

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1259**

**Amendment Number: H1**

**Bill Subtitle: TO CREATE A SALES AND USE TAX EXEMPTION FOR PARTS FOR AND REPAIR OF AGRICULTURAL EQUIPMENT AND MACHINERY.**

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**Basic Change :** Sponsor: Representative Jett

House Amendment 1 --- Adds Representative M. Hodges as a cosponsor of the bill.

The amendment also adds aviation machinery and equipment to the types of eligible agricultural machinery subject to the exemption for repair and replacement parts and repair services. The amendment also changes the effective date of the tax exemption to January 1, 2016.

Original Bill --- The bill provides a sales and use tax exemption for repair and replacement parts and repair services used to repair agricultural machinery and equipment used in commercial agricultural production in Arkansas. The exemption would be effective on the first day of the calendar quarter following the effective date of the act. (Revenue Impact calculated assuming October 1, 2015 effective date.)

### **Revenue Impact :**

#### **FY16 Tax Decrease**

Total Impact to State Revenues - \$7.5 million

[ 5 Months of Reduced Tax Collections -- 01/01/2016 Effective Date ]

- \$ 5.0 million --- State General Revenue (4.5%)
- \$ 1.0 million --- Educational Adequacy (.875% tax)
- \$ .6 million --- Property Tax Relief Trust Fund (.5%)
- \$ .1 million --- Conservation Tax (.125%)
- \$ .6 million --- Highway Fund (.5%)
- \$ 0 million --- Educational Excellence Trust Fund
- \$ 0 million --- Educational Adequacy (GR transfer)
- \$ .2 million --- State Central Services
- \$ .1 million --- Constitutional Officers

Total Loss to City and County Sales Taxes - \$2.3 million

#### **FY17 Tax Decrease**

Total Impact to State Revenues - \$18.4 million

- \$ 11.5 million --- State General Revenue (4.5%)
- \$ 2.4 million --- Educational Adequacy (.875% tax)
- \$ 1.4 million --- Property Tax Relief Trust Fund (.5%)
- \$ .3 million --- Conservation Tax (.125%)
- \$ 1.4 million --- Highway Fund (.5%)
- \$ .7 million --- Educational Excellence Trust Fund
- \$ .1 million --- Educational Adequacy (GR transfer)
- \$ .4 million --- State Central Services
- \$ .2 million --- Constitutional Officers

Total Loss to City and County Sales Taxes - \$5.7 million

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### **Taxpayer Impact :**

Sellers would discontinue collection of sales tax on sales of repair and replacement parts used to repair farm machinery, farm equipment, agricultural use aviation equipment, and repair services for such equipment by purchasers using the equipment in commercial agricultural production. Sellers would change their accounting and tax collection systems and processes to provide the tax exemption and to maintain records to substantiate their exempted sales to maintain records to substantiate the exemptions they granted.

### **Resources Required :**

No resources will be required if the exemption is fully administered by sellers of these products and services. The purchaser would have to substantiate to the seller that they were entitled to the exemption and the seller would maintain the records for future audit. Limited resources may be required if Arkansas registers commercial farmers and provides an exemption certificate and number for the farmer to present to the seller when purchasing their exempt products and services.

### **Time Required :**

Adequate time is provided for implementation.

### **Procedural Changes :**

Education of taxpayers and DFA staff regarding enactment of the sales and use tax exemption. Modification of Sales Tax Rules will be required and possible farmer registrations

### **Other Comments :**

The proposal does not provide definitions for agricultural machinery and equipment and for repair and replacement parts. Under Ark. Code Ann. § 26-52-403, the exemption for farm machinery and equipment is limited to implements used exclusively and directly in farming. Farming is further defined as the agricultural production of food or fiber as a business. This proposal does not limit the exemption for repairs and replacement parts to the same farm machinery and equipment exempt under §26-52-403. Specific definitions for repair and replacement parts is necessary. Items such as motor oil, grease, and lubricants, replacement oil and air filters, tires, batteries, belts, and sparkplugs could be considered maintenance items and subject to tax versus replacements and entitled to exemption.

With a broad range of products and services that would be subject to the exemption, sellers may need clear documentation presented by the purchaser to substantiate their exemption claim. Depending on the definition established for the eligible parts and services subject to exemption, companies such as discount stores, auto parts suppliers, tire retailers, engine repair service providers, and many other types of retailers will be administering a sales tax exemption for farm related repair and replacement purchases for the first time. A purchaser providing a state issued exemption certificate would assist the retailer in properly determining if a sale is exempt. Neighboring states of Tennessee, Missouri, Oklahoma, Texas and Louisiana require exempt farm purchasers to present a state issued certificate to claim exemptions.

### **Legal Analysis :**

Amendment #1 added parts and services for agricultural aviation to the exemption and changes the effective date from October 1, 2015 to January 1, 2016.