

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB334**

**Amendment Number: S1**

**Bill Subtitle: TO REDUCE THE SALES AND USE TAX RELATING TO THE PARTIAL REPLACEMENT AND REPAIR OF MACHINERY AND EQUIPMENT USED DIRECTLY IN MANUFACTURING; TO PROVIDE A REFUND MECHANISM FOR CERTAIN SALES AND USE TAXES; AND TO DECLARE AN EMERGENCY.**

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### Basic Change :

Senator Files

Representative Wren

Senate Amendment 1 --- Amends the bill to provide revised dates for the phase-in refund of state sales and use taxes paid by manufacturers on repair and replacement parts and services. The amendment also provides that to receive the refund, the eligible manufacturer must claim the refund on their monthly direct pay tax report.

The portion of the 6.5% State Sales and Use Tax eligible for refund would be as follows:

Effective January 1, 2014:	1% portion eligible for refund -- 5.5% net tax rate
Effective January 1, 2015:	2% portion eligible for refund -- 4.5% net tax rate
Effective January 1, 2016	3% portion eligible for refund -- 3.5% net tax rate
Effective January 1, 2017	4% portion eligible for refund -- 2.5% net tax rate
Effective January 1, 2018:	5% portion eligible for refund -- 1.5% net tax rate
Effective January 1, 2019:	5.875% portion eligible for refund -- .625% net tax rate

The Constitutional levies of .125% for Conservation and .5% for Highways are not eligible for refund. The proposal would be effective on January 1, 2014.

Original Bill --- The proposal provides for a refund of a portion of the state sales and use tax on machinery and equipment purchased to modify, replace, or repair manufacturing machinery and equipment. Services relating to the initial installation, alteration, addition, cleaning, refinishing, replacement, or repair of manufacturing machinery or equipment would also be eligible for the refund.

### Revenue Impact :

Revenue Impact estimates represent the annual net tax reduction resulting from: (1) sales and use tax refunds on manufacturing repair and replacement parts; (2) removal of the AEDC InvestArk program; and (3) the anticipated growth in the AEDC TaxBack program because of the InvestArk elimination.

### FY14 Tax Decrease

Total Impact to State Revenues	- \$3.27 million
-\$ 2.42 million --- State General Revenue (4.5%)	
-\$ .47 million --- Educational Adequacy (.875% tax)	
-\$ .27 million --- Property Tax Relief Trust Fund (.5%)	
-\$ 0 million --- Conservation Tax (.125%)	
-\$ 0 million --- Highway Fund (.5%)	
-\$ 0 million --- Educational Excellence Trust Fund	
-\$ 0 million --- Educational Adequacy (GR transfer)	
-\$ .08 million --- State Central Services	
-\$ .03 million --- Constitutional Officers	

### FY15 Tax Decrease

Total Impact to State Revenues	- \$9.89 million
-\$ 7.10 million --- State General Revenue (4.5%)	
-\$ 1.31 million --- Educational Adequacy (.875% tax)	

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- \$ .83 million --- Property Tax Relief Trust Fund (.5%)  
+ \$ .03 million --- Conservation Tax (.125%)  
+ \$ .03 million --- Highway Fund (.5%)  
- \$ .34 million --- Educational Excellence Trust Fund  
- \$ .03 million --- Educational Adequacy (GR transfer)  
- \$ .23 million --- State Central Services  
- \$ .10 million --- Constitutional Officers

### FY16 Tax Decrease

Total Impact to State Revenues - \$14.23 million  
- \$10.10 million --- State General Revenue (4.5%)  
- \$ 1.65 million --- Educational Adequacy (.875% tax)  
- \$ 1.25 million --- Property Tax Relief Trust Fund (.5%)  
+ \$ .14 million --- Conservation Tax (.125%)  
+ \$ .25 million --- Highway Fund (.5%)  
- \$ 1.06 million --- Educational Excellence Trust Fund  
- \$ .09 million --- Educational Adequacy (GR transfer)  
- \$ .33 million --- State Central Services  
- \$ .14 million --- Constitutional Officers

### FY17 Tax Decrease

Total Impact to State Revenues - \$18.19 million  
- \$12.97 million --- State General Revenue (4.5%)  
- \$ 2.06 million --- Educational Adequacy (.875% tax)  
- \$ 1.63 million --- Property Tax Relief Trust Fund (.5%)  
+ \$ .25 million --- Conservation Tax (.125%)  
+ \$ .55 million --- Highway Fund (.5%)  
- \$ 1.59 million --- Educational Excellence Trust Fund  
- \$ .14 million --- Educational Adequacy (GR transfer)  
- \$ .42 million --- State Central Services  
- \$ .18 million --- Constitutional Officers

### FY18 Tax Decrease

Total Impact to State Revenues - \$21.78 million  
- \$15.59 million --- State General Revenue (4.5%)  
- \$ 2.50 million --- Educational Adequacy (.875% tax)  
- \$ 1.98 million --- Property Tax Relief Trust Fund (.5%)  
+ \$ .37 million --- Conservation Tax (.125%)  
+ \$ .91 million --- Highway Fund (.5%)  
- \$ 2.08 million --- Educational Excellence Trust Fund  
- \$ .18 million --- Educational Adequacy (GR transfer)  
- \$ .50 million --- State Central Services  
- \$ .22 million --- Constitutional Officers

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### FY19 Tax Decrease

Total Impact to State Revenues - \$25.51 million  
-\$18.23 million --- State General Revenue (4.5%)  
-\$ 3.11 million --- Educational Adequacy (.875% tax)  
-\$ 2.33 million --- Property Tax Relief Trust Fund (.5%)  
+\$ .46 million --- Conservation Tax (.125%)  
+\$ 1.29 million --- Highway Fund (.5%)  
-\$ 2.52 million --- Educational Excellence Trust Fund  
-\$ .22 million --- Educational Adequacy (GR transfer)  
-\$ .59 million --- State Central Services  
-\$ .26 million --- Constitutional Officers

### FY20 Tax Decrease

Total Impact to State Revenues - \$26.12 million  
-\$18.52 million --- State General Revenue (4.5%)  
-\$ 3.26 million --- Educational Adequacy (.875% tax)  
-\$ 2.42 million --- Property Tax Relief Trust Fund (.5%)  
+\$ .54 million --- Conservation Tax (.125%)  
+\$ 1.62 million --- Highway Fund (.5%)  
-\$ 2.97 million --- Educational Excellence Trust Fund  
-\$ .26 million --- Educational Adequacy (GR transfer)  
-\$ .60 million --- State Central Services  
-\$ .26 million --- Constitutional Officers

### Taxpayer Impact :

Eligible purchasers of repair and replacement parts and services would claim the refund when filing their monthly direct pay tax report.

### Resources Required :

None

### Time Required :

Adequate time is provided for implementation.

### Procedural Changes :

Modifications to DFA's computer system and modification of reporting forms.

### Legal Analysis :

Amendment S-1 to SB334 modifies the provision authorizing a refund of a portion of the state sales and use tax on purchases of and services to certain manufacturing machinery and equipment. Currently, the refund is increased over a 6 year phase in period beginning on July 1, 2013 (with a refund of the taxes in excess of the rate of 4.875%) and ending on July 1, 2018 (with a refund of 100% of the taxes). Amendment S-1 delays the phase in period, beginning it on January 1, 2014 and ending on January 1, 2019. The refund rates remain the same. The amendment requires a taxpayer to hold

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a direct pay permit to claim the benefit of the refund.

The amendment also modifies Ark. Code Ann. § 15-4-2706, which provides a retention tax credit against Arkansas sales and use tax for qualifying businesses (commonly known as the Invest Ark credit). The amendment states that the tax credit provisions, which currently do not have an ending date, will expire on January 1, 2014; and the Director of the Arkansas Economic Development Commission is prohibited from certifying a project for the credit on or after that date. Any unused tax credits earned for a certified project before January 1, 2014 may still be carried forward for the 5-year period currently allowed in the law.

The amendment replaces the emergency clause with a section simply making the act effective on and after January 1, 2014.