

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1387**

**Bill Subtitle: TO INCREASE THE SALES AND USE TAX EXEMPTION FOR A MOTOR VEHICLE, TRAILER, OR SEMITRAILER.**

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**Basic Change :** Sponsor: Representative Dotson

Under current law, the threshold for which sales tax is not due on motor vehicles, trailers, and semi-trailers, is a purchase of less than four thousand dollars (\$4,000). Under the bill, the threshold would be increased to a purchase price of less than five thousand dollars (\$5,000).

### **Revenue Impact :**

#### **FY16 Tax Decrease**

Total Impact to State Revenues           **- \$2.1 million**

[ 9 Months of Reduced Tax Collections --- 10/1/2015 Effective Date ]

- \$ 1.41 million --- State General Revenue (4.5%)  
- \$ .27 million --- Educational Adequacy (.875% tax)  
- \$ .16 million --- Property Tax Relief Trust Fund (.5%)  
- \$ .04 million --- Conservation Tax (.125%)  
- \$ .16 million --- Highway Fund (.5%)  
- \$ .00 million --- Educational Excellence Trust Fund  
- \$ .00 million --- Educational Adequacy (GR transfer)  
- \$ .05 million --- State Central Services  
- \$ .02 million --- Constitutional Officers

Total Impact to City and County Sales Tax   - \$415,000

#### **FY17 Tax Decrease**

Total Impact to State Revenues           **- \$2.8 million**

- \$ 1.59 million --- State General Revenue (4.5%)  
- \$ .36 million --- Educational Adequacy (.875% tax)  
- \$ .21 million --- Property Tax Relief Trust Fund (.5%)  
- \$ .05 million --- Conservation Tax (.125%)  
- \$ .21 million --- Highway Fund (.5%)  
- \$ .27 million --- Educational Excellence Trust Fund  
- \$ .02 million --- Educational Adequacy (GR transfer)  
- \$ .06 million --- State Central Services  
- \$ .03 million --- Constitutional Officers

Total Impact to City and County Sales Tax   - \$550,000

[ During 2014, a total of 9,971 motor vehicles were registered with DFA  
with a sales price from \$4,000 to \$4,999. ]

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### **Taxpayer Impact :**

Taxpayers who purchase a motor vehicle, trailer, or semi-trailer with a selling price of less than \$5,000 would not pay sales tax on the purchase. Approximately 10,000 vehicle sales per year would no longer be subject to tax as a result of the increased exemption amount.

### **Resources Required :**

No additional resources are required.

### **Time Required :**

Adequate time is provided.

### **Procedural Changes :**

Program the Motor Vehicle computer system for the new threshold. Revise the Motor Vehicle Procedures Manual and distribute revisions to state revenue offices.

### **Other Comments :**

None.

### **Legal Analysis :**

Currently, sales of new or used motor vehicles, trailers, or semitrailers for under \$4,000 are exempt from Arkansas sales and use taxes. This bill would increase that exemption amount to \$5,000. The increase is effective on the first day of the calendar quarter following the effective date of the act.