

Department of Finance and Administration

Legislative Impact Statement

Bill: SB688

Amendment Number: Engrossment 3/28/14 (Am #S3)

Bill Subtitle: TO AMEND THE TAX APPLICABLE TO LONG-TERM RENTALS OF VEHICLES; TO REQUIRE THAT THE LONG-TERM RENTAL VEHICLE TAX BE PAID ON EACH RENTAL; AND TO LOWER THE THRESHOLD FOR THE EXPIRATION OF THE LONG-TERM RENTAL VEHICLE TAX.

Basic Change :

Senator Teague

Engrossment 03/28/13 --- Senate Amendment 3 --- Makes additional technical correction amending language of existing code to continue to provide the optional method for tax payment or leases for products other than motor vehicles.

Engrossment 03/25/13 --- Senate Amendment 2 --- Amends the bill to clarify that the required collection of state and local sales taxes on long-term leases of 30 days or more applies to motor vehicle long term leases only. For all other types of property leased for long-term periods, the lessor continues to have a choice of either paying the tax on the original purchase price and not collecting sales taxes on the monthly lease payments or purchasing the property without payment of the sales tax and collecting state and local sales tax on each lease payment.

Original Bill --- The proposal amends Ark. Code Ann. § 26-63-304(a) to require the collection of the one and one-half percent (1.5%) Long-Term Rental Vehicle Tax levied on long term leases of motor vehicles regardless of whether the state sales or use tax was paid at the time of initial motor vehicle registration.

Currently, the lessor of the motor vehicle has a choice regarding the method of sales tax payment. If the lessor of the motor vehicle pays state and local sales tax at the time of registration of the motor vehicle being placed into a long term lease arrangement, no sales or long-term rental taxes are collected on the subsequent monthly long-term lease payments. If the motor vehicle is registered without the payment of sales tax at the time of registration, the lessor must collect the state, local, and the one and one-half percent (1½%) long-term rental vehicle tax on each monthly payment. The proposal would require collection of the tax on the monthly lease payments.

The bill also amends the existing provisions that provide for repeal of the long-term rental vehicle tax. Under current law, the long-term rental vehicle tax will end when 10% of new motor vehicle registrations per year are for long-term lease purposes. The bill changes the percentage to 3% of new motor vehicle registrations. Approximately 1% of new motor vehicle registrations in Arkansas are for long-term lease transactions. The proposal would be effective on the first day of the calendar quarter following the effective date of the act.

Revenue Impact :

\$650,000 loss when the 1.5% rental tax expires. DFA does not anticipate that occurring for several years. Lessors of motor vehicles currently register most of their vehicles without sales tax at the time of registration and instead collect state, local and long-term rental vehicle taxes on the monthly lease payments. The proposal continues this taxation method but removes the alternative.

Taxpayer Impact :

Taxpayers would be required to collect state and local sales tax and the 1.5% long term rental vehicle tax on the monthly payments of all long term leases of motor vehicles

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Resources Required :

None

Time Required :

Adequate time is allowed in the proposal.

Procedural Changes :

Education of staff and a revision of the rules for the change in the law.

Legal Analysis :

Amendment S3 amends the bill to clarify that sales and use tax will not be due on the lease stream for long-term (30 days or more) leases of tangible personal property if the lessor paid tax on the property at the time of purchase. This resolves the concern voiced by DFA that striking through the provision "for thirty (30) days or more" in sections 1 and 2 of the original bill would have the unintended consequence of exempting tax on the lease stream for any lease of tangible personal property, regardless of the length of the lease, if the lessor paid tax on the property at the time of purchase.