

**SUMMARY OF PROPOSAL #3**  
*for consideration by the*  
**ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE**

**TOPIC: Sales Tax Exemption on the Sale of New or Used Motor Vehicles of Less than Ten Thousand Dollars (\$10,000)**

**Summary of Proposal for Consideration**

To increase the sales tax exemption threshold on the sale of a new or used motor vehicle or trailer from less than four thousand dollars (\$4,000) to less than ten thousand dollars (\$10,000) under Arkansas Code § 26-52-510(b)(1)(B) and § 26-53-126(b)(2), effective for tax years beginning on or after January 1, 2019.

**Fiscal Analysis**

Fiscal analysis of the decrease in general and special revenue when increasing the sales tax exemption on the sale of a new or used motor vehicle or trailer to vehicles sold for less than ten thousand dollars (\$10,000) will require additional fiscal analysis.

In 2015, the Department of Finance and Administration conducted an impact analysis for proposed legislation, HB1387, which would have increased the sales tax exemption threshold on the sale of a new or used motor vehicle or trailer from less than four thousand dollars (\$4,000) to less than five thousand dollars (\$5,000). Total impact to state revenues was a decrease of \$2.1 million dollars, including a decrease of \$1.59 million of state general revenue.

The current sales tax exemption results in an estimated loss of \$22,577,932 of General Revenue as of FY17, as provided by the Department of Finance and Administration's "Sales and Use Tax Revenue Impact of Exemptions" presentation to the Arkansas Tax Reform and Relief Legislative Task Force on March 19, 2018.

**Legal Analysis**

***Background***

Arkansas currently exempts sales tax on the sale of a new or used motor vehicle or trailer, if the total consideration for the sale of the new or used motor vehicle, trailer, or semitrailer is less than four thousand dollars (\$4,000). Sales tax is calculated on the total amount of sale, less trade-in value.

ACT 386 of 1941 created a general sales tax exemption on the sale of second-hand and used tangible personal property in which sales tax was already paid, and where such property was traded in and accepted by the seller as part of the purchase price of other tangible personal property.

ACT 64 of 1945 exempted private sales of a used automobile from sales tax where the seller is not engaged in the business of being a dealer. This ACT also created a sales tax

exemption on the sale of a used automobile, if the sales tax had been paid by the original purchaser.

ACT 19 of 1957 clarified that the sale of an automobile included all motor vehicles, trailers, and semi-trailers.

ACT 3 of 1991 created sales tax exemption if the total consideration for the sale of a new or used motor vehicle, trailer or semi-trailer is less than two thousand dollars (\$2,000).

ACT 1232 of 1997 increased sales tax exemption if the total consideration for the sale of a new or used motor vehicle, trailer or semi-trailer is less two thousand five hundred dollars (\$2,500).

ACT 753 of 2011 increased sales tax exemption if the total consideration for the sale of a new or used motor vehicle, trailer or semi-trailer is less than four thousand dollars (\$4,000), and has not been amended since.

### ***Potential Legal Issues***

None.

### ***Other States***

- Iowa: Purchase of a vehicle is exempt from sales tax in Iowa. Iowa imposes a five percent (5%) new registration fee on all motor vehicles. Purchase price is reduced by the amount of trade-in. (IA St. § 423.3)
- Louisiana: Provides a credit on sales tax for trade-ins of like property for purchase of motor vehicles. (LA St. §47:301).
- Mississippi: Sales tax is due on the purchase of new or used motor vehicle, before subtracting any dealer's discounts and trade-ins. (MS 27-65-101)
- Missouri: Sales tax exemption on trade-in allowance of motor vehicles, if the difference between the trade-in allowance and the purchase price of an article exceeds \$500, then tax is only imposed on the portion of the purchase price of the article in excess of the actual allowance made for the article traded in or exchanged. (MO St. § 144.025)
- Oklahoma: Sales tax exemption for the sale of motor vehicles or any optional equipment or accessories attached to motor vehicles on which the Oklahoma Motor Vehicle Excise Tax has been, or will be paid. Oklahoma Motor Vehicle Excise tax is 3.25 percent of the price on new vehicle purchases, and \$20.00 on the 1st \$1500.00 of value plus 3.25% of the remainder. (OK St. 68 § 1355)
- Tennessee: Sales tax is computed on the sale price or value of the vehicle, less any trade in value. (TN St. § 67-6-343 & §67-6510)
- Texas: Sales tax is computed on the sale price or value of the vehicle less any trade in value. (TX St. §152.001)