

Department of Finance and Administration

Legislative Impact Statement

Bill: SB688

As Engrossed: 3/25/2013

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

Engrossment 03/25/13 ---Senate Amendment 2 --- Amends the bill to clarify that the required collection of state and local sales taxes on long-term leases of 30 days or more applies to motor vehicle long term leases only. For all other types of property leased for long-term periods, the lessor continues to have a choice of either paying the tax on the original purchase price and not collecting sales taxes on the monthly lease payments or purchasing the property without payment of the sales tax and collecting state and local sales tax on each lease payment.

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 state and local sales tax and the 1.5% long term rental vehicle tax on the monthly payments of all long term leases of motor vehicles.

Resources Required :

None

Time Required :

Adequate time is allowed in the proposal.

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Procedural Changes :

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

Other Comments :

Additional amendment required to maintain current taxation methods for long term rentals of property other than motor vehicles.

Legal Analysis :

SB688, as engrossed March 25, 2013, amends Ark. Code Ann. §26-63-304 to: 1) require payment of long term rental vehicle tax on leases of motor vehicles regardless of whether tax was paid on the leased vehicle at the time of registration (currently the tax only applies if the vehicle is leased for a period of 30 days or longer and if tax was not paid by the lessor at the time of registration) and 2) provide that the long-term rental vehicle 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 (currently, the tax will expire upon certification by the Director that 10% or more of all new motor vehicles registered in Arkansas during a calendar year are leased vehicles).

The bill also amends Ark. Code Ann. §§26-52-103(19)(D)(ii) and 26-63-102(9)D(ii), concerning sales and special excise tax on long-term rentals, to provide that these taxes shall be paid on lease payments for the lease of a motor vehicle regardless of whether the lessor paid tax on the vehicle at the time of purchase (currently these taxes are not due on the lease stream if the vehicle is leased for a period of 30 days or more and the lessor paid tax on the vehicle at the time of purchase. The bill as amended will now provide that any tangible personal property for which these taxes have been paid by the lessor at the time of purchase will be exempt from tax. This will conflict with the provisions of existing (D)(i) of each code section which provides that the tax will apply to leases of property for a period of less than 30 days.

The provisions of the act will become effective on the first day of the calendar quarter following the effective date of the act.