

Department of Finance and Administration

Legislative Impact Statement

Bill: SB582

Bill Subtitle: TO PROVIDE A SALES AND USE TAX REFUND FOR MACHINERY AND EQUIPMENT USED TO MODIFY, REPLACE, OR REPAIR MOLDS AND DIES USED IN MANUFACTURING.

Basic Change :

Sponsor: Senator B. Johnson

SB582 would provide for a sales and use tax exemption for the purchase of machinery and equipment used by a manufacturer to modify, replace, or repair, in whole or in part, dies and molds used directly in the manufacturer's own manufacturing processes. The bill provides that the machinery and equipment would be eligible for the phased-in partial refunds of the state sales tax that result in an effective reduced tax rate as currently provided in law for manufacturing repair and replacement parts.

Under current law, machinery and equipment purchased by manufacturer's and eligible for exemption must be "used directly" in the manufacturing process to manufacturer articles of commerce that will be sold in the commercial marketplace. Machinery and equipment purchased and used by a manufacturer to modify, replace, or repair dies and molds used directly in the manufacturer's own manufacturing processes is not used directly and is not eligible for the tax exemption.

The bill provides that the machinery and equipment purchased and used by a manufacturer to modify, replace, or repair dies and molds used or consumed in the manufacturer's own manufacturing processes would be eligible for the reduced taxes due on manufacturer's repair and replacement parts. Effective July 1, 2019, the effective tax rate on the repair parts will be 3.5% with additional reductions to occur on July 1, 2020 for an effective rate of 2.5%; July 1, 2021 for an effective rate of 1.5%; and on July 1, 2022 for a full tax exemption.

The Act would be effective on the 1st day of the calendar quarter following the effective date of the act.

Revenue Impact :

FY2020

-\$116,667 Total Loss to State Revenues

(8 months reduced tax collections)

- -\$78,265 --- State General Revenue (4.5%)
- -\$15,218 --- Educational Adequacy (.875% tax)
- -\$8,696 --- Property Tax Relief Trust Fund (.5%)
- -\$2,174 --- Conservation Tax (.125%)
- -\$8,696 --- Highway Fund (.5%)
- -\$2,450 --- State Central Services
- -\$1,167 --- Constitutional Officers

FY2021

-\$206,000 Total Loss to State Revenues

- -\$132,172 --- State General Revenue (4.5%)
- -\$26,871 --- Educational Adequacy (.875% tax)

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- -\$15,355 --- Property Tax Relief Trust Fund (.5%)
- -\$3,839 --- Conservation Tax (.125%)
- -\$15,355 --- Highway Fund (.5%)
- -\$5,533 --- Educational Excellence Trust Fund
- -\$489 --- Educational Adequacy (GR transfer)
- -\$4,326 --- State Central Services
- -\$2,060 --- Constitutional Officers

FY2022

-\$265,225 Total Loss to State Revenues

- -\$156,657 --- State General Revenue (4.5%)
- -\$34,597 --- Educational Adequacy (.875% tax)
- -\$19,769 --- Property Tax Relief Trust Fund (.5%)
- -\$4,942 --- Conservation Tax (.125%)
- -\$19,769 --- Highway Fund (.5%)
- -\$19,541 --- Educational Excellence Trust Fund
- -\$1,727 --- Educational Adequacy (GR transfer)
- -\$5,570 --- State Central Services
- -\$2,652 --- Constitutional Officers

FY2023

-\$355,136 Total Loss to State Revenues

- -\$202,644 --- State General Revenue (4.5%)
- -\$46,325 --- Educational Adequacy (.875% tax)
- -\$26,471 --- Property Tax Relief Trust Fund (.5%)
- -\$6,618 --- Conservation Tax (.125%)
- -\$26,471 --- Highway Fund (.5%)
- -\$32,706 --- Educational Excellence Trust Fund
- -\$2,891 --- Educational Adequacy (GR transfer)
- -\$7,458 --- State Central Services
- -\$3,551 --- Constitutional Officers

Taxpayer Impact :

The bill would phase-in exemption for machinery and equipment used to modify, replace, or repair dies and molds when purchased by an Arkansas manufacturer.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

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Procedural Changes :

Updates to the sales tax rules will need to be promulgated.

Other Comments :

None.

Legal Analysis :

Currently, a manufacturer who uses molds and dies directly in its manufacturing process cannot purchase machinery and equipment used to modify, repair, or replace those molds and dies exempt from tax. SB582 amends §§ 26-52-447 and 26-53-149 to provide manufacturers with a refund of tax paid in relation to purchases of machinery and equipment used to modify, replace, or repair existing molds and dies used directly in the manufacturing process, and by July 1, 2022 the purchase of this machinery and equipment will be exempt from state sales and use taxes.