

Department of Finance and Administration

Legislative Impact Statement

Bill: SB1000

Bill Subtitle: TO CREATE AN EXEMPTION FROM THE SALES AND USE TAX FOR CERTAIN PAINTS, PRIMERS, BONDING AGENTS, AND OTHER CHEMICALS.

Basic Change :

Senator A. Clark

The proposal adds a new section to Arkansas Gross Receipts (Sales) Tax code provisions to provide for an exemption from state and local sales tax for sales of paint, primer, bonding agents, or other chemicals that are used in manufacturing, improving, or enhancing a product to be sold at retail. To be eligible, the item must be integral to the coating, priming, etching, bonding, or engraving of the end product. The proposal would be effective on the first day of the calendar quarter following the effective date of the act.

Revenue Impact :

FY14 Tax Decrease

Total Impact to State Revenues **-\$43,500**
[8 Months of Reduced Tax Collections --- 10/1/2013 Effective Date]
-\$29,122 --- State General Revenue (4.5%)
-\$ 5,663 --- Educational Adequacy (.875% tax)
-\$ 3,236 --- Property Tax Relief Trust Fund (.5%)
-\$ 809 --- Conservation Tax (.125%)
-\$ 3,236 --- Highway Fund (.5%)
-\$ 0 --- Educational Excellence Trust Fund
-\$ 0 --- Educational Adequacy (GR transfer)
-\$ 1,001 --- State Central Services
-\$ 435 --- Constitutional Officers
Total Impact to City and County Sales Tax -\$14,000

FY15 Tax Decrease

Total Impact to State Revenues **-\$65,000**
-\$39,033 --- State General Revenue (4.5%)
-\$ 8,461 --- Educational Adequacy (.875% tax)
-\$ 4,835 --- Property Tax Relief Trust Fund (.5%)
-\$ 1,209 --- Conservation Tax (.125%)
-\$ 4,835 --- Highway Fund (.5%)
-\$ 4,118 --- Educational Excellence Trust Fund
-\$ 364 --- Educational Adequacy (GR transfer)
-\$ 1,495 --- State Central Services
-\$ 650 --- Constitutional Officers
Total Impact to City and County Sales Tax -\$21,000

Taxpayer Impact :

Taxpayers would be required to program accounting systems to identify the eligible products and eligible purchasers in order to allow for the exemption.

Resources Required :

None

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Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Education of staff and a revision of the rules to allow for the new exemption.

Other Comments :

Paints and finishes which are applied and become part of products which will subsequently sold at retail are currently exempt from state and local sales tax. The bill would exempt chemicals used to prepare products for retail sale by improving or enhancing the product and that are integral to the coating, priming, etching, bonding or engraving the product. Materials used in glass and metal etching when purchased by a retailer would become exempt.

Legal Analysis :

This is an exemption that could be subject to differing interpretations. The language of the bill is imprecise and could be subject to interpretations for which a claim of exemption could be made even though that is not the intent of the bill. If possible, more direct language to effect the intent of the exemption is recommended. The effective date of the exemption is the first day of the calendar quarter following the effective date of the act.