

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB688**

**Bill Subtitle: TO AMEND THE TAX APPLICABLE TO LONG-TERM RENTALS OF VEHICLES; TO REQUIRE THAT THE LONG-TERM RENTAL VEHICLE TAX BE PAID ON EACH RENTAL; AND TO LOWER THE THRESHOLD FOR THE EXPIRATION OF THE LONG-TERM RENTAL VEHICLE TAX.**

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### **Basic Change :**

Senator Teague

The proposal amends Ark. Code Ann. § 26-63-304(a) to require the collection of the one and one-half percent (1.5%) Long-Term Rental Vehicle Tax levied on long term leases of motor vehicles regardless of whether the state sales or use tax was paid at the time of initial motor vehicle registration.

Currently, the lessor of the motor vehicle has a choice regarding the method of sales tax payment. If the lessor of the motor vehicle pays state and local sales tax at the time of registration of the motor vehicle being placed into a long term lease arrangement, no sales or long-term rental taxes are collected on the subsequent monthly long-term lease payments. If the motor vehicle is registered without the payment of sales tax at the time of registration, the lessor must collect the state, local, and the one and one-half percent (1½%) long-term rental vehicle tax on each monthly payment. The proposal would require collection of the tax on the monthly lease payments.

The bill also amends the existing provisions that provide for repeal of the long-term rental vehicle tax. Under current law, the long-term rental vehicle tax will end when 10% of new motor vehicle registrations per year are for long-term lease purposes. The bill changes the percentage to 3% of new motor vehicle registrations. Approximately 1% of new motor vehicle registrations in Arkansas are for long-term lease transactions. The proposal would be effective on the first day of the calendar quarter following the effective date of the act.

### **Revenue Impact :**

\$650,000 loss when the 1.5% rental tax expires. DFA does not anticipate that occurring for several years. Lessors of motor vehicles currently register most of their vehicles without sales tax at the time of registration and instead collect state, local and long-term rental vehicle taxes on the monthly lease payments. The proposal continues this taxation method but removes the alternative.

### **Taxpayer Impact :**

Taxpayers would be required to collect the 1.5% long term rental vehicle tax on the monthly payments of all long term leases.

### **Resources Required :**

None

### **Time Required :**

Adequate time is allowed in the proposal.

### **Procedural Changes :**

Education of staff and a revision of the rules for the change in the law.

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### **Other Comments :**

The bill should be amended to include changes to the sales tax code provisions regarding the definition of "sale" to eliminate the choice of collecting state and local sales taxes on the monthly long-term lease payments.

### **Legal Analysis :**

Currently Ark. Code Ann. §26-63-304 levies a long term rental vehicle tax of 1.5% of the gross proceeds derived from the rental of a motor vehicle required to be licensed for highway use if the vehicle is leased for a period of 30 days or longer and tax was not paid at the time of registration of the vehicle. The tax will expire on June 30 of the fiscal year following a certification by the Director that 10% or more of all new motor vehicles registered in Arkansas during a calendar year are leased vehicles. SB688 amends Ark. Code Ann. §26-63-304 to provide that the long term rental vehicle tax will apply regardless of whether tax was paid on the leased vehicle at the time of registration.

Additionally, the bill amends the provisions of law concerning expiration of the tax to provide that the tax will expire on June 30 of the fiscal year following any certification by the Director that 3% or more of all new motor vehicles registered in Arkansas during a calendar year are leased vehicles.

This bill will become effective on the 1st day of the calendar quarter following the effective date of the act.