

Department of Finance and Administration

Legislative Impact Statement

Bill: SB688

Amendment Number: S1

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.

Basic Change :

Senator Teague

Senate Amendment 1 -- Adds necessary amendment to the sales tax code provisions regarding removal of the option of paying sales tax at the time of the initial motor vehicle registration for vehicles placed into long-term lease agreements.

Original Bill -- 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 :

Further amendment to the bill is required. Sales tax code provisions regarding the definition of "sale" that eliminated the choice of collecting state and local sales taxes on the monthly long-term lease payments was amended to include a change for all long-term leases for all product types. The bill should be further amended to clarify that the removal of the option of sales tax payment at time of sale is only applicable to motor vehicle long-term lease transactions.

Legal Analysis :

Amendment S1 to SB688 amends Ark.Code Ann. §26-52-103(19)(D)(ii) to effectively provide that gross receipts tax shall be paid on the basis of rental or lease payments made to a lessor of tangible personal property (tpp), including motor vehicles and trailers, regardless of whether the lessor paid gross receipts or compensating use tax on the tpp at the time of purchase. Under existing law, short-term leases of tpp (less than 30 days) are subject to gross receipts tax regardless of whether the lessor paid tax on the tpp at the time of purchase, while the taxability of long-term leases of tpp (30 days or more) is governed by whether the lessor paid tax at the time of purchase. If it did pay tax at the time of purchase, the lease payments are not subject to tax.

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

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