

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1160

Bill Subtitle: TO INCREASE THE SALES AND USE TAX EXEMPTION FOR A USED MOTOR VEHICLE; AND TO ELIMINATE THE SALES AND USE TAX EXEMPTION FOR CERTAIN MOTOR VEHICLES, TRAILERS, AND SEMITRAILERS.

Basic Change :

Sponsors: Rep. Payton and Sen. Rapert

HB1160 amends §§ 26-52-510 and 26-53-126 to increase the threshold for the levy of state sales and use tax on the sale of a used motor vehicle. Under current law, no sales or use tax is due on the sale of a new or used motor vehicle, trailer, or semitrailer if the selling price is less than \$4,000. HB1160 increases the threshold to provide that sales or use tax would not be due on a used motor vehicle if the sales price is less than \$7,500. HB1160 also provides that the threshold increases on used motor vehicles with a sales price less than \$10,000, to occur two years from the effective date of the act.

HB1160 also removes the current exemption provision that exempts from sales and use tax all sales of semitrailers and new trailers with a selling price of less than \$4,000. Under HB1160, new and used semitrailers and new trailers will be subject to sales and use tax regardless of the sales price. The sales and use tax exemption for used trailers less than \$4,000 remains in effect.

The bill would become effective on the first day of the second calendar month following the effective date of the act, which is anticipated to be September 1, 2021 for purposes of the Revenue Impact below.

Revenue Impact :

FY2022

Total Approximate State Sales and Use Tax Loss	\$ -9,500,000
Total Approximate State Sales and Use Tax Gain on trailers under \$4,000 (12,654 added)	\$ +1,575,000
Net Amount	<u>\$ -7,925,000</u>

(Estimated Effective Date 9/1/21 --- 9 months reduced tax collection)

General Revenue - 4.5%	\$-5,316,456
Property Tax Relief - .5%	\$-590,717
Conservation Fund - .125%	\$-147,679
Educational Adequacy Fund - .875%	\$-1,033,755
Highway Fund - .5%	\$-590,717
Educational Excellence Trust Fund -	\$0
Educational Adequacy (GR Transfer) -	\$0
State Central Services -	\$-166,425
Constitutional Officers -	\$-79,250

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Total Approximate Local City and County Sales and Use Tax Loss	\$ -1,700,000
Total Approximate Local Sales and Use Tax Gain on trailers under \$4,000 (12,654 added)	\$ +628,200
Net Amount	<u>\$ -1,071,800</u>

FY2023

Total Approximate State Sales and Use Tax Loss	\$ -12,700,000
Total Approximate State Sales and Use Tax Gain on trailers under \$4,000 (16,752 added)	\$ +2,100,000
Net Amount	<u>\$-10,600,000</u>

(12 months reduced tax collections on used motor vehicles with sales price of \$4,000 to less than \$7,500)

General Revenue - 4.5%	-\$6,292,767
Property Tax Relief - .5%	-\$790,108
Conservation Fund - .125%	-\$197,527
Educational Adequacy Fund - .875%	-\$1,382,688
Highway Fund - .5%	-\$790,108
Educational Excellence Trust Fund -	-\$751,747
Educational Adequacy (GR Transfer) -	-\$66,456
State Central Services -	-\$222,600
Constitutional Officers -	-\$106,000

Total Approximate Local City and County Sales and Use Tax Loss	\$ -2,240,000
Total Approximate Local Sales and Use Tax Gain on trailers under \$4,000 (16,752 added)	\$ +837,600
Net Amount	<u>\$ -1,402,400</u>

FY2024

Total Approximate State Sales and Use Tax Loss	\$ -24,400,000
Total Approximate State Sales and Use Tax Gain on trailers under \$4,000 (16,752 added)	\$ +2,100,000
Net Amount	<u>\$-22,300,000</u>

(12 months reduced collections on used motor vehicles with sales price of \$4,000 to less than \$7,500 and nine months of reduced collections on used motor vehicles with sales price of \$7,500 to less than \$10,000)

General Revenue - 4.5%	\$-13,865,491
Property Tax Relief - .5%	\$-1,662,208

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Conservation Fund - .125%	\$-415,552
Educational Adequacy Fund - .875%	\$-2,908,863
Highway Fund - .5%	\$-1,662,208
Educational Excellence Trust Fund -	\$-1,005,491
Educational Adequacy (GR Transfer) -	\$-88,887
State Central Services -	\$-468,300
Constitutional Officers -	\$-223,000
Total Approximate Local City and County Sales and Use Tax Loss	\$ -3,500,000
Total Approximate Local Sales and Use Tax Gain on trailers under \$4,000 (16,752 added)	\$ +837,600
Net Amount	<u>\$ -2,662,400</u>

FY2025

Total Approximate State Sales and Use Tax Loss	\$-28,400,000
Total Approximate State Sales and Use Tax Gain on trailers under \$4,000 (16,752 added)	\$ +2,100,000
Net Amount	<u>\$-26,300,000</u>

(12 months reduced collections on used motor vehicles with sales price of \$4,000 to less than \$10,000 on used motor vehicles.)

General Revenue - 4.5%	\$-15,340,930
Property Tax Relief - .5%	\$-1,960,362
Conservation Fund - .125%	\$-490,090
Educational Adequacy Fund - .875%	\$-3,430,633
Highway Fund - .5%	\$-1,960,362
Educational Excellence Trust Fund -	\$-2,115,326
Educational Adequacy (GR Transfer) -	\$-186,998
State Central Services -	\$-552,300
Constitutional Officers -	\$-263,000

Total Approximate Local City and County Sales and Use Tax Loss	\$ -3,900,000
Total Approximate Local Sales and Use Tax Gain on trailers under \$4,000 (16,752 added)	\$ +837,600
Net Amount	<u>\$ -3,062,400</u>

[Statistical data derived from State of Arkansas software reporting for FY2020. FY2020 State taxes collected on used motor vehicles between \$4,000 and \$7,500 were approximately \$12.7 million. State taxes collected on used motor vehicles between \$7,500 and \$10,000 were approximately \$15.7 million. All numbers were calculated based on the assumption that purchases of these vehicles remains constant. City and county sales and use taxes apply to only the first \$2,500 of the sale.]

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Summary of Revenue Impact:

- FY2022 State Sales & Use tax loss of approximately \$7.9 million with 27,045 motor vehicles exempt from sales and use tax.
- FY2023 State Sales & Use tax loss of approximately \$10.6 million with 36,060 motor vehicles exempt from sales and use tax.
- FY2024 State Sales & Use tax loss of approximately \$22.3 million with 58,302 motor vehicles exempt from sales and use tax.
- FY2025 State Sales & Use tax loss of approximately \$26.3 million with 65,716 motor vehicles exempt from sales and use tax.

Taxpayer Impact :

A taxpayer that purchases a used motor vehicle with a sales price of greater than \$4,000, but less than \$7,500 will not pay sales or use tax. Two years following the effective date of the act, a taxpayer that purchases a used motor vehicle with a sales price of greater than \$4,000, but less than \$10,000 will not pay sales or use tax. A purchase of a semitrailer or a new trailer with a sales price of less than \$4,000 will be subject to sales and use tax.

Resources Required :

Computer programing, manual updates and employee training.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Computer programs and training manuals will need to be updated. Department employees and State Revenue Office employees will need to be educated on changes as well as the taxpayer community.

Other Comments :

None.

Legal Analysis :

Currently, Arkansas law provides that the sale or purchase of a new or used motor vehicle, trailer, or semitrailer for less than \$4,000 is exempt from sales and use tax. HB1160 raises the cap on the selling price of a used motor vehicle from \$4,000 to \$7,500 in both the sales tax provision of § 26-52-510(b)(1)(B) and the use tax provision of § 26-53-126(b)(2). As the bill restricts the application of

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this sales and use tax exemption to used motor vehicles, the purchase of a new motor vehicle will no longer be eligible for the sales or use tax exemption. The bill also provides for a second increase on the selling price cap to a sales price of less than \$10,000, set to occur two years from the effective date of the act. Additionally, HB1160 removes the exemption for both new and used semitrailers and new trailers but leaves the exemption in place for used trailers with a selling price of less than \$4,000.