligible to be deducted on an income tax return. Ms. Overman stated the transactions must be listed on a single invoice. If the taxpayer is a registered business, Ms. Overman stated the taxpayer can claim the tax that was paid to the seller as a local tax rebate on their monthly sales tax return and deduct the rebate from the total amount of sales taxes owed on the return. Ms. Overman stressed that the taxpayer must make sure he or she deducts the local tax rebate for the local tax he or she paid. She added the Sales and Use Tax Section handles all the accounting transactions on the monthly returns.

Secondly, if the retailer has a direct pay account that is already established with the Sales and Use Tax Section and is reporting the tax directly to the Sales and Use Tax Section, the retailer only has to report the local tax on the first $2,500.00 per invoice.

Thirdly, Ms. Overman stated a local tax refund can be requested directly from the Sales and Use Tax Section by completing a refund claim form. The refund claim form must be accompanied by copies of the invoices for which a rebate is claimed.

She stated about a dozen Sales and Use Tax Section employees manually process the local tax rebate requests and issue refund checks directly to the taxpayer. For Fiscal Year 2012, Ms. Overman stated $40.9 million dollars in local tax rebates had been claimed directly on the reporting forms, and $11.8 million dollars were issued in rebate checks as direct refunds. Ms. Holifield asked if the items on the local tax rebate claim form in the excess of $2,500.00 is per item or per invoice. Ms. Overman answered and stated that it was per invoice. She wanted to remind TAC members that the rebate is for each local tax. If the local tax rebate claim is listed for more than one local tax on the invoice, Ms. Overman emphasized each local tax has its own rebate. She stated each taxing jurisdiction has its own eligibility for the local tax rebate.

Mr. Theis added that local tax rebates are also available for a church or charitable organization. He urged TAC members to encourage any of their clients who are responsible for purchases for church or charitable organizations to apply for the local tax rebate. If a for-profit corporation made a purchase that was eligible to be written off on a for-profit corporation income tax return as a business expense, Ms. Overman stated this type of business purchase is also eligible for the local tax rebate. Mr. Atchley added that city, county, and state governments are also eligible to claim a local tax rebate on their high dollar purchases. Mr. Parker asked if Ms. Overman had an estimated number on how many taxpayers apply for the local tax rebate. Ms. Overman answered by stating that she did not know. Mr. Parker commented that his research has shown that local tax rebates are significantly under claimed due in part to the six month deadline for applying for the local tax rebate claim. Prior to January 1, 2008, Mr. Atchley stated retailers capped the invoices based on the local jurisdictions definition of a single transaction. He stated he has heard mixed reviews on the current requirements for local tax rebates. Mr. Atchley stated retailers have to decide if claiming a local tax rebate is a good fit for them. He added most of the larger retailers currently take advantage of the local tax rebate in huge amounts. Mr. Atchley stated retailers are offered instructions for completing the local tax rebate claim forms on DFA's website at the following link: http://www.dfa.arkansas.gov/offices/exciseTax/salesanduse/Documents/LocalTaxRebateClaimForm.pdf. He also stated retailers can also contact the Sales and Use Tax Section by phone at 682-7105.

Mr. Atchley stated the Sales and Use Tax Section had been contacted by another state that is interested in reviewing Arkansas' processing method for local tax rebates. He stated Ms. Overman and her staff in the Sales and Use Tax Section would be assisting this state with any questions they may have concerning local tax rebates. Mr. Atchley added the Sales and Use Tax Section was pleased with how well the implementation of the local tax rebates had gone since January 1, 2008.

Update on Arkansas Sales Tax Holiday (August 4-5, 2012)—As of the August 14, 2012 TAC Meeting, Mr. Atchley stated the Arkansas Sales Tax Holiday was held August 4-5, 2012. He stated it is held the first weekend in August every year. Mr. Atchley stated in-state and out-of-state retailers who are registered with the Sales and Use Tax Section were given a notice concerning the permanent rule about the Arkansas Sales Tax Holiday by June 1, 2012.

He stated retailers contacted the Sales and Use Tax Section to make sure they understood the components of the Arkansas Sales Tax Holiday. Mr. Atchley stated the permanent rule included more guidance on the definition of clothing accessories with an emphasis on cosmetics as requested by retailers.

Mr. Atchley stated the media was more interested in the Arkansas Sales Tax Holiday in 2012 and produced several news stories about the holiday. After the 2012 Arkansas Sales Tax Holiday, he stated there were very few comments from retailers.

Mr. Atchley stated Ms. Overman received a comment from a person pertaining to a type of school supply that is not on the tax exempt section of the itemized list for approved school supplies. He stated the person wanted that school supply to be exempt from tax. Mr. Atchley emphasized that school supplies, school art supplies, and school instructional material must be one specifically defined term in the Arkansas Sales Tax Holiday rule and an item must be listed in the rule in order to be tax exempt.

Update on New Members to the Streamlined Sales Tax Agreement—As of the August 14, 2012 TAC Meeting during the last Streamlined Sales Tax Governing Board meeting that was held in the spring of 2012, Mr. Atchley stated an amendment was approved to the Streamlined Sales Tax Agreement to allow origin sourcing for local sales taxes. He stated the amendment was overwhelmingly approved by the Streamlined Sales Tax Governing Board, but it was not a unanimous vote. Effective approximately June 2012, Mr. Atchley stated origin sourcing became an acceptable local tax provision of a state, and full members of the Streamlined Sales Tax Agreement are allowed to participate in origin sourcing.

Also, in the spring of 2012, he stated that Utah which had been an associate member state of the Streamlined Sales Tax Agreement was approved for full membership in June 2012. Mr. Atchley stated Utah passed legislation on each aspect of the Streamlined Sales Tax Agreement and maintained origin sourcing.

Mr. Atchley also stated Ohio had previously passed legislation on each provision of the Streamlined Sales Tax Agreement, except they had maintained origin sourcing. He added Ohio had not submitted a petition for full membership at this time, but he anticipated they would submit a petition at any time. Mr. Atchley stated he serves on the Streamlined Sales Tax Compliance and Review Committee, and that committee will hear their petition and review their tax levies and provisions to make sure they comply with the Streamlined Sales Tax Agreement.

Currently, he added there are 22 full member states in the Streamlined Sales Tax Agreement. Mr. Atchley stated Tennessee still has legislation they need to adopt to achieve status for membership petition. He stated origin sourcing is part of their law, but they still have portions of their law that need to be amended for other aspects of the Streamlined Sales Tax Agreement.

In recent Streamlined Sales Tax Agreement meetings, Mr. Atchley stated representatives from other states had been attending a little more than past years which is most likely due in part to the current federal legislation activity.

Mr. Parker asked Mr. Atchley if any of his colleagues wanted to revert back to origin sourcing. Mr. Atchley answered by stating that he had not received any comments or questions from anyone in Arkansas requesting to revert back to origin sourcing. He added there is discussion in Kansas of reverting back to origin sourcing.

Mr. Goral asked Mr. Atchley if the language in the Streamlined Sales Tax Agreement interprets that once a certain amount of states attain full membership, and those full membership states make up a certain amount of the population then other provisions are added at that point. Mr. Atchley stated Mr. Goral was referring to language in legislation that allowed the Streamlined Sales Tax Governing Board to be created on October 1, 2005, and he stated the language is still included in the Streamlined Sales Tax Agreement. Mr. Atchley also added that ten states had to be in full compliance of the Streamlined Sales Tax Agreement, and those states had to represent 20 percent of the United States' (U.S.) population. He stated this language will always be text in the Streamlined Sales Tax Agreement, but it has no ongoing impact.

Mr. Theis referred to the handout that Mr. Atchley gave to the TAC members. The sheet listed the names of the full and associate members of the Streamlined Sales Tax Agreement as of August 1, 2012.

Sales Tax Changes Effective January 1, 2013—During the November 13, 2012 TAC Meeting, Ms. Overman stated she was not expecting any sales tax changes prior to July 1, 2013. She stated the temporary tax for highways was recently adopted, but the one half of one percent (.5%) rate increase would not go into effect until July 1, 2013. Ms. Overman explained the temporary tax for highways did not affect food, but it did affect the rates for general sales tax levies as well as the reduced rates for manufacturing and utilities. She stated taxpayers would be sent notices in the mail in January and April of 2013 concerning rate changes.

Arkansas Integrated Revenue System:

Fifth and Final AIRS Rollout—As of February 14, 2012 TAC Meeting, Mr. Foster stated the fifth and final AIRS Rollout would take place on February 27, 2012. He stated this rollout would include the remaining 16 miscellaneous taxes that have either been processed by a ledger in a file cabinet or desktop application. Mr. Foster also stated taxpayers would be getting their new reporting forms for March reports. He stated the AIRS project finished on schedule and on budget.

Arkansas Taxpayer Access Point (ATAP) Issues—During the February 14, 2012 TAC Meeting, Mr. Foster stated there would be some visual design and navigation changes to ATAP which make it easier to access and to utilize. He added the third party sign up is more user friendly. With the implementation of the fifth and final AIRS rollout, Mr. Foster stated the Silverlight software product requirement would no longer be needed which would allow Mac users and users with older personal computer (pc) equipment to have better utilization than they had before the fifth AIRS rollout. Mr. Foster stated the elimination for the Silverlight software product requirement would also reduce screen sizing problems and access problems. He added these changes would take effect on March 1, 2012. Mr. Bailey had a question concerning ATAP issues he encountered recently. Mr. Foster stated Mr. Venable would be the person to discuss any questions concerning ATAP.

AIRS DS-MV-Launch of Driver Services & Motor Vehicle Rollout—As of the February 14, 2012 TAC Meeting, Mr. Foster stated Arkansas DFA's Driver Services Section and Motor Vehicle Section would be launched on AIRS on the same Gentax platform that directs the current integrated tax system, but it would be on a separate server in order not to have direct integration between the two systems. He added both systems have the capability of communicating with one another.

Mr. Foster further stated the AIRS Section was working on the Driver Services Section's module. He stated the AIRS Section was updating software from 1997 that included the streamlined process which did away with the old motor vehicle inspection process and allowed online registration and filing. Mr. Foster added most of the software in operation used older technology and was expensive to operate. The name of the new Arkansas AIRS integrated system is AIRS DS-MV. He added the launch date for the Driver Services Section's module would be September 13, 2012. Mr. Foster stated AIRS DS-MV eliminates a lot of duplication of entry work, eliminates potential errors, and replaces a lot of ad-hoc sidebar desktop systems. Mr. Foster added the launch date for the Motor Vehicle Section's module would be September 2013.

During the August 14, 2012 TAC Meeting, Mr. Foster stated beginning February 2013 the Arkansas State Police (ASP) will begin testing on a similar software system as AIRS DSMV. He stated the system would be configured for the ASP to automate commercial and non-commercial driver license tests. Mr. Foster stated the ASP software system would score and rate the commercial and non-commercial driver license tests and forward the information to the Driver Services Section. He stated the Driver Services Section would receive a picture of the person who took the test along with the forwarded information from ASP. Mr. Foster stated this feature along with the received testing information from ASP would provide the Driver Services Section staff with a way to identify the person when he or she comes into the office with their driver permit papers. He added this would allow the Driver Services and Motor Vehicles Sections to streamline services and bring their sections into a more modern environment.

Office of Income Tax Administration:

2011 Arkansas Individual Income Tax Booklet (Incorrect Information on page 22 Under the Heading "Depreciation Information")—During the February 14, 2012 TAC Meeting, Mr. Collins stated there was an error in the 2011 Arkansas Individual Income Tax Booklet concerning the Section 179 deduction. He stated the error was discovered after the booklets had already been printed, bounded, bundled, and sent to the postal service. He stated a press release was issued by the Income Tax Section stating there was an error in the booklet. Mr. Collins also stated the Income Tax Section contacted their software providers to verify they had the correct information. He added that postcards with the correct information were sent out to all individuals that received the booklet. Mr. Collins stated this issue had been resolved to the best of his knowledge.

Mr. Kozij stated he is still receiving a lot of negative feedback concerning this issue, and he asked how the TAC missed the reduction in Section 179 allowances. Mr. Theis answered by stating DFA had discussed the issue of matching the federal Section 179 during the 2011 Arkansas Regular Legislative Session. During the 2011 Regular Legislative Session, he commented that DFA could not agree to include matching the federal Section 179 in the Income Tax Technical Correction Act of 2011 on behalf of the TAC because of the revenue cost it would have. Mr. Theis also stated DFA expected a legislator to draft a separate bill re-adopting the current federal Section 179 deduction, but that never happened. Mr. Kozij asked if this issue was brought up in the 2011 Arkansas Regular Legislative Session, and Mr. Theis answered by stating yes. Mr. Kozij also stated he did not remember discussing the federal Section 179 issue in any 2011 TAC meetings. Mr. Parker stated he recalled the federal Section 179 issue being discussed in 2011 TAC meetings.

2011 Individual Income Tax Filings to Date and any Issues with Processing—During the February 14, 2012 TAC Meeting, Mr. Collins stated 2011 was the first year of Modernized e-File (MeF), and he stated there were some MeF software issues. Mr. Collins stated MeF created issues with the Internal Revenue Service (IRS) which also created some problems with the Arkansas Individual Income Tax Section receiving data from the IRS. He stated the Individual Income Tax Section contacted many tax preparers in order to remedy any problems. He added most issues had been resolved in this area. Mr. Watts asked if there is a particular software causing the issue. Mr. Collins answered by stating the MeF software issue is a nationwide problem, and not just based in Arkansas. Mr. Parker asked for clarification on the issue. Mr. Collins answered by giving background information on MeF versus the Legacy software system that was used in the past by the IRS. He added the IRS was not ready for the mass amount of data coming in on MeF which caused delays in processing individual income tax returns. Mr. Parker asked how that affected Arkansas DFA. Mr. Collins answered by stating the MeF program is a joint partnership with the IRS and the state, and all tax returns are first sent to the IRS for processing. Mr. Collins added the IRS strips off the state record and places it in a file that is picked up by the state for processing.

Assessment of Penalties on Amended Returns Due to IRS Audit and CP2000—During the February 14, 2012 TAC Meeting, Mr. Collins stated before the Income Tax Section was integrated into the AIRS system, the Income Tax Section reviewed all of the Arkansas income tax laws making sure the penalties were being assessed according to the law. He stated some processing systems were still being done manually, and other processing systems were partially processed electronically which caused some inconsistencies on how some penalties were processed. During the review, Mr. Collins stated that it was discovered the Income Tax Section was not assessing the failure to pay penalty on amended returns. He stated the failure to pay penalty was applicable by law, and the Income Tax Section had started applying the failure to pay penalty along with any other penalties on the system that were not being charged properly.

Mr. Kozij presented a letter which generated this topic for the February 14, 2012 TAC Meeting. In reference to the letter, he asked Mr. Collins if penalties are assessed for late filing on an amended return. Mr. Collins answered by stating no. Mr. Collins added penalties are assessed on late payment of the tax not on late filing for amended returns.

2010 Non-filer notices—During the August 14, 2012 TAC Meeting, Mr. Pugh stated the Individual Income Tax Section would mail 2010 non-filer notices during September 2012. He stated the Individual Income Tax Section receives information from the Internal Revenue Service (IRS) with a list of all taxpayers that have filed federal tax returns with an Arkansas address. The department has a filter system in place to see if Arkansas taxpayers have filed an Arkansas income tax return for that same period. He added the Individual Income Tax Section has additional filters to narrow down even more information. Mr. Pugh stated approximately 23,000 2010 non-filer notices would be mailed out. He added this amount is normal for the amount of non-filer notices being mailed. When the Income Tax Section provided notices for the last two years, he stated 44,000 non-filer notices were mailed.

Because of the Arkansas Integrated Revenue System (AIRS), Mr. Pugh stated withholding tax information will be available if the employer provides it to the Income Tax Section. He stated this process would prevent and/or reduce a lot of collection cases if there is withholding tax on the system and if there is enough to cover what the taxpayer's adjusted gross income is for the IRS. Mr. Fagan added that refunds would not be issued against any of the withholding tax collected because the taxpayer is still required to file a tax return. He added it does not keep the taxpayer from filing a tax return. Mr. Foster added that taxpayers still need to submit a W-2 when filing their individual income tax return. Mr. Parker asked if the taxpayer would be in penalty status if they fully withheld the amount of withholding tax but did not file a return. Mr. Fagan stated that most likely the taxpayer would be in refund status and a penalty would not be assessed.

Ms. Strike asked if a Power of Attorney (POA) could call to request withholding information for each taxpayer. Mr. Pugh stated the Income Tax Section has not discussed this type of situation, but if there is a POA on file, he stated there should not be a problem with releasing that type of information. Ms. Strike asked Mr. Pugh what number a POA should call in order to get that information. He stated the POA would need to call the general Income Tax Section number at 501-682-1100.

Mr. Parker asked if withholding tax is a part of the general revenue before it is reported on the tax return. Mr. Atchley answered by stating yes as the withholding tax is collected each day.

General Individual Income Tax Updates for 2012 Returns—As of the November 13, 2012 TAC Meeting, Mr. Turner stated there were no major changes included on the 2012 Arkansas individual income tax return due to legislators focusing on budgetary issues in the 2012 Arkansas Fiscal Session other than making changes to income tax.

He stated that increased federal limits had been adopted by the Arkansas Department of Finance and Administration's (DFA) Income Tax Section on the following adjustments found on the 2012 Form AR1000ADJ, Schedule of Other Adjustments:

- Line 4, Payments to Medical Savings Account (MSA)
- Line 5, Payments to Health Savings Account (HSA)
- Line 6, Deduction for Interest Paid on Student Loans.

Mr. Turner stated a biodiesel incentive credit had been added as a new credit for tax year 2012 on Form AR1000TC, Schedule of Tax Credits, listed under the title of business incentive credit types with the code number of 0044.

He stated that on Form AR1075, Deduction for Tuition Paid to Post-Secondary Educational Institutions, the Individual Income Tax Section added line 4 which includes another column for the 50 percent of the weighted average tuition. Mr. Turner stated taxpayers were being instructed to multiply by 50 percent, so the Individual Income Tax Section decided to include the column and amounts beginning with tax year 2012.

Mr. Turner stated an additional section, located at the bottom of the page, was added on Form AR1000RC5, Certificate for Individuals with Development Disabilities, to provide the initial diagnosis date for the individual with a developmental disability. He stated this was added because some taxpayers who were caregivers for an individual with a development disability were not receiving the full amount of tax credits they may be eligible for during the tax years.

Mr. Turner also stated the Individual Income Tax Section added an individual income tax account change form which will allow the taxpayer to change his or her name, address, business address or location, order loss warrant papers, and remail checks if it has been sent to the wrong or undeliverable address. He stated the form provides a signature to authenticate the taxpayer's contact information instead of updating addresses over the phone.

Mr. Bailey asked what the processing time was on individual income tax account change forms. Mr. Turner answered by stating that it takes no more than a day or two to process the forms.

Mr. Burchfield asked if a taxpayer's account information could be changed without completing and signing the individual income tax account change form. Mr. Turner answered by stating the taxpayer's account information would not be changed unless the change form has been received and signed by the taxpayer. If the taxpayer cannot download the change form off the DFA homepage, Mr. Turner added the Income Tax Section would mail the taxpayer a copy of the change form.

Mr. Turner also stated DFA is following the federal requirements concerning requests for copies of Arkansas tax returns. He stated taxpayers could complete Form AR4506, Request for Copy of Arkansas Tax Returns, to request copies of tax returns. Mr. Turner added this form allows the Individual Income Tax Section to have a signature on file for the taxpayer's request. He stated there is a $2 charge for tax return copies.

Mr. Parker had a question concerning how the price for copies of individual income tax returns were determined by the Individual Income Tax Section. Mr. Theis stated the Arkansas attorney general had interpreted the law by stating the cost for copies of individual income tax returns would allow DFA to recoup the actual cost excluding employee work time. Mr. Theis further added that he had not researched the details behind the $2 charge to taxpayers for copies of tax returns.

Mr. Theis stated in the past the Individual Income Tax Section had requested the name of the political candidate, the office they were running for during a given election, or the name of the political action committee when taxpayers donated to a political campaign and claimed a credit on their Arkansas income tax return. He stated now these requirements are no longer necessary in order to receive the $50 political contribution credit. Mr. Theis further added that requirement was not statutory. He stated the requirement was established to make sure the contribution was for local or state candidates and not for federal candidates. Mr. Theis stated the Individual Income Tax Section reviewed other states that offer the political contribution credit, and they do not have these requirements. He stated the audit process will be used in the future to ensure the $50 political contribution credit is used for local or state candidates.

General Corporate Income Tax Updates for 2013—During the November 13, 2012 TAC Meeting, Mr. Fryer stated Arkansas Section 179 expense limitation for 2011 and 2012 is $25,000 with phase out beginning at $200,000. Federal limit is $500,000 with phase out beginning at $2,000,000 for 2011 and $139,000 with phase out beginning at $560,000 for 2012 at this time.

He stated Arkansas has not adopted the federal bonus depreciation and federal Form 4562, Depreciation and Amortization, should always be included as part of the federal tax return. Also, when the 100% bonus depreciation or the Section 179 deduction above the Arkansas limit is taken on the federal return, Mr. Fryer stated the Corporate Income Tax Section needs federal Form 4562 completed on an Arkansas basis or schedules showing the class life, depreciation method, and convention used for assets that claimed 100 percent federal bonus depreciation or federal Section 179 expense above the Arkansas limit.

Mr. Fryer also stated that federal statues concerning IRC 179 require the annual limit on the Section 179 deduction to be applied on a consolidated basis. Arkansas also applies the contribution limits on a separate corporation basis for consolidated returns because Arkansas Code Ann. 26-51-419(b) requires it.

He also told TAC members that amended returns needed to be filed on the correct form. He stated amended returns for fiscal year ending December 2009 or earlier should be filed on Form AR1100CTX, Amended Corporation Income Tax Return, and should be filed for 2010 or later years on Form AR1100CT, Corporation Income Tax Return, for the year being amended. Mr. Fryer also stated original returns needed to be filed on the correct year forms, and all returns should be filed on forms with barcodes on the top.

He also stated withholding from partnership distributions and composite returns are only for individual partners not corporations and other business partners. If any of the TAC members' clients need credit transferred from the Withholding Section to the Corporate Income Tax Section due to clients mistakenly withholding tax from partnership distributions and composite returns, Mr. Fryer stated he could be contacted to resolve the situation.

For apportioned returns, Mr. Fryer stated contribution deductions and limitations are included in apportioned income and may not be deducted as a directly allocated deduction after apportionment.

Mr. Fryer stated a Qualified Subchapter S Subsidiary may not file a separate income tax return. He stated it must be included in an Arkansas return of the parent company regardless of whether the corporation chooses to file a Sub-S or a C Corporation return in Arkansas. He stated Form AR1103, Application to be a Small Business Corporation, must be filed in order for a corporation to be a Sub-S in Arkansas, and the Corporation Income Tax Section must have a copy of the federal Sub-S approval letter because Arkansas Code requires corporations to be a federal Sub-S in order to be an Arkansas Sub-S.

Mr. Fryer further stated late payment penalties are being assessed for taxes paid with returns filed on extension. He stated an extension is an extension to file and not an extension to pay the tax. Mr. Fryer added that late payment penalties will be reduced if return payments are made after the due date but before the return is filed.

Mr. Fryer stated the new notice of tax adjustment is not an assessment. He added that proposed assessments are issued on the 1st and 15th of each month and therefore less than two weeks after any notice of tax adjustment is sent. Mr. Fryer stated payment of a notice of tax adjustment is unlikely to get processed before a proposed assessment is sent and had resulted in refunds being issued when taxpayers pay both the notice of tax adjustment and the proposed assessment.

Mr. Fryer instructed TAC members to remind their clients to include vouchers received from the DFA notices with all check payments in order for the payments to be properly applied.

Mr. Fryer requested that TAC members remind their clients to make sure Arkansas Taxpayer Access Point (ATAP) payments are directed to the correct tax type and payment type.

Mr. Fryer reported that e-file for corporation income tax had increased to approximately 35 percent compared to about 20 percent last year.

Old Business:

Transparency.Arkansas.gov Website—During the August 14, 2012 TAC Meeting, Mr. Theis stated during the 2011 Regular Session Arkansas adopted an open records policy under Act 303. To review Act 303, go to the following web address: http://transparency.arkansas.gov/Documents/Act303.pdf. He added the Revenue Division of the DFA is not responsible for the Transparency.Arkansas.gov website. Mr. Theis stated the Office of Accounting Section of the DFA which is headed by Paul Louthian, Administrator for the Office of Accounting Section, is primarily responsible for implementing and updating the information on the website. Mr. Theis stated a person can go to the website and review expenditures by state government. He stated the expenditures are categorized by agency, vendor, vendor name, and function. He added that revenue, employee compensation, bonded indebtedness, and contracts of state government by agencies can also be reviewed on the website. He added that payments made to cities and counties in local government transactions may also be reviewed on this website. Mr. Theis added there are many other types of transparency information included on the website. He stated this website is a great place to start for an individual needing information on government operations.

Congressional Hearings on State Tax Matters—During the August 14, 2012 TAC Meeting, Mr. Theis stated two bills pertaining to the collection of sales tax by remote sellers have been the subject of congressional hearings. He stated one of those bills was the U. S. House Bill H.R. 3179 a.k.a. "Marketplace Equity Act of 2011". Please go to the following link to view the bill: http://www.gpo.gov/fdsys/pkg/BILLS-112hr3179ih/pdf/BILLS-112hr3179ih.pdf. Mr. Theis stated he viewed the congressional hearing for the "Marketplace Equity Act of 2011" which was held on July 24, 2012. For more information on the congressional hearing, please go to the following link: http://judiciary.house.gov/news/Statement%20HR%203179%20Hearing.html. Mr. Theis added that U. S. Representative Steve Womack from Arkansas' 3rd Congressional District and U. S. Representative Jackie Speier from California introduced the "Marketplace Equity Act of 2011". He stated the House Revenue Tax Committee gave positive comments supporting the need for adoption of the "Womack Bill".

He stated the second bill was U. S. Senate Bill S. 1832 a.k.a. "Marketplace Fairness Act". U. S. Senator Michael Enzi from Wyoming introduced the "Marketplace Fairness Act". To view a copy of that bill, go to the following link: http://www.gpo.gov/fdsys/pkg/BILLS-112s1832is/pdf/BILLS-112s1832is.pdf. Mr. Theis stated comments from the Senate Revenue Tax Committee were very favorable for supporting the need for adoption of the "Marketplace Fairness Act" as well.

Mr. Theis emphasized he was not stating he thought Congress is about to go forward with federal legislation of collection of sales tax by remote sellers, but he also stated the U. S. Congress is showing interest in the Streamlined Sales Tax Project.

New Business:

Announcement of Personnel Changes—During the February 14, 2012 TAC Meeting, Mr. Theis stated that Mr. Venable replaced Mr. Foster in the position of Integration Manager for the AIRS Section. Mr. Foster is the current Assistant Commissioner of Operations and Administration which is the position formerly held by Mr. Mike Munns who passed away on November 5, 2011.

During the May 8, 2012 TAC Meeting, Mr. Theis stated that both Mr. Clarence Collins, Administrator for the Income Tax Section, and Mr. Joe Ellis, Manager for the Corporation Income Tax Section, would retire on June 30, 2012. He stated Mr. Warren Fagan had been announced as the new administrator for the Income Tax Section.

During the August 14, 2012 TAC Meeting, Mr. Theis stated Ms. Kathy Horner had been announced as the new Individual Income Tax Section manager. Ms. Horner replaced Mr. Warren Fagan in this position.

Mr. Scott Fryer replaced Mr. Joe Ellis as the current Corporation Income Tax Section manager. Mr. Joe Ellis was the former Corporation Income Tax Section.

Mr. Theis also stated that Mr. Bob Chastant retired as Problem Resolution Officer in the Problem Resolution and Tax Information Office on June 30, 2012, and his successor would be Mr. David Rector. He stated Mr. Rector would start on September 4, 2012.

Business Closure Process—During the February 14, 2012 TAC Meeting, Mr. Theis stated Arkansas DFA's business closure process had worked well in recent years. Before the business closure process was put into place, he stated the Collections Section would file approximately 3,500 liens per month on taxpayers' accounts, and currently, an estimated amount of 1,800 liens per month are sent out on taxpayers' accounts. Mr. Theis also stated the estimated number of taxpayers becoming delinquent on their accounts had steadily declined. He added Oklahoma's Revenue Department had contacted Arkansas DFA in order to review its business closure process and adopt some of its methods.

Statement of Gross Tax Collections as of Fiscal Year March 2012—During the May 8, 2012 TAC Meeting, TAC members were given a spreadsheet of the Statement of Gross Tax Collections through the month of March 2012. Mr. Theis stated legislators are starting to look towards the 2013 Regular Session very closely and how the Fiscal Year 2012 Budget is doing and looking at the Fiscal Year 2013 Forecasts. He instructed TAC members to review page 5 of the spreadsheet, and he stated the total special revenue was up an estimated 16 million dollars over last year's total special revenue amount. Mr. Theis also instructed TAC members to review page 2 of the spreadsheet which included totals for motor fuel special revenue. He stated this subject would most likely receive much attention during the 2013 Regular Session. Mr. Theis stated revenue is down an estimated 4 million dollars in motor fuel tax collections as of March 2012. Mr. Theis and Mr. Atchley both agreed there has been a steady decline in motor fuel tax collections. Mr. Theis stated this is more common as vehicles get more fuel efficient, as the price of fuel increases, and as consumption of fuel decreases.

Mr. Theis indicated the Revenue Division is monitoring how the use of natural gas to power motor vehicles will affect motor fuel tax collections. He stated an estimated three years ago Arkansas drivers consumed 20,000 gallon equivalents of natural gas, and he explained state law requires that 100 cubic feet of natural gas is equivalent to one gallon of gasoline. In 2011, Mr. Theis stated Arkansas drivers consumed 56,000 gallon equivalents of natural gas which is a two and half times increase. In 2012, he stated Arkansas is on schedule to consume 330,000 gallon natural gas equivalents of gasoline. He stated the increase is due to more natural gas fueling stations opening up. Mr. Theis stated two years ago there were only three natural gas fueling stations in Arkansas, and only one was open to the general public. He stated there are now six natural gas fueling stations in Arkansas with three open to the general public. Mr. Theis added two more natural gas fueling stations are scheduled to open. He stated one fueling station would be located in Little Rock, and the other one would be located in Conway. Mr. Theis stated natural gas has a fuel tax included in it, but motor fuel is taxed at 21.5 cents a gallon. He added natural gas is taxed at five cents per gallon equivalent. He stated manufacturers such as Ford and Chrysler have announced a new line of natural gas powered pick-up trucks for 2013 model vehicles.

Mr. Theis also stated that on page 8 of the Statement of Gross Tax Collections that as of March 2012 general revenue is doing better than it was in 2011. He stated general revenue is $4,128,035,485.02 in March of 2012, and at the same time last year in 2011, the general revenue was $3,950,528,244.67. Based on the 2012 budget forecast, Mr. Theis added Arkansas' budget is expected to have a surplus of 83 million dollars ahead of forecast through the end of April. Mr. Theis stated Mr. Richard Weiss, Director of the Arkansas Department of Finance and Administration, anticipates a modest growth for the 2013 budget. He stated Mr. Weiss is not willing to adjust his budget forecast mainly due to the rising gas prices which has an effect of decreasing consumer purchases on discretionary items. Mr. Theis stated Mr. Weiss is also concerned about unemployment numbers that have not rebounded as anticipated.

Income Tax Refund Issue—During the May 8, 2012 TAC Meeting, Mr. Theis stated he received an email from a member of the Arkansas Society of Certified Public Accountants (ASCPA) stating he had been receiving calls from clients on income tax issues. He stated one issue centers around tax refunds being divided where a taxpayer had a refund which was partially a 2011 refund and partially an estimated carryforward refund from 2010. Mr. Theis stated two refund checks were being sent out as a result. In some instances, he stated a refund check was being direct deposited for 2011's refund amount, and a tax warrant was being issued for the estimated carryforward refund from 2010. Mr. Theis stated a computer glitch caused the problem. Mr. Theis stated the issue is currently being resolved by the AIRS Section. He explained that taxpayers were receiving their full refunds, but they were getting them in two payments.

Underpayment Penalty Notices—During the May 8, 2012 TAC Meeting, Mr. Theis stated taxpayers were receiving underpayment penalty notices when they timely filed and timely paid their individual income tax. He stated some of the notices could have already been mailed to some of the TAC members' clients. Mr. Theis stated Mr. Fagan had identified what caused this issue. He stated the issue dealt with the 2012 Emancipation Day which fell on April 16th. Mr. Theis stated the computer program was updated for the due date of the return, but for payment purposes, the computer date was not updated from April 15th to April 17th. He also stated there was a secondary issue focusing on calculations. Mr. Theis stated the Income Tax Section was in the process of mailing taxpayers notices explaining the issue and how the issue would be resolved by stating the penalty was not due.

Update on Southeastern Association of Tax Administrators Conference (SEATA)—During the August 14, 2012 TAC Meeting, Mr. Fagan stated the Southeastern Association of Tax Administrators Conference (SEATA) was hosted by West Virginia. He stated the attendance increased from last year, and it is expected to increase next year as well due in part to the next conference being held in South Carolina. During the conference, Mr. Fagan stated the following topics were discussed: income tax, sales tax, and property tax topics. He also stated a presentation on ethics was given at the conference. Mr. Fagan stated the IRS gave a presentation on safeguarding, and he stated this presentation was very pertinent for the Income Tax Section because that section has a safeguarding review in the next six months. He stated a motivational lecture was given as well. Mr. Fagan stated the conference provided a way for all the tax administrators from other states that are in SEATA to assemble together to gain insight on the way each state administers their tax sections. Mr. Overman added that SEATA conferences are open to anyone not just government tax administrators. She stated there are as many delegates from the private sector as there are from the public sector, and she urged TAC members to consider going to the conference. Mr. Fagan stated many tax vendors attended the conference. Mr. Theis stated one of the advantages of attending the SEATA conference is developing contacts with other Southeastern states because some tax issues do arise that cross state lines. He stated another advantage is our exchange agreement with the other Southeastern states in SEATA. Mr. Fagan added SEATA has a processing committee which deals with tax return processing issues, and he stated this committee meets every other month in addition to the annual meeting.

Status of Income Tax Technical Correction Act Draft –During the August 14, 2012 TAC Meeting, Mr. Theis stated that he, Mr. Fagan, Ms. Hunt, and their staffs had reviewed the income tax laws that were passed since the 2011 Regular Session, and they had not identified any changes that need to be implemented at this time. He encouraged TAC members to offer their suggestions for the Income Tax Technical Correction Act Draft. Mr. Theis added he anticipated many federal tax changes that would be implemented after the November 6, 2012 federal election. He further stated that it is unclear what type of tax actions Congress would make after the November 6, 2012 federal election, and the TAC needed to anticipate implementing an Income Tax Technical Correction Act Draft quickly after any changes are implemented. Mr. Theis also stated Mr. Craig Lair from the Rose Law Firm would represent the Arkansas Bar Association during the implementation of the Income Tax Technical Correction Act Draft. He added that other TAC members could appoint representatives from their respective organizations as well.

Legislative Activities—During the August 14, 2012 TAC Meeting as previously reported in the May 8, 2012 TAC Meeting, Mr. Theis stated the Joint Revenue and Taxation Committee had begun a series of meetings to study the entire Arkansas tax system. During the Joint Revenue and Taxation Committee meeting on May 17, 2012, he discussed income tax laws pertaining to the current graduated income tax structure. He also stated the committee held a subsequent meeting that studied economic development incentives that Arkansas offers in relation to recruiting businesses. In September 2012, Mr. Theis stated a meeting would be held that will focus on severance and property taxes. In closing, Mr. Theis stated the last meeting would be held in November 2012, and it would focus on tax structures of each of Arkansas' surrounding states.

Upcoming Regular Legislative Session—During the November 13, 2012 TAC Meeting, Mr. Theis stated the Arkansas Municipal League wanted increased access to DFA tax records including taxpayer tax collection data and audit information. He also stated it is anticipated that there would be significant interest in providing income tax relief in the 2013 Arkansas Regular Legislative Session.

<u>Identity Theft Question</u>—During the November 13, 2012 TAC Meeting, Mr. Burchfield had a question concerning identity theft pertaining to Arkansas tax refunds. Mr. Theis stated DFA had not seen a widespread problem with identity theft. Since the implementation of the Arkansas Integrated Revenue System (AIRS), Mr. Foster added that automatic stops had been added to guard against identity theft.