

Department of Finance and Administration

Legislative Impact Statement

Bill: SB95

Bill Subtitle: TO CREATE A SALES AND USE TAX EXEMPTION FOR CERTAIN SERVICE ORGANIZATIONS.

Basic Change : Sponsors: Sen. J. Woods and Rep. Neal

The bill would enact sales and use tax exemptions on purchases of goods and services by the following organizations:

- Knights of Columbus or a local club, council, or organization of Knights of Columbus;
- Kiwanis International or a local club or organization of Kiwanis International;
- Lions Clubs International or a local club or organization of Lions Clubs International;
- Masonic Lodges;
- Optimist International or a local club or organization of Optimist International;
- Rotary International or a club or local organization of Rotary International; and
- The United States Junior Chamber (JC's) or a local club or organization of United the States Junior Chamber.

The sales tax exemption would apply to all taxable purchases made by the organizations including restaurant meals and beverages paid for by the organization on behalf of the members at meetings, maintenance costs for property owned by the organizations, utilities services for their facilities, furniture, equipment, supplies, repair services, hotel lodging expenses, promotional materials; motor vehicles; and products purchased for distribution by the organization in performing their service activities (Examples: purchases of eyeglasses and vision testing equipment by the Lions Clubs; operating youth sports facilities by local Optimist Clubs). The proposal would be effective on the first day of the calendar quarter following the effective day of the act.

Revenue Impact :

FY16 Tax Decrease

Total Impact to State Revenues - \$616,667
[8 Months of Reduced Tax Collections -- 10/1/2015 Effective Date]

-\$ 413,262 --- State General Revenue (4.5%)
-\$ 80,356 --- Educational Adequacy (.875% tax)
-\$ 45,918 --- Property Tax Relief Trust Fund (.5%)
-\$ 11,479 --- Conservation Tax (.125%)
-\$ 45,918 --- Highway Fund (.5%)
-\$ 0 --- Educational Excellence Trust Fund
-\$ 0 --- Educational Adequacy (GR transfer)
-\$ 13,567 --- State Central Services
-\$ 6,167 --- Constitutional Officers

Total Loss to City and County Sales Taxes - \$190,000

FY17 Tax Decrease

Total Impact to State Revenues - \$950,000

-\$ 573,045 --- State General Revenue (4.5%)
-\$ 58,435 --- Educational Adequacy (.875% tax)

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- \$ 70,738 --- Property Tax Relief Trust Fund (.5%)
- \$ 17,685 --- Conservation Tax (.125%)
- \$ 70,738 --- Highway Fund (.5%)
- \$ 58,435 --- Educational Excellence Trust Fund
- \$ 5,166 --- Educational Adequacy (GR transfer)
- \$ 20,600 --- State Central Services
- \$ 10,300 --- Constitutional Officers

Total Loss to City and County Sales Taxes - \$280,800

Taxpayer Impact :

The exempt organizations would obtain a permit from DFA that would be used to claim the exemption. Sellers would no longer collect sales taxes when selling to the exempted organizations and would maintain within exemption certificates to substantiate their exempted sales transactions.

Resources Required :

None

Time Required :

Adequate time for implementation is provided by the proposal.

Procedural Changes :

Exempt entities would be required to register with DFA to acquire necessary documentation to present to sellers when claiming the sales tax exemption.

Other Comments :

The revenue loss is comprised primarily of sales taxes paid on meals paid for by the organization on behalf of the members for weekly or monthly meetings; maintenance of buildings owned by the entities; and utilities owned by the organization. Several of the organizations assist local charities through grants paid directly to the charities to be spent by the local charities. Additionally, most of the organizations provide scholarship assistance to local students. Some of the organizations purchase books to be donated to local schools and students; eyeglasses to assist needy students; and shoes or other clothing items purchased directly to be given to needy children. The proposal does not exempt the organizations from paying advertising and promotion taxes on food purchased at restaurant in those cities that levy the tax.

Legal Analysis :

SB95 adds seven organizations to the existing list of organizations exempt from sales tax. Except for masonic lodges, the organizations provided for by SB95 are specific and identifiable entities. However, "Masonic lodge" is not defined by Arkansas statute, nor does SB95 define "masonic lodge," which may cause ambiguity for DFA to administer the exemption. The identifiable organizations in SB95 are generally volunteer-based, service organizations that seek to promote the interests of communities, individuals, and children.

The new exemptions put into place by SB95 would become effective on the first day of the calendar quarter following the act's effective date.