

Department of Finance and Administration

Legislative Impact Statement

Bill: SB126

Bill Subtitle: TO CREATE A SECOND AMENDMENT APPRECIATION WEEKEND.

Basic Change :

Sponsor: Senator Hester

SB126, as amended by SB126-S1, creates the "Second Amendment Appreciation Weekend" to create a sales tax holiday on sales of firearms. During the holiday period, sellers of these products would not collect state and local sales tax on eligible product sales.

The bill provides for a two-day holiday period to begin each year at 12:01 a.m. on the second Saturday in September and end at 11:59 p.m. on the following Sunday. Firearms eligible for the sales tax exemption would include shotguns, rifles, and any type of handgun including pistols and revolvers. To administer the holiday, sellers would change their bookkeeping and cash register systems to cease collection of sales taxes at the beginning of the holiday period and reverse those changes at the holiday's conclusion. The bill provides definitions for the terms "layaway sale" and "rain check" to provide instruction to retailers for use during the holiday period for these types of sales activities. The proposal would be effective on the first day of the calendar quarter following the effective date of the Act which would result in the first holiday to be held in September 2018.

Since January 1, 2008 Arkansas has been a full member state to the Streamlined Sales and Use Tax Agreement with representatives from Arkansas serving on its governing board. The Agreement provides for sales tax holidays on certain defined products. In order to assist retailers in the collection of sales taxes, the provisions within the Agreement that allow states to have holiday periods allow such holidays only if the product types included within a holiday are defined within the Agreement. "Firearm" is not a defined term within the Agreement and a state holding a sales tax holiday for firearms would be in violation of the Streamlined Agreement.

Revenue Impact :

If the State of Arkansas was determined to be in violation of the Streamlined Agreement, sanctions may be imposed and future collections of sales taxes from out-of-state volunteer sellers would be in jeopardy. Current state and local sales tax collections from Streamlined volunteer sellers are approximately \$15 million per year. Arkansas has collected \$69.7M in states sales taxes and \$27.6M in local sales taxes through its participation in the Streamlined Agreement.

FY2019 Tax Decrease

Total Impact to State Revenues	-	- \$ 706,000
State General Revenue (4.5%)	- \$ 473,159	
Educational Adequacy (.875% tax)	- \$ 92,003	
Property Tax Relief Trust Fund (.5%)	- \$ 52,573	
Conservation Tax (.125%)	- \$ 13,143	
Highway Fund (.5%)	- \$ 52,573	
Educational Excellence Trust Fund		
Educational Adequacy (GR transfer)		
State Central Services	- \$ 15,533	
Constitutional Officers	- \$ 7,060	

Total Impact to City and County Sales Taxes - **-\$ 225,000**

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[Estimate based on a 21-day shift in normal firearms sales in order for the sale to occur on the tax free holiday weekend. Purchasers can select and purchase the firearm using a layaway and pick-up the firearm at the store on the holiday weekend and receive the tax free benefit. Estimate assumes normal sales for two weeks prior and one week after the holiday weekend will be impacted by the shifting of the purchase date.]

Taxpayer Impact :

Sellers would change their bookkeeping and cash register systems to cease collection of state and local sales taxes during the holiday period and reverse the changes at the holiday conclusion. Records to substantiate the exempted sales would be maintained for future tax audit.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Promulgation of rules will be required for implementation.

Other Comments :

To hold a sales tax holiday for firearms and remain in compliance with the Streamlined Sales and Use Tax Agreement, an amendment to the Agreement would be required. To amend the Agreement, state participation in developing a definition would be created which all states would be required to use and be adopted by the Governing Board. The positive vote of 18 member states would be required to approve an Agreement change. Firearms eligible for the sales tax exemption would include shotguns, rifles, and any type of handgun including pistols and revolvers. Additional definition for the eligible firearms may be needed to clarify which types of firearms are to be included. Examples: eligibility of toy rifles and handguns, hand held paint guns, hand held nail guns, etc.

Legal Analysis :

The bill proposes to create a two (2) day sales tax temporary exemption period, or sales tax holiday, for the purchase of "firearms," which are defined as shotguns, rifles, or any type of handgun, including pistols and revolvers. Under the Streamlined Sales and Use Tax Agreement, member states agree to apply a sales tax holiday only to specifically defined items of tangible personal property in the Agreement's Library of Definitions. Some examples are clothing and school computer supply. The Library does not contain a definition of "firearms." Thus, this bill would likely take Arkansas out of compliance with the terms of the Agreement. The bill defines the terms "layaway sale" and "rain check"

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in accord with the Agreement and provides for the application of the tax exemption in the same manner as that set forth in the Agreement.