

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1253

Bill Subtitle: TO CREATE A SALES AND USE TAX EXEMPTION FOR CONSTRUCTION MATERIALS USED BY THE ARKANSAS DEPARTMENT OF TRANSPORTATION IN PUBLIC CONSTRUCTION PROJECTS; AND TO DECLARE AN EMERGENCY.

Basic Change :

Sponsor: Rep. Penzo

HB1253 would create an exemption from state and local sales and use tax for sales of eligible construction materials for use in highway construction projects.

To be eligible for the tax exemption, the construction project must be initiated by the Arkansas Department of Transportation (ARDOT). Construction materials eligible for the exemption would include all tangible personal property and consumables used directly in the construction project that will remain part of the completed project or are consumed in the construction process. Construction materials for purposes of the exemption would not include construction equipment and tools, motor vehicle fuel, and other tangible personal property that may be used for purposes of a public construction project but do not remain part of the completed construction project or are not consumed during the construction process. The tax exemption would apply to direct purchases by ARDOT and to purchases by contractors conducting a construction project that has been initiated by ARDOT.

This bill includes an emergency clause, and would be effective on and after July 1, 2021.

Revenue Impact :

FY2022

Total Approximate State Sales and Use Tax Loss \$ - 19,066,667

(Estimated Effective Date 7/1/21 --- 11 months reduced tax collection)

General Revenue - 4.5%	\$ - 12,790,800
Property Tax Relief - .5%	\$ - 1,421,200
Conservation Fund - .125%	\$ - 355,300
Educational Adequacy Fund - .875%	\$ - 2,487,100
Highway Fund - .5%	\$ - 1,421,200
Educational Excellence Trust Fund -	\$ - .000
Educational Adequacy (GR Transfer) -	\$ - .000
State Central Services -	\$ - 400,400
Constitutional Officers -	\$ - 190,667

Total Approximate Local City and County Sales and Use Tax Loss \$ - 6,355,683

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FY2023

Total Approximate State Sales and Use Tax Loss \$ - 21,424,000

(12 months reduced tax collection)

General Revenue - 4.5%	\$ - 12,403,704
Property Tax Relief - .5%	\$ - 1,596,912
Conservation Fund - .125%	\$ - 399,228
Educational Adequacy Fund - .875%	\$ - 2,794,596
Highway Fund - .5%	\$ - 1,596,912
Educational Excellence Trust Fund -	\$ - 1,808,619
Educational Adequacy (GR Transfer) -	\$ - 159,885
State Central Services -	\$ - 449,904
Constitutional Officers -	\$ - 214,240

Total Approximate Local City and County Sales and Use Tax Loss \$ - 7,141,476

[Revenue Impact derived from information supplied by the Arkansas Department of Transportation for annual purchases of project materials.]

Taxpayer Impact :

ARDOT and contractors conducting highway construction projects initiated by Department of Transportation would no longer pay sales and use tax on their purchases of highway construction materials.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Updates to the Sales and Use Tax Rules will need to be promulgated.

Other Comments :

HB1253 contains an emergency clause, which would make the bill effective July 1, 2021. If this bill is enacted into law prior to May 1, 2021, this date would comply with a separate SSUTA requirement, which limits the effective date of a rate change to the first day of a calendar quarter after sixty days' notice to sellers.

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Legal Analysis :

None.