

## EXHIBIT F

### Sales Tax Exemption for Cities and Counties from Their Own Local Sales Tax

An exemption for cities and counties from the sales and use tax levied by that local government entity would create several issues as discussed below:

1. **Violates Streamlined Sales Tax Agreement** – Arkansas law was amended several years ago to comply with the terms of the Streamlined Sales Tax Agreement (Agreement). Compliance with the Agreement allows Arkansas to collect sales and use tax on internet sales, mail order sales, and other types of remote sales to the fullest extent allowed by law. In addition, the Agreement was executed to allow Arkansas to collect sales tax on all remote sales if the U.S. Congress extended tax collection authority to the states.

Because Arkansas complies with the Agreement, over 2,600 remote sellers have voluntarily registered to collect Arkansas sales and use tax on remote transactions even though they were not required by law to do so. Those voluntary sellers have collected and remitted more than \$53M in state sales tax plus an additional \$19.9M in city and county sales taxes on remote sales to Arkansas customers since 2005. During calendar year 2014 total state sales tax collections by these voluntary sellers were \$9.2M and total local tax collections were \$3.7M.

Exempting cities or counties from their own sales and use tax would violate the terms of the Agreement. This violation could result in Arkansas losing all future sales and use tax collections from those voluntary sellers who currently pay tax to the state. Also, Arkansas would likely be unable to collect sales tax from other remote sellers if the U.S. Congress extends collection authority to the states over remote sales transactions. Each such bill introduced in Congress has either required compliance with the Agreement or required compliance with requirements similar to those outlined in the Agreement.

The Agreement requires that the tax base be identical for state and local sales and use tax purposes. To have an identical tax base, items subject to state sales tax must also be subject to local tax and items exempt from state sales tax must also be exempt from local tax. The suggested exemption would result in items purchased by the city being subject to state tax but not the local tax. This is prohibited by the Agreement. Proposed federal legislation contains the same requirement of an identical tax base as well.

2. **Hardship for Local Vendors** – All vendors selling in Arkansas must currently determine whether a sale is subject to sales and use tax or is an exempt transaction. If a sale is taxable, the merchant collects the full state and local sales tax due. If the transaction is exempt or otherwise not subject to tax, the merchant collects no sales and use tax. If a partial exemption were enacted, retailers would be required to determine if the purchaser is eligible for an exemption from one of the local taxes in effect at the place where the goods are delivered or the services are provided. This requirement would create a complex tax calculation decision for both Arkansas and remote merchants and would create an undue hardship on those businesses.
3. **County Tax Revenue Distributed to Others** – Arkansas law provides that county sales taxes are distributed by the State Treasurer both to the county and to each city government located within the county. An exemption from county sales taxes county purchases would reduce revenues distributed to the cities within the county.
4. **Bonding Concerns** – Some city and county taxes are dedicated to the repayment of bonds. Enactment of an exemption for cities or counties from their own local tax may affect money available for the repayment of bonds.