

Department of Finance and Administration

Legislative Impact Statement

Bill: SB77

Amendment Number: S1

Bill Subtitle: TO AMEND THE LAW TO REDUCE THE ADMINISTRATIVE FEE CHARGED BY THE STATE TO COLLECT SALES TAX.

Basic Change :

Sponsor: Sen. Wallace

Original Bill --- The bill amends § 26-73-105 to reduce the amount the Department of Finance and Administration (DFA) would deduct from local tax revenues collected pursuant to the provisions of the Subchapter from three percent (3%) to one and one-half percent (1.5%). The code provision was originally adopted in 1977 in legislation authorizing cities and counties in Arkansas to levy local income taxes with the 3% fee to cover DFA cost of collection. No Arkansas city or county has levied an income tax under the authority of Title 26, Chapter 73, Subchapter 1.

Senate Amendment 1 --- Amends the bill to change the provisions of §§ 26-74-214, 26-74-313, 26-74-409, 26-74-609, 26-75-217, 26-75-506, 26-81-107, and 26-82-111 of the Arkansas Code that provide for the 3% rate of deduction by the State Treasurer from local city and county sales and use tax deposits. The amended bill changes the deduction from three percent (3%) to one and five-tenths percent (1.5%). Amounts deducted by the State Treasurer are deposited into the Constitutional Officers Fund and State Central Services Fund.

The Act would be effective 90 days after final adjournment of the 92nd General Assembly.

Revenue Impact :

Reduce State Treasurer Deductions from City and County Sales Tax Revenues

- \$ 13.0 Million --- Annual Loss to State Central Services Fund

- \$ 6.5 Million --- Annual Loss to Constitutional Officers Fund

+\$ 19.5 Million --- Annual Gain to Cities and Counties in Sales Tax Revenue Distribution

Taxpayer Impact :

No impact on retailers collecting and remitting city and county sales and use taxes. City and County government entities would receive increased tax distributions from the State Treasurer.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

The Arkansas State Treasurer would change procedures to calculate a different rate for the deduction of fees for deposit to the State Central Services Fund and the Constitutional Officers Fund from local sales and use tax revenues.

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Other Comments :

None.

Legal Analysis :

Current law requires a deduction of 3% from all state and local sales and use tax collections. The amounts deducted are deposited to the Constitutional Officers Fund and the State Central Services Fund. The bill, as originally filed, reduced the 3% deduction to 1.5% for tax collections arising under one specific local sales and use tax enabling act. The deduction remained at 3% from local sales and use taxes levied under other enabling acts.

The amendment to the bill reduces the 3% deduction to 1.5% for collections from all local sales and use taxes authorized by state law. The amounts deducted will continue to be deposited to the Constitutional Officers Fund and the State Central Services Fund. The current 3% deduction from state sales and use tax collections is unchanged. This bill will be effective 90 days after adjournment of the General Assembly.

Local sales and use taxes are reported by retailers on a calendar month basis. If the bill is effective other than on the first day of a calendar month, the State Treasurer will be unable to determine the amount of tax collections during that month subject to the 3% deduction and the 1.5% deduction. Accordingly, the effective date of the bill should be at the beginning of a calendar month. References to the 3% deduction were not removed from §§ 26-74-214(b)(1) or 26-81-107(c). Additionally, § 26-74-214(b)(1) provides that the amounts deducted under the 3% deduction are deposited to the Constitutional and Fiscal Agencies Fund. This fund no longer exists and was replaced by the Constitutional Officers Fund and the State Central Services Fund. This language should be amended to prevent confusion.

The bill reduces the 3% deduction from local sales and use taxes levied pursuant to each state law authorizing the levy of a local tax. The local sales and use taxes levied under §§ 14-164-333, 26-73-112, 26-73-113, 26-75-301 et seq., and 26-75-401 et seq. are not amended by this bill; however, each of those levies provide for the 3% deduction pursuant to provisions of state law that are amended by this bill. Consequently, no further amendment is needed to reduce the 3% deduction to 1.5% for tax collections from local taxes levied under enabling acts not amended by this bill.