

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1431

Bill Subtitle: TO INCREASE THE SALES AND USE TAX EXEMPTION THRESHOLD FOR THE PURCHASE OF A USED MOTOR VEHICLE.

Basic Change :

Sponsors:

Reps. Lundstrum, Barker, Beaty Jr., Beck, Bentley, M. Berry, S. Berry, Boyd, Bragg, Breaux, Brooks, Brown, Bryant, Carr, Cavanaugh, Christiansen, Cloud, Coleman, C. Cooper, Cozart, Crawford, Deffenbaugh, Dotson, Eaves, Evans, C. Fite, L. Fite, Fortner, Furman, Gonzales, M. Gray, Haak, Hawks, Hillman, Holcomb, Hollowell, Jean, L. Johnson, Ladyman, Lowery, Lynch, Maddox, J. Mayberry, McClure, M. McElroy, McGrew, McKenzie, McNair, S. Meeks, Miller, Milligan, Payton, Penzo, Pilkington, Ray, Richmond, Rye, Slape, B. Smith, S. Smith, Speaks, Tollett, Tosh, Underwood, Vaught, Wardlaw, Warren, Watson, Wing, Womack, and Wooten

Sens. Rapert, B. Ballinger, Bledsoe, Caldwell, A. Clark, J. Dismang, L. Eads, J. English, T. Garner, K. Hammer, Hill, Irvin, B. Johnson, M. Johnson, Rice, G. Stubblefield, and D. Sullivan

HB1431 amends §§ 26-52-510 and 26-53-126 to increase the threshold for the levy of state sales and use tax on the sale of a used motor vehicle. Under current law, no sales or use tax is due on the sale of a new or used motor vehicle, trailer, or semitrailer if the selling price is less than \$4,000. HB1431 increases the threshold to provide that sales or use tax would not be due on a used motor vehicle if the sales price is less than \$10,000.

The bill would become effective on the first day of the second calendar month following the effective date of the act, which is anticipated to be September 1, 2021 for purposes of the Revenue Impact below.

Revenue Impact :

FY2022

Total Approximate State Sales and Use Tax Loss **\$ -21,300,000**

(Estimated Effective Date 9/1/21 --- 9 months reduced tax collection on used motor vehicles with sales price of \$4,000 to less than \$10,000)

	\$-14,289,023
General Revenue - 4.5%	
Property Tax Relief - .5%	\$-1,587,669
Conservation Fund - .125%	\$-396,917
Educational Adequacy Fund - .875%	\$-2,778,421
Highway Fund - .5%	\$-1,587,669
Educational Excellence Trust Fund -	\$0
Educational Adequacy (GR Transfer) -	\$0
State Central Services -	\$-447,300
Constitutional Officers -	\$-213,000

Total Approximate Local City and County Sales and Use Tax Loss **\$ -2,900,000**

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FY2023

Total Approximate State Sales and Use Tax Loss **\$ -28,400,000**

(12 months reduced tax collections on used motor vehicles with sales price of \$4,000 to less than \$10,000)

General Revenue - 4.5%	-\$17,100,734
Property Tax Relief - .5%	-\$2,116,892
Conservation Fund - .125%	-\$529,223
Educational Adequacy Fund - .875%	-\$3,704,562
Highway Fund - .5%	-\$2,116,892
Educational Excellence Trust Fund -	-\$1,792,810
Educational Adequacy (GR Transfer) -	-\$158,487
State Central Services -	-\$596,400
Constitutional Officers -	-\$284,000

Total Approximate Local City and County Sales and Use Tax Loss **\$ -3,900,000**

[Statistical data derived from State of Arkansas software reporting for FY2020. FY2020 State taxes collected on used motor vehicles between \$4,000 and \$10,000 were approximately \$28.4 million. All numbers were calculated based on the assumption that purchases of these vehicles remains constant. City and county sales and use taxes apply to only the first \$2,500 of the sale.]

Taxpayer Impact :

A taxpayer that purchases a used motor vehicle with a sales price of greater than \$4,000, but less than \$10,000, will not pay sales or use tax on that purchase.

Resources Required :

Computer programming, manual updates and employee training.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Computer programs and training manuals will need to be updated. Department employees and State Revenue Office employees will need to be educated on changes as well as the taxpayer community. Updates to the Sales and Use Tax Rules will be required.

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Other Comments :

None.

Legal Analysis :

None.