Department of Finance and Administration

Legislative Impact Statement

Bill: HB1007 As Engrossed: 2/17/2015
Bill Subtitle: TO OFFSET THE REVENUES GENERATED BY SALES TAX COLLECTED FROM OUT-OF-STATE SELLERS BY REDUCING THE INCOME TAX RATES APPLICABLE TO INDIVIDUALS, TRUSTS, AND ESTATES.

Basic Change : Sponsor: Rep. Linck

Engrossment 02/17/15 --- House Amendment 1 --- Amends the bill to provide that after deductions for the Constitutional Officers Fund and the State Central Services Fund, if the amount of general revenue resulting from sales and use taxes collected from remote sellers during the 1st twelve months of collections exceeds $70,000,000, the amount that exceeds will be used to reduce the current 4.5% income tax rate for all taxpayers subject to that tax rate.

Original Bill - The bill reduces State income taxes for individuals, trusts and estates by reducing the income tax rates and offsetting the reduced income tax revenue with the increased state sales and use tax revenue that will be collected from remote sellers having no physical presence in Arkansas. Federal law authorizing the collection of the sales and use taxes from these sellers will be required prior to the income tax reductions as proposed in this bill becoming effective.

The process to implement the income tax rate reductions would begin after twelve (12) months of DFA collecting sales and use taxes from the remote sellers subject to the federal law. DFA would certify to the Governor and to the Office of Economic and Tax Policy the amount of the net general revenues attributable to taxes remitted by these remote sellers during their first 12 months of tax reporting. DFA would also determine the reduced state income tax rates to offset the amount certified.

The reduced rates would be incorporated into the income tax tables for the tax year following the first twelve months of sales and use collections by DFA from the remote sellers. Example: If remote collection authority were granted effective January 1, 2016. DFA begins collecting from the remote sellers in February, 2016 with the first twelve months of collecting ending with the collections received by DFA in January, 2017. The proposed income tax rate reductions would become effective January 1, 2018. The bill provides that the effective date of the act would be January 1, 2015.

Revenue Impact :

An income tax rate reduction will occur if the net general revenue portion of sales and use taxes collected from remote sellers exceeds $70,000,000 during the first twelve months of collection authority. General revenues received over the threshold amount will be used to reduce income taxes reported at the 4.5% tax rate bracket. Federal legislation must first be adopted to grant the sales tax collection authority and any subsequent income tax rate reduction.

Taxpayer Impact :

Arkansas individual income taxpayers with income subject to the 4.5% income tax rate will receive a reduction in tax rate if federal remote collection authority is granted and Arkansas tax collections from the new remote sellers equal or exceed the threshold level established in the proposal

Resources Required :

None

Time Required :

Adequate time is provided for implementation

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Procedural Changes :
Revised employer's income tax withholding formulas and withholding tax tables will be required if teh tax rate reduction is implemented.

Other Comments :

As a member of the Streamlined Sales Tax Agreement, approximately 2,300 out-of-state sellers with no physical presence in Arkansas have voluntarily registered to collect Arkansas state and local sales taxes. The tax receipts from these sellers currently provide approximately $10M annually in state sales and use tax revenue. The proposal does not provide guidance as to including the revenue from these sellers when deterring the amount of sales tax collections received from the remote sellers that begin to report after federal legislation is adopted.

Legal Analysis :

HB1007 as engrossed with Amendment H1 addresses DFA concerns regarding potential unlawful delegation issues by specifying that, after deduction for State Central Services and Constitutional Officers Funds, the tax receipts shall trigger a deduction in the tax rate in § 26-51-201(a)(4).