

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB126**

**Amendment Number: S2**

**Bill Subtitle: TO CREATE A SECOND AMENDMENT APPRECIATION WEEKEND.**

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### Basic Change :

**Sponsor: Senator Hester**

SB126, as amended by S1 and S2, would amend the bill to define "firearm" the same as defined in federal law, delete sales of ammunition from the proposed sales tax holiday provisions, and change the date for the first sales tax holiday on firearms to be after the Director of Finance and Administration certifies that the Streamlined Sales and Use Tax Agreement has been amended to include "firearm" within the Agreement's defined terms used by sellers when collecting sales taxes. A sales tax holiday for "firearms" after the inclusion of a definition for firearms within the Streamlined Agreement would not violate the Agreement's provisions.

The Amendment also directs the Department of Finance and Administration (DFA) to propose to the Streamlined Sales Tax Governing Board an amendment to the Agreement to adopt the federal definition of "firearm" within the Agreement's library of definitions. DFA would provide quarterly updates to the Legislative Council of the proposed amendment's status and report when the amendment is adopted.

Original Bill --- 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.

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.

### Revenue Impact :

Annual Impact to State Revenues -

**-\$ 706,000**

[Fiscal Year of Revenue Impact dependent on the date of adoption by the Streamlined Sales Tax Governing Board of an amendment to the Streamlined Sales Tax Agreement that defines the term "firearm" for purposes of sales tax holidays.]

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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**

[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 :**

None.

### **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. Under the bill, Arkansas will propose an amendment to the Agreement to adopt the existing federal definition for "firearm". The positive vote of 18 member states will be required to approve an Agreement change.

### **Legal Analysis :**

Amendment 2 to SB126 provides for an expiration date for the exemption of October 1, 2023. The amendment aligns the definition of "firearm" in the bill with the federal definition of "firearm" provided under 26 U.S.C. § 5845. For purposes of continued compliance with the Streamlined Sales and Use

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Tax Agreement, DFA is directed to propose the addition of the defined term "firearm" to the Agreement's Library of Definitions. The act is not effective until the DFA Director certifies the addition has been completed. Compliance with the Agreement allows the state to receive sales and use tax collections from out-of-state sellers which are not currently required to collect but have voluntarily agreed to do so. These changes provide clarity and protect the state's interest in collecting tax revenues due.