

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1662**

**Bill Subtitle: TO EXEMPT FROM THE SALES AND USE TAX CERTAIN SERVICES AND PARTS AND OTHER PROPERTY INCORPORATED INTO CERTAIN COMMERCIAL JET AIRCRAFT; AND TO PROVIDE A SALES AND USE TAX EXEMPTION FOR SALES OF AIRCRAFT UNDER CERTAIN CIRCUMSTANCES.**

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**Basic Change :** Sponsor: Representative Jett

The proposal would amend Ark. Code Ann. § 26-52-401 to add language exempting the services required to incorporate parts or other tangible personal property which becomes a part of a commercial jet aircraft component or subcomponent. Ark. Code Ann. § 26-52-301 currently provides for this exemption from sales tax. The proposal would also add a new section to exempt from state and local sales tax the sale of an aircraft when the aircraft is sold to a resident of another state and the aircraft will be based outside of the State of Arkansas even if possession of the aircraft transfers inside the state. The proposal would become effective on the first day of the second calendar following the effective date of the proposal.

**Revenue Impact :**

**FY16 Tax Decrease**

Total Impact to State Revenues - \$2.1 million  
[ 8 Months of Reduced Tax Collections -- 10/1/2015 Effective Date ]

- \$1.38 million --- Arkansas Dept of Aeronautics (4.5%)
- \$ .27 million --- Educational Adequacy (.875% tax)
- \$ .15 million --- Property Tax Relief Trust Fund (.5%)
- \$ .04 million --- Conservation Tax (.125%)
- \$ .15 million --- Highway Fund (.5%)
- \$ .04 million --- State Central Services
- \$ .02 million --- Constitutional Officers
- Loss to City and County Sales Tax Revenue -\$5,000

**FY17 Tax Decrease**

Total Impact to State Revenues - \$3.1 million

- \$ 2.07 million --- Arkansas Dept of Aeronautics (4.5%)
- \$ .40 million --- Educational Adequacy (.875% tax)
- \$ .23 million --- Property Tax Relief Trust Fund (.5%)
- \$ .06 million --- Conservation Tax (.125%)
- \$ .23 million --- Highway Fund (.5%)
- \$ .07 million --- State Central Services
- \$ .03 million --- Constitutional Officers
- Loss to City and County Sales Tax Revenue -\$7,500

[ Impact Statement Based on DFA tax reports and audits of aircraft sales that reflect approx. 2,000 aircraft sold in Arkansas during the past 2 year with more than 500 sold to out-of-state residents who paid the Arkansas tax. The average price per plane was \$191,010. The impact is based on 250 planes per year at the \$191,010 average price.]

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### **Taxpayer Impact :**

Taxpayers would need to maintain adequate documentation to support the exemption. Taxpayers would also need to modify accounting and computer systems to allow for the change.

### **Resources Required :**

None

### **Time Required :**

Adequate time is allowed in the proposal.

### **Procedural Changes :**

Educate staff of change in law.

### **Other Comments :**

Ark. Code Ann. § 26-52-301(3)(A)(vi) currently exempts the services of alteration, addition, cleaning, refinishing, replacement, or repair of commercial jet aircraft, commercial jet aircraft components, or commercial jet aircraft subcomponents. A commercial aircraft under existing law is defined as any commercial, military, private, or other turbine or turbo jet aircraft having a certified take-off weight of more than twelve thousand five hundred pounds (12,500 lbs).

The proposal would exempt an out of state purchaser from paying the Arkansas tax on an aircraft where title and possession occur in Arkansas.

### **Legal Analysis :**

HB1662 exempts from sales and use tax the services of attaching parts or other items to commercial jet aircraft, i.e., 12,500 lbs. or more take-off weight. HB1662 further exempts from sales and use tax the sale of any aircraft to a resident of another state who will base the aircraft outside of Arkansas, notwithstanding that the purchaser takes possession within Arkansas if the sole purpose was to remove the aircraft from Arkansas under its own power. HB1662 would take effect on the first day of the second calendar month following its effective date.