

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1871

Bill Subtitle: TO CREATE A SALES AND USE TAX EXEMPTION FOR PARTS FOR AND REPAIR OF AGRICULTURAL EQUIPMENT AND MACHINERY.

Basic Change :

Sponsors: Reps. Richey, Jett, and C. Fite

HB1871 would exempt parts and repair parts used on agricultural equipment and machinery used to modify, replace, or repair, either in whole or in part, agricultural equipment and machinery from sales and use tax.

“Agricultural equipment and machinery” is defined to include implements used exclusively and directly in farming. Also included in the types of machinery and equipment eligible for the exemption on repair and replacement parts and services are irrigation pipe used to carry water from an irrigation well to the crops regardless of whether the irrigation pipe is used above ground or is buried underground. Repairs to aircraft and aviation machinery and equipment and any other implements used to harvest crops produced in farming would also be included in the exemption.

The Act would be effective on the first day of the calendar quarter following the effective date of the act (October 1, 2019).

Revenue Impact :

FY2020

-\$12.19 Million Total Loss to State Revenues

(8 months reduced tax collections)

- -\$8.05 million --- State General Revenue (4.5%)
- -\$.13 million --- Department of Aeronautics Fund
- -\$1.59 million --- Educational Adequacy (.875% tax)
- -\$.91 million --- Property Tax Relief Trust Fund (.5%)
- -\$.23 million --- Conservation Tax (.125%)
- -\$.91 million --- Highway Fund (.5%)
- -\$.26 million --- State Central Services
- -\$.12 million --- Constitutional Officers
- -\$4.1 million --- City and County Sales Tax

FY2021

-\$18.69 Total Loss to State Revenues

- -\$11.10 million --- State General Revenue (4.5%)
- -\$.20 million --- Department of Aeronautics Fund
- -\$ 2.44 million --- Educational Adequacy (.875% tax)
- -\$ 1.39 million --- Property Tax Relief Trust Fund (.5%)
- -\$.35 million --- Conservation Tax (.125%)
- -\$ 1.39 million --- Highway Fund (.5%)
- -\$ 1.14 million --- Educational Excellence Trust Fund
- -\$.10 million --- Educational Adequacy (GR transfer)

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- -\$.39 million --- State Central Services
- -\$.19 million --- Constitutional Officers
- -\$6.2 million --- City and County Sales Tax

Taxpayer Impact :

Taxpayers engaged in farming would be eligible for an exemption on the purchase of repair and replacement parts and services for repairs to farm machinery and equipment, irrigation equipment and aircraft used in agriculture.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Updates to the sales tax rules will need to be promulgated.

Other Comments :

None.

Legal Analysis :

HB1871 exempts the sale of tangible personal property and services to modify, replace, or repair existing agricultural equipment and machinery. Existing Arkansas law provides an exemption for machinery and equipment used exclusively and directly in the agricultural production of food or fiber as a business.

This bill appears to conflict with the farm equipment provisions of § 26-52-403. That section provides that farm equipment and machinery "shall not include implements used in the production and severance of timber, motor vehicles of a type subject to registration, airplanes, or hand tools." HB1871 specifically includes "[a]viation machinery and equipment" within the definition of agricultural equipment and machinery." This conflict may cause confusion in the enforcement of both chapters for both the Department of Finance and Administration and taxpayers.

HB1871 will be effective on the first day of the calendar quarter following the effective date of the act, or October 1, 2019.