

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1342**

**Bill Subtitle: TO INCREASE THE AMOUNT BELOW WHICH SALES AND USE TAX IS NOT DUE ON THE PURCHASE OF A USED MOTOR VEHICLE; AND TO ELIMINATE THE SALES AND USE TAX EXEMPTION FOR CERTAIN MOTOR VEHICLES, TRAILERS, AND SEMITRAILERS.**

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### Basic Change :

**Sponsor: Rep. Payton**

HB1342 increases the threshold for the levy of state sales and use tax on the sale of motor vehicles. Under current law, § 26-52-510, no sales tax is due on the sale of a motor vehicle or trailer if the selling price of the vehicle is less than \$4,000. This bill changes the sales tax threshold to provide that sales tax would not be due on motor vehicles if the selling price is less than \$7,500.

The bill also removes the current exemption provision that exempts from state sales tax all sales of trailers with a selling price of less than \$4,000. Under the bill, trailers will be subject to sales tax regardless of sales price. The sales tax exemption for semi-trailers codified in § 26-52-436 is not removed.

The Act would become effective on the first day of the second calendar month following the effective date of the act (September 1, 2019).

### Revenue Impact :

Annual change in State Sales Tax Revenues

**- \$14.2 Million Revenue Loss** -- Increase Sales Tax Exemption - \$7,500 Sales Price Threshold

**+ \$3.6 Million Revenue Gain** -- Remove \$4,000 Sales Price Exemption Threshold for Trailers

Net Change in City and County Sales Tax     -\$1.2 Million

[ Impact calculated using motor vehicle sales transactions occurring in FY2018, 38,200 used motor vehicles with a sales price between \$4,000 and \$7,500 will become exempt from state and local sales tax. 43,000 trailers with a sales price of less than \$4,000 will become subject to state and local sales tax.]

### Taxpayer Impact :

Taxpayers who purchase a motor vehicle with a selling price of less than \$7,500 would not pay state and local sales tax on the purchase. Approximately 38,200 vehicles would no longer be subject to tax as a result of the increased sales tax exemption amount. Purchasers of trailers with a sales price of less than \$4,000 will no longer be exempt from sales tax on the purchase.

### Resources Required :

None.

### Time Required :

Adequate time is provided.

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### **Procedural Changes :**

Changes to DFA's motor vehicle computer system will be required. Revisions will be needed for sales tax rules. 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, Arkansas law provides that the sale or purchase of a new or used motor vehicle, trailer, or semitrailer for less than \$4,000.00 is exempt from sales and use tax. HB1342 raises the cap on this exemption from \$4,000.00 to \$7,500.00 in both the sales tax provision of § 26-52-510(b)(1)(B) and the use tax provision of § 26-53-126(b)(2). The bill also restricts the tax exemption to used motor vehicles so the purchase of a new motor vehicle would no longer be eligible for the sales or use tax exemption. Additionally, HB1342 also removes the exemption for both new and used trailers and semitrailers.