

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1162

Amendment Number: H1

Bill Subtitle: TO AMEND ARKANSAS TAX LAW CONCERNING INCOME TAX, SALES AND USE TAXES, AND THE SOFT DRINK TAX; AND TO SUPPLEMENT THE ARKANSAS MEDICAID PROGRAM TRUST FUND TO OFFSET DECREASED DEPOSITS FROM TAX REVENUES.

Basic Change :

Sponsor: Representative C. Fite

HB1162, as amended by House Amendment 1, removes the proposed change in taxation of manufactured and modular homes and adds "specified digital products" and "digital codes" to those types of products and services subject to Arkansas sales and use tax. "Specified digital products" are digital audio works, digital audio-visual works, and digital books that are transferred electronically. The amendment also changes the rates of tax levied on soft drinks, soft drink powders, and soft drink syrups. The proposed changes of this bill would become effective January 1, 2018. The changes include:

- Military retirement and survivor benefits would become exempt from taxation beginning with the 2018 tax year. Eligibility would be for those who retired from uniformed service with the Army, Marine Corps, Navy, Air Force and the Coast Guard. Also entitled for the income tax exemption would be retirement benefits for retirees of reserve components of the various armed services, the National Guard of any state, the reserve corps of the United States Public Health Service, and the National Oceanic and Atmospheric Administration Commissioned Officer Corps. A taxpayer claiming an exemption under § 26-51-307(e) on military retirement or survivor benefits would be unable to claim the \$6,000 exemption under § 26-51-307(a) on retirement benefits received from non-military sources.
- Unemployment compensation benefits paid from federal unemployment funds and unemployment insurance benefits received from unemployment compensation paid under Title IV of the Social Security Act would be included in gross income subject to income tax in the same manner as in federal law.
- This proposal amends the definition of "food" and "food ingredients" to remove candy and soft drink eligibility for the reduced state sales tax rate on foods in Arkansas. The bill provides definitions for "candy" and "soft drinks" within the sales tax law. Candy and soft drinks sold as prepared foods by the retailer would continue to be taxed at the full state sales tax rate.
- The bill would levy sales tax on sales of certain specified digital products. The specified digital products subject to tax would include "digital audio works", "digital audio-visual works", and "digital books. Sales of "digital codes" that allow the consumer to access these products would also be subject to tax. Taxation of music, movies and books when sold in tangible form are currently subject to tax and the proposal would provide for their taxation when sold in digital form.
- This proposal would also amend the special excise tax levied on soft drink and simple syrups. Under current law, the tax is levied at twenty-one cents (21¢) per gallon for each gallon of bottled soft drink, twenty-one cents (21¢) per gallon of soft drink prepared from powders, and two dollars (\$2.00) for each gallon of soft drink syrup or simple syrup used in making soft drinks. The bill would change the tax rate of tax on bottled soft drinks and soft drink powders to twenty and six-tenths cents (20.6¢) per gallon and to one dollar and twenty-six cents (\$1.26) per gallon on soft drink

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syrups. Simple syrups (sugar and water mixture) used in preparing tea would be exempt from the tax. The bill also includes an additional distribution of general revenue funds to offset the reduced amount of funds deposited to the Medicaid Program Trust Fund resulting from the reduced tax rate on soft drinks.

Revenue Impact :

FY2018 -- Impact to State General Revenues

- \$ 6.7 Million General Revenue Reduction --- Military Retirement Income Tax Exemption
+ \$ 1.6 Million General Revenue Gain --- Unemployment Compensation Subject to Income Tax
+ \$ 6.9 Million General Revenue Gain --- 6.5% State Sales Tax on Candy and Soft Drinks
+ \$ 1.2 Million General Revenue Gain --- Levy Sales Tax on Specified Digital Products
- \$ 3.0 Million General Revenue Reduction --- Transfer to Medicaid to Offset Reduction of Soft Drink Tax

FY2019 -- Impact to State General Revenues

- \$ 13.4 Million General Revenue Reduction --- Military Retirement Income Tax Exemption
+ \$ 3.1 Million General Revenue Gain --- Unemployment Compensation Subject to Income Tax
+ \$ 13.8 Million General Revenue Gain --- 6.5% State Sales Tax on Candy and Soft Drinks
+ \$ 2.4 Million General Revenue Gain --- Levy Sales Tax on Specified Digital Products
- \$ 5.9 Million General Revenue Reduction --- Transfer to Medicaid to Offset Reduction of Soft Drink Tax

Taxpayer Impact :

Military retirement and survivor benefits would be exempt from state income tax. A person claiming the exemption upon military retirement or survivor benefits would not be able to claim the exemption for the first \$6,000.00 in benefits for other forms of non-military retirement income. Unemployment compensation would be subject to income tax. Candy and soft drinks would be taxed at the full 6.5% state sales tax rate. Sellers of certain digital products and digital codes would collect sales tax on their sales. The soft drink tax also would be reduced.

Resources Required :

Computer programs, training procedures, forms and instructions will need to be updated for all tax types involved.

Time Required :

Adequate time is provided for implementation

Procedural Changes :

Rules, tax forms, and instructions will need to be updated and Department employees will need to be trained about the changes for processing returns. The tax community will need to be educated as well.

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Other Comments :

None.

Legal Analysis :

None.