

Department of Finance and Administration

Legislative Impact Statement

Bill: HB2280

Amendment Number: H1

Bill Subtitle: TO AMEND THE SALES AND USE TAX EXEMPTION FOR CERTAIN PRODUCTS USED BY MANUFACTURERS; AND TO REDUCE THE SALES AND USE TAX APPLICABLE TO COAL USED BY MANUFACTURERS.

Basic Change :

Sponsor: Representative M. Hodges

Engrossment 03/09/17 --- House Amendment 1 --- The bill would amend Arkansas sales and use tax code provisions to provide for reduced tax rates on the purchase of coal by Arkansas manufacturing companies. The reduced tax rates would be effective July 1, 2018.

The bill would extend the existing reduced sales and use tax rates on purchases of electricity and natural gas by manufacturing companies classified within the North American Industry Classification System Sectors 31 through 33 and Sector 115111 to include purchases of coal by these manufacturers. For manufacturers classified within the required sectors, the state sales and use tax rate is a total tax rate of five-eighths of one percent (.625%) composed of the one-eighth of one percent (.125%) levied in Arkansas Constitution, Amendment 75, and the temporary excise tax of one-half percent (.5%) levied in Arkansas Constitution, Amendment 91. The existing state tax rate for purchases of coal by manufacturing companies is six and one-half percent (6.5%). Purchases of coal eligible for the reduced tax rate must be used directly in the actual manufacturing processes.

The bill would also extend the existing reduced sales and use tax rates to purchases of coal by electricity generators classified within the North American Industry Classification System Sector 22. For eligible electricity generators purchasing electricity and natural gas, the current state sales and use tax rate is a total rate of one and five-eighths percent of one percent (1.625%). The existing state tax rate for purchases of coal by electricity generating companies is six and one-half percent (6.5%). Purchases of coal eligible for the reduced tax rate must be used directly in the actual electricity generating processes.

Revenue Impact :

FY2019

-\$25.29 Total Reduction to State Revenues

(11 months reduced tax collections)

-\$18.75 million --- State General Revenue (4.5%)
-\$ 3.53 million --- Educational Adequacy (.875% tax)
-\$ 2.02 million --- Property Tax Relief Trust Fund (.5%)
-\$ 0 --- Conservation Tax (.125%)
-\$ 0 --- Highway Fund (.5%)
-\$ 0 --- Educational Excellence Trust Fund
-\$ 0 --- Educational Adequacy (GR transfer)
-\$.56 million --- State Central Services
-\$.25 million --- Constitutional Officers

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FY2020

-\$28.10 Total Loss to State Revenues

- \$17.38 million --- State General Revenue (4.5%)
-\$ 3.92 million --- Educational Adequacy (.875% tax)
-\$ 2.24 million --- Property Tax Relief Trust Fund (.5%)
-\$ 0 --- Conservation Tax (.125%)
-\$ 0 --- Highway Fund (.5%)
-\$ 3.09 million --- Educational Excellence Trust Fund
-\$.027 million --- Educational Adequacy (GR transfer)
-\$.062 million --- State Central Services
-\$.028 million --- Constitutional Officers

Taxpayer Impact :

Manufacturing companies and electricity generators would be subject to reduced tax rates on purchases of coal.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Apply existing procedures to manufacturing companies that purchase coal for use in the manufacturing process.

Other Comments :

None.

Legal Analysis :

None.