Department of Finance and Administration

Legislative Impact Statement

Bill: SB1083 Amendment Number: Engrossment 4/16/13 (Am. #S1)
Bill Subtitle: TO CREATE AN INCOME TAX CREDIT FOR TAXES PAID UNDER THE ARKANSAS SOFT DRINK TAX ACT.

Basic Change :
Senator Files

Engrossment 04/16/13 --- Senate Amendment 1 --- Amends the bill to provide income tax credits for all retail sellers of soft drinks in Arkansas. The proposal would establish an income tax credit of 10% of the amount of soft drink tax paid by the retailer to soft drink distributors, wholesalers, or manufacturers.

The Arkansas Soft Drink Tax Act, Ark. Code Ann. § 26-57-901 et seq., levies the soft drink tax on (1) Soft drink syrup or simple syrup at $2 per gallon; (2) Bottled soft drinks at 21¢ per gallon; and (3) soft drink powder or base product at 21¢ per gallon of liquid soft drink that may be produced based on the manufacturer's directions. The tax is reported by the distributors, wholesalers or manufacturers of the products and is generally added to the price of the soft drink products when they are sold to retailers. Retailers subsequently resell the soft drinks to consumers. The soft drink tax collected from the distributors, wholesalers and manufacturers is dedicated revenue for the Arkansas Medicaid Program Trust Fund.

The proposal would allow an income tax credit equal to 10% of the soft drink tax paid by retailers to the distributor, wholesaler or manufacturer. The tax credit would be granted to all retail sellers of soft drinks including restaurants, grocery stores, discount stores, convenience stores, bars, movie theaters, sellers at entertainment and sporting events, concession stands, vending machines, and all other sellers of soft drinks. The tax credits claimed would not impact the existing income tax deduction claimed by the retailer for their soft drink purchases and soft drink taxes paid when calculating their income subject to the income tax.

The bill does not require the retailer to adjust their retail pricing to the consumer for their net reduced soft drink tax costs. The bill provides that unused tax credits may be carried forward for fine (5) consecutive tax years following the tax year in which the income tax credit is earned. The proposal would be effective for tax years on and after January 1, 2014.

Revenue Impact :
$4.3 Million Loss in State General Revenue
[Impact based on Total FY2012 Soft Drink Tax Collections of $46, 879, 310]

Taxpayer Impact :
Retailers of soft drinks would receive income tax credits based on the amount of their soft drink purchases.

Resources Required :
$95,000 total resources needed --- One (1) additional tax auditor position (pay grade C120) will be needed to administer the tax credit program, establish eligibility for the tax credits and to maintain records of carryovers of unused income tax credits. Office computer system and office equipment will also be required for the new staff member. Modifications of the AIRS tax system will be required to allow use of the new type of tax credit granted.

Time Required :
Adequate time is provided for implementation.

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<u>Procedural Changes :</u>

Creation of Rules, modifications of AIRS tax system and establishment of tax credit and carryover procedures.