

Department of Finance and Administration

Legislative Impact Statement

Bill: SB801

Bill Subtitle: TO EXEMPT FROM SALES AND USE TAXES SAND AND OTHER PROPPANTS USED DIRECTLY IN CERTAIN MANUFACTURING PROCESSES.

Basic Change : Sponsor: Senator Rapert

The bill provides a sales and use tax exemption for sand and other proppants used to complete a new oil or gas well or to re-complete, redrill, or expand an existing well. The proposal would become effective on the first day of the calendar quarter following the effective date of the act.

Revenue Impact :

The Arkansas Supreme Court is currently considering a lawsuit questioning whether proppants are exempt from sales tax under existing state law. If the Court determines that proppants are exempt under current law, this bill will result in no additional cost. If the Court determines that proppants are taxable under current law, there will be a revenue cost. Actual cost fluctuates from year to year based on drilling activity. Based on current activity, the annual cost would be approximately \$390,000.

Taxpayer Impact :

Taxpayers would be required to modify accounting and computer systems to document the exemption.

Resources Required :

None

Time Required :

Adequate time is allowed in the proposal.

Procedural Changes :

Education of staff and modification of existing rules.

Legal Analysis :

SB801 amends § 26-52-402(c)(2)(B) to exempt from gross receipts tax sand and other proppants used to complete a new oil or natural gas well. The taxability of proppants under existing state law is an issue in a lawsuit currently pending before the Arkansas Supreme Court. SB801 would provide a sales tax exemption for sand and other proppants upon the effective date of the bill while the litigation is pending. SB801 would become effective on the first day of the calendar quarter following the effective date of the act.