

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB332**

**As Engrossed: 3/24/2015**

**Bill Subtitle: TO AMEND THE LAWS CONCERNING THE SALES AND USE TAX APPLICABLE TO 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

Engrossment 03/24/15 --- Senate Amendment 3 --- Amends the bill to remove the proposed tax reduction in sales and use taxes on partial replacement and repair parts and services for manufacturers. The existing code provisions regarding tax rates for these purchases will remain as in current law. The proposed "limited direct pay permit" authority remains in the proposal.

Engrossment 03/17/15 --- Senate Amendment 2 --- Amends the bill to provide DFA 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 dues 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.

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. 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 :**

None

**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 :**

The 3/24/15 engrossment removes the tax reduction provisions of the bill and continues to require that a business must be a direct pay or limited pay taxpayer to obtain the tax refund.