

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1218

As Engrossed: 3/6/2013

Bill Subtitle: TO REDUCE THE SALES AND USE TAX ON NATURAL GAS AND ELECTRICITY USED BY MANUFACTURERS AND TO DECLARE AN EMERGENCY.

Basic Change :

Representative Jean

Senator B. Sample

Engrossment 03/06/13 -- House Amendment 4 -- Amends the bill to correct Arkansas code references and to maintain required language.

Engrossment 03/04/13 -- House Amendment 3 -- Amends the bill to correct a reference to the month for the statutory tax rate for natural gas and electricity used in electricity generation to become 0% (January 1, 2016)

Engrossment 02/28/2013 -- House Amendment 2 -- Adds a co-sponsor and amends the bill to correct a reference to the year for the statutory tax rate for natural gas and electricity used in electricity generation to become 0% (January 1, 2016)

Engrossment 02/27/2013 -- House Amendment 1 -- Adds co-sponsors and makes changes to remove the language creating a full tax exemption for natural gas and electricity used in manufacturing and electricity generation and instead levies the state sales tax rate at zero percent (0%) at the applicable dates. This change will allow for the continued collection of the Conservation Tax, Highway Sales Tax, and local sales and use taxes.

Original Bill -The proposal would reduce the state sales and use tax rate on natural gas and electricity used in manufacturing by manufacturers classified in section 31 through 33 of the North American Industry Classification system (NAICS) and for certain high efficiency generators of electric power.

The proposal would reduce the current statutory tax rate of two and five-eighths percent (2.625%) to the rate of one percent (1.0%) effective July 1, 2013 for manufacturing companies classified in NAICS 31 through 33.. When combined with the 0.125% Conservation Tax and the new 0.5% Highway Tax, the total state tax rate would be 1.625%. Currently, the total state sales and use tax rate for these manufacturers is 2.75%.

Beginning July 1, 2014, the sale of natural gas and electricity used in the manufacturing process by eligible manufacturers would become exempt from state, city and county sales taxes. The bill provides that although the utilities would be exempt from tax, the bill states that the 0.125% Conservation Tax and the 0.5% for Highways would continue.

Tax Rates for Manufacturers in NAICS 31 through 33

Through June 30, 2013	2.75% (current law)
July 1, 2013 through June 30, 2014	1.625%
July 1, 2014	0.625%

The bill also removes the provision of current law that caps the total tax savings at fro the eligible manufacturers at twenty seven million dollars (\$27,000,000) per fiscal year. The cap level has not been met in previous years.

For natural gas and electricity used by a generator of electric power classified within Sector 22 of the

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North American Industry Classification System to operate a new or existing facility that uses combined cycle gas turbine technology, the state sales and use tax rate would be further reduced to one percent (1%) beginning on January 1, 2015. When combined with the 0.125% Conservation Tax and the 0.5% Highway Tax, the total state rate would be 1.625% beginning July 1, 2015.

Effective January 1, 2016, the natural gas and electricity used by eligible generators of electric power would be exempt from state and local sales and use tax. The bill provides that although the utilities would be exempt from tax, the 0.125% Conservation Tax and the 0.5% for Highways would continue.

Tax Rates for Eligible Electricity Manufacturers

January 1, 2013 through June 30, 2013	4.25% (current law)
July 1, 2013 through December 31, 2013	4.75% (current law)
January 1, 2014 through December 31, 2014	3.25% (current law)
January 1, 2015 through December 31, 2015	1.625%
January 1, 2016	0.625%

Revenue Impact :

FY14 Tax Decrease

Total Impact to State Revenues - **\$13.1 million**

-\$ 9.7 million --- State General Revenue
-\$ 1.9 million --- Educational Adequacy
-\$ 1.1 million --- Property Tax Relief Trust Fund
-\$ 0 million --- Conservation Tax
-\$ 0 million --- Highway Fund
-\$ 0 million --- Educational Excellence Trust Fund
-\$ 0 million --- Educational Adequacy (GR transfer)
-\$.3 million --- State Central Services
-\$.1 million --- Constitutional Officers

FY15 Tax Decrease

Total Impact to State Revenues - **\$25.4 million**

-\$17.3 million --- State General Revenue
-\$ 3.7 million --- Educational Adequacy
-\$ 2.1 million --- Property Tax Relief Trust Fund
-\$ 0 million --- Conservation Tax
-\$ 0 million --- Highway Fund
-\$ 1.4 million --- Educational Excellence Trust Fund
-\$.1 million --- Educational Adequacy (GR transfer)
-\$.6 million --- State Central Services
-\$.3 million --- Constitutional Officers

FY16 Tax Decrease

Total Impact to State Revenues - **\$28.9 million**

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-\$18.5 million --- State General Revenue
-\$ 4.2 million --- Educational Adequacy
-\$ 2.4 million --- Property Tax Relief Trust Fund
-\$ 0 million --- Conservation Tax
-\$ 0 million --- Highway Fund
-\$ 2.7 million --- Educational Excellence Trust Fund
-\$.2 million --- Educational Adequacy (GR transfer)
-\$.7 million --- State Central Services
-\$.3 million --- Constitutional Officers

FY17 Tax Decrease

Total Impact to State Revenues - **\$30.6 million**

-\$19.4 million --- State General Revenue
-\$ 4.4 million --- Educational Adequacy
-\$ 2.5 million --- Property Tax Relief Trust Fund
-\$ 0 million --- Conservation Tax
-\$ 0 million --- Highway Fund
-\$ 3.0 million --- Educational Excellence Trust Fund
-\$.3 million --- Educational Adequacy (GR transfer)
-\$.7 million --- State Central Services
-\$.3 million --- Constitutional Officers

Taxpayer Impact :

Taxpayers would be required to change accounting and computer systems to allow for the rate changes and make the necessary changes for the exemption when it becomes effective.

Resources Required :

None

Time Required :

Adequate time is allowed in the proposal

Procedural Changes :

Education of staff in the changes and a revision of the rules

Other Comments :

None

Legal Analysis :

This engrossed bill reduces the statutory sales tax rate on natural gas and electricity sold to manufacturers in NAICS 31 through 33 to 1% on July 1, 2013 and to 0% on July 1, 2014. The reduction in the rate to electricity manufacturers continues with the reductions in current law and adds a reduction to 1% beginning on January 1, 2015 and to 0% on January 1, 2016. The 1/8% and 1/2% constitutional levies continue to apply. The bill is effective on July 1, 2013.