

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1005

Bill Subtitle: TO EXEMPT REPAIR OR REPLACEMENT PARTS FOR FARM EQUIPMENT AND MACHINERY FROM THE GROSS RECEIPTS AND USE TAX.

Basic Change :

Representative Altes

The bill provides a state and local sales and use tax exemption for repair and replacement parts used to repair farm equipment and machinery. This exemption would be effective on the first day of the calendar quarter following the effective date of the act. (Revenue Impact calculated assuming October 1, 2013 effective date.)

Revenue Impact :

FY14 Tax Decrease

Total Impact to State Revenues - \$8.34 million

[8 Months of Reduced Tax Collections – 10/1/2013 Effective Date]

-\$ 5.58 million ---State General Revenue (4.5%)
-\$ 1.09 million ---Educational Adequacy (.875% tax)
-\$ 0.62 million ---Property Tax Relief Trust Fund (.5%)
-\$ 0.16 million ---Conservation Tax (.125%)
-\$ 0.62 million ---Highway Fund (.5%)
-\$ 0.00 million ---Educational Excellence Trust Fund
-\$ 0.00 million ---Educational Adequacy (GR transfer)
-\$ 0.19 million ---State Central Services
-\$ 0.08 million ---Constitutional Officers

Total Impact to City and County Sales Tax -\$2.60 million

FY15 Tax Decrease

Total Impact to State Revenues - \$12.79 million

-\$ 7.70 million ---State General Revenue (4.5%)
-\$ 1.66 million ---Educational Adequacy (.875% tax)
-\$ 0.95 million ---Property Tax Relief Trust Fund (.5%)
-\$ 0.24 million ---Conservation Tax (.125%)
-\$ 0.95 million ---Highway Fund (.5%)
-\$ 0.79 million ---Educational Excellence Trust Fund
-\$ 0.07 million ---Educational Adequacy (GR transfer)
-\$ 0.29 million ---State Central Services
-\$ 0.13 million ---Constitutional Officers

Total Impact to City and County Sales Tax -\$3.60 million

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Taxpayer Impact :

Taxpayers would change their accounting and tax collection systems and processes to discontinue collection of state and local sales tax on sales of repair and replacement parts used to repair farm equipment and machinery. Taxpayers would continue to collect sales taxes on the portion of the invoice for repair labor.

Resources Required :

None

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Education of taxpayers and DFA staff regarding enactment of this tax exemption. Modification of Sales Tax Rules will be required.

Other Comments :

Ark. Code Ann. § 26-52-301 levies the sales tax on replacement and repair services for farm machinery and implements. The proposal will exempt the repair parts but the charges for repair services would continue to be subject to tax.

Legal Analysis :

Under current law, repair and replacement parts do not qualify for the farm equipment and machinery sales tax exemption. This bill amends 26-52-403 to exempt the purchase of repair and replacement parts for farm equipment and machinery from sales and use tax.

The bill has no emergency clause and will become effective on the first day of the calendar quarter following the effective date of the act.