Department of Finance and Administration

Legislative Impact Statement

Bill: SB438
Bill Subtitle: CONCERNING THE REVENUES DERIVED FROM THE TAX ON DISTILLATE SPECIAL FUELS; TO ELIMINATE THE DESIGNATION OF CERTAIN TAX REVENUES DERIVED FROM SALES OF DISTILLATE SPECIAL FUELS AS GENERAL REVENUES.

Basic Change :

Senator Teague

Amends Arkansas code provisions to eliminate the transfer of the first four million dollars ($4,000,000) derived from the special motor fuels tax to state General Revenues as provided by Act 1058 of 2011. Act 1058 established a sales tax exemption on sales of Class 6 or Class 7 trucks that are engaged in interstate commerce and registered under the International Registration Plan (IRP). Act 1058 also exempted sales of semitrailers drawn by Class 5, 6, 7, or 8 trucks. To offset the loss of the state sales tax revenue on the eligible trucks and semi-trailers, the $4 million transfer provision was included in the 2011 Act. The proposed bill would end the $4 million annual transfer but retain the sales tax exemption for the trucks and semi-trailers. The proposal would be effective 90 days after final adjournment of the 89th General Assembly.

Revenue Impact :

Act 1058 of 2011 Transfer Amount	$4,000,000
Less: State Central Services	- $92,000
Less: Constitutional Officers	- $40,000
Net Transfer Amount	$3,868,000

Fund Losses from Repeal of Transfer
-$2,901,000 --- General Revenue
-$ 564,728 --- Education Adequacy Trust Fund
-$ 321,044 --- Property Tax Relief Trust Fund
-$ 81,228 --- Conservation Fund

Fund Gains from Repeal of Transfer
+$2,707,600 --- State Highways
+$ 580,200 --- Municipal Aid Fund
+$ 580,200 --- County Aid Fund

Taxpayer Impact :

None

Resources Required :

None

Time Required :

Adequate time is provided for implementation

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Procedural Changes :

DFA would end the funds transfer to General Revenues.

Other Comments :
None

Legal Analysis :

SB438 repeals certain changes to the sales and use tax law made by Act 1058 of 2011, which went into effect on July 1, 2012.

Act 1058 of 2011 created a full sales and use tax exemption for sales of new or used Class Six or Class Seven trucks registered with the International Registration Plan to be engaged in interstate commerce. Act 1058 also changed the sales and use tax exemption for the sale of certain semitrailers. Prior to Act 1058, the exemption applied for the gross receipts in excess of the first $1,000 of the purchase price of all semitrailers drawn by a truck tractor registered as a Class Five through Class Eight truck. With the changes of Act 1058, there is a full exemption on the sale of all new or used semitrailers. To offset the loss to general revenues resulting from the new exemptions, Act 1058 diverts the first $4 million received each fiscal year from the tax on distillate special fuels that were dedicated as special revenues for the benefit of the State Highway and Transportation Department Fund. The revenues diverted are distributed as follows: 75% to general revenues; 14.6% to the Educational Adequacy Fund; 8.3% to the Property Tax Relief Trust Fund; and 2.1% to the Conservation Tax Fund.

SB438 repeals the $4 million per fiscal year diversion described above, which means this money will no longer go to general revenues and the other Funds above and will again be dedicated as special revenues for the benefit of the State Highway and Transportation Department Fund. However, the bill does not repeal the exemptions for trucks and trailers established by Act 1058, so the revenue loss caused by the exemptions will no longer be offset with other revenues.