

# Arkansas Sales and Use Tax

## History

The current Arkansas Sales Tax law was enacted in 1941. Arkansas began collecting use tax in 1949. Cities and counties began to widely use local sales and use taxes beginning in 1981.

## Arkansas Sales Tax

Arkansas imposes sales tax on all purchases of tangible personal property unless a specific exemption applies. Services are taxable only if the service is specifically enumerated by law as a taxable service.

## Arkansas Use Tax

Use tax was designed to assure fair competition between Arkansas businesses and their out-of-state competitors. Compensating use tax is due when tangible personal property or taxable services are purchased from a vendor located outside of Arkansas for storage, use for consumption in Arkansas and the vendor does not collect the Arkansas use tax. Purchases on which no tax was charged/paid are subject to compensating use tax regardless of how the transaction originated. If the out-of-state vendor does not charge the Arkansas use tax, the obligation to pay the tax falls to the purchaser. A common reason out-of-state vendors do not charge use tax is because the vendor does not have a physical presence in Arkansas.

## Local Sales Tax (City and County)

Local sales and use taxes are levied and collected on the same transactions subject to the state tax. Local sales tax is collected by the state on behalf of each city and county. The local tax is collected by businesses from their customers at the time of sale and is reported and Paid to DFA along with the state sales tax by the 20<sup>th</sup> of the month following the transaction. The revenue is distributed to the cities and counties in the following month. Today, there are 289 cities and 73 of the 75 counties that impose a sales and use tax.

## Sales and Use Tax Exemptions

State law provides a variety of sales and use tax exemptions. These exemptions provide that specific sales of goods or services that would otherwise be subject to tax are instead exempt from taxation. Exemptions are typically based on the nature or identity of the entity making the purchase, the nature of the item sold, or the intended use of item purchased. Most sales and use tax exemptions are provided as a matter of legislative discretion. A few exemption; however, exists for other reasons. Some exemptions are mandated by federal law. Other exemptions arise as a matter of tax theory upon which the sales and use taxes are based. All exemptions apply equally to both sales tax and use tax as well as for local taxes.

Entity Based Exemptions – Purchases by the specific entity identified by law are exempt from sales and use taxes.

Item Based Exemptions – Purchases of certain items specified by law are exempt from sales and use tax.

Use Based Exemptions – Purchases of certain items are exempt from sales and use tax if the item is purchased for a specific use identified by law.

Claiming an Exemption – Exemptions may be claimed by the purchaser by providing the proper documentation, such as the ST-391 Exemption Certificate, to the seller at the point of purchase. A seller who follows all applicable exemption requirements is relieved from liability even if it is determined that the purchaser improperly claimed an exemption.

### **Current Sales and Use Tax Rates**

6% - state sales and use

1.5% - reduced food tax

2.75% - reduced manufacturing utility tax

5.25% - reduced electricity manufacturing utility tax

Locals sales and use tax rates range from .5% to 3.5%

### **Distribution of State Sales Tax Revenue**

4.5% - General Fund

.875% - Educational Adequacy Fund

.5% - Property Tax Relief Trust Fund

.125% - Conservation Fund