

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB332**

**Amendment Number: S2 (Engrossment 3/17/15)**

**Bill Subtitle: TO REDUCE THE SALES AND USE TAX ON THE PARTIAL REPLACEMENT AND REPAIR OF CERTAIN MACHINERY AND EQUIPMENT USED IN MANUFACTURING; AND TO DECLARE AN EMERGENCY.**

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**Basic Change :** Sponsor: Senator Files

Senate Amendment 2 --- Amends the bill to provide the Department of Finance and Administration with authority to issue "limited direct pay permits" to manufacturing companies for purposes of purchasing repair and replacement parts and services for manufacturing machinery and equipment exempt from taxation and reporting the taxes due after calculating the refund portion applicable. For the refund to be available to an eligible manufacturer, the manufacturer must hold either a direct pay permit issued by DFA of a "limited direct pay" permit issued by DFA for purposes of the refund benefit. Holders of "limited direct pay permits" would continue to report Arkansas sales and use taxes on other products and services in their current manner.

Senate Amendment 1 --- Adds Representative Jett as a cosponsor of the bill.

Original Bill --- The proposal would enact a further reduction in the state sales and use tax rate for partial replacement and repair parts and labor used in repairs of manufacturing machinery and equipment. The manufacturer would pay the full state tax rate of 6.5% to the seller and subsequently file a refund request with DFA for the portion eligible for the refund. Services relating to the initial installation, alteration, addition, cleaning, refinishing, replacement and repair of manufacturing machinery or equipment would also be eligible for the refund. The proposal also removes the requirement in existing law that requires manufacturers to be eligible for the reduced taxation benefit; they must first obtain a direct payment permit from DFA.

When purchasing the repair and replacement parts and services, manufacturers without direct payment authority with DFA would pay the full 6.5% state sales and use tax to the seller and subsequently file a refund request with DFA for the portion of the tax eligible for the refund. Manufacturers with direct pay authority would report taxes due on all purchases on their monthly tax return and claim the refund amount against any sales and use tax due at the time of filing.

The Constitutional levies of 0.125% for Conservation and 0.5% for Highways would not be eligible for the refund. Also, local city and county sales and use taxes would not be eligible. The portion of the 6.5% state sales and use tax that is subject to the refund is as follows:

Effective July 1, 2015: 3.375% portion eligible for refund --- 3.125% net tax rate

Effective July 1, 2016: 5.875% portion eligible for refund --- 0.625% net tax rate

The proposal contains an emergency clause to be for an effective date of the date of approval by the Governor.

### **Revenue Impact :**

#### **FY16 Tax Decrease**

**Total Impact to State Revenues - \$18.54 million**

-\$13.75 million ---State General Revenue (4.5%)

-\$ 2.67 million ---Educational Adequacy (.875% tax)

-\$ 1.53 million ---Property Tax Relief Trust Fund (.5%)

-\$ 0 million ---Conservation Tax (.125%)

-\$ 0 million ---Highway Fund (.5%)

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- \$ 0 million ---Educational Excellence Trust Fund  
- \$ 0 million ---Educational Adequacy (GR transfer)  
- \$ .41 million ---State Central Services  
- \$ .19 million ---Constitutional Officers

### FY17 Tax Decrease

**Total Impact to State Revenues - \$39.73 million**

-\$27.34 million ---State General Revenue (4.5%)  
- \$ 5.73 million ---Educational Adequacy (.875% tax)  
- \$ 3.27 million ---Property Tax Relief Trust Fund (.5%)  
- \$ 0 million ---Conservation Tax (.125%)  
- \$ 0 million ---Highway Fund (.5%)  
- \$ 1.94 million ---Educational Excellence Trust Fund  
- \$ .17 million ---Educational Adequacy (GR transfer)  
- \$ .87 million ---State Central Services  
- \$ .40 million ---Constitutional Officers

### Taxpayer Impact :

Purchasers with direct pay authority or "limited direct pay" authority would claim the refund on monthly excise tax returns filed with DFA.

### Resources Required :

None

### Time Required :

Adequate time is provided for implementation.

### Procedural Changes :

Minor modifications to DFA's computer system and existing forms and instructions.

### Legal Analysis :

S2 is an amendment proposed by DFA to require a taxpayer to hold either a direct pay permit or a limited direct pay permit to obtain the tax refund.