

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1234**

**Bill Subtitle: TO REDUCE THE STATE SALES AND USE TAX ON FOOD AND FOOD INGREDIENTS IF CERTAIN FUND BALANCES EXIST; AND TO DECLARE AN EMERGENCY.**

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### Basic Change :

Representative Williams

The proposal would reduce the state sales and use tax rate on food and food ingredients to a statutory rate of zero percent (0%) if certain criteria have been met. The one-eighth percent (0.125%) Conservation Tax levied by the Arkansas Constitution and local city and county sales and use taxes would remain in effect. The one-half percent (.5%) Constitutional levy for Highways does not apply to food and food ingredients and is not impacted by this proposal. For the rate reduction to become effective, the Director of DFA would make a monthly determination of reduced impact on general revenues resulting from reductions in budgetary costs for the following:

- (i) The Educational Adequacy Fund;
- (ii) Bonds issued under the Arkansas College Savings 15 Bond Act of 1989;
- (iii) Bonds issued under the Arkansas Higher Education Technology and Facility Improvement Act of 2005;
- (iv) The City-County Tourist Facilities Aid Fund;
- (v) Amounts disbursed or approved to be disbursed by the Department of Education for desegregation expenses under any desegregation settlement agreement, as certified by the Treasurer of State and the Chief Fiscal Officer of the State under § 6-20-212; and
- (vi) Bonds issued under the Arkansas Water, Waste Disposal and Pollution Abatement Facilities Financing Act of 1997 and the Arkansas Water, Waste Disposal, and Pollution Abatement Facilities Financing Act of 2007.

The Director would compare the most recent six (6) consecutive months of deductions from General Revenues for the referenced expense categories to the corresponding six (6) consecutive months for the previous year to determine if there was an aggregate amount of reduced deductions from net general revenues of thirty-five million dollars (\$35,000,000) or more. If the reduced impact on General Revenues was equal to or more than \$35,000,000 and there is no potential economic factors that would affect the decline in the deductions, the statutory state sales and use tax rate would change to zero percent (0%). The rate reduction would be effective on the first day of the calendar quarter that is at least thirty days following the determination by the Director.

The proposal would be effective July 1, 2013.

### Revenue Impact :

No Impact to State General Revenues --- Reduced Revenue Collections are Off-set by Reduced Budgetary Expenditures

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Using FY2014 estimates of anticipated tax collections for food and food ingredients, the elimination of the state sales tax (except for the one-eighth percent Conservation Tax) would have the following impacts to funds during the first year of implementation:

- \$51.8 million -- General Revenue
- \$10.1 million -- Educational Adequacy
- \$ 5.8 million -- Property Tax Relief Trust Fund
- \$ 2.3 million -- State Central Services/Const Officers

### **Taxpayer Impact :**

Taxpayers would be required to change accounting and computer systems to allow for the tax rate change.

### **Resources Required :**

None

### **Time Required :**

Adequate time is provided for implementation

### **Procedural Changes :**

Education of staff and revision of the rules to reflect the rate change.

### **Other Comments :**

None

### **Legal Analysis :**

This bill repeals the state sales tax on food if certain costs currently incurred by the State decline by a predetermined amount. The bill requires DFA to perform a monthly review to determine if these costs have declined by at least \$35M during the 6 month period just ended. If so, the DFA Director shall find that conditions have been satisfied resulting in the elimination of the remaining sales tax on food. The bill has an emergency clause making it effective on July 1, 2013.

This bill does not affect either the 0.125% tax levied by Amendment 75 or the regular local city and county sales taxes.