

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1160

Amendment Number: H3

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:

Reps. Payton, Cavanaugh, Beck, Bentley, S. Berry, Boyd, Bragg, Breaux, Brown, Bryant, Carr, Christiansen, Cloud, Coleman, C. Cooper, Cozart, Crawford, Dalby, Deffenbaugh, Dotson, Eaves, Eubanks, Evans, C. Fite, L. Fite, Fortner, Furman, Gazaway, Gonzales, M. Gray, Haak, Hawks, Hillman, Holcomb, Hollowell, Jean, Jett, L. Johnson, Ladyman, Lowery, Lundstrum, Lynch, Maddox, J. Mayberry, McClure, M. McElroy, McGrew, McKenzie, McNair, S. Meeks, Miller, Milligan, Penzo, Pilkington, Ray, Richmond, Rye, Slape, B. Smith, S. Smith, Speaks, Tosh, Underwood, Vaught, Wardlaw, Warren, Watson, Wing, Womack, Wooten, and Fortner

Sens. Rapert, B. Ballinger, Beckham, Bledsoe, A. Clark, K. Hammer, Irvin, B. Johnson, Rice, G. Stubblefield, D. Sullivan, and D. Wallace

House Amendment No. 3 --- HB1160-H3 (engrossed 2/3/2021) amends the bill to provide that the sale of a new motor vehicle or a new or used trailer or semitrailer with a purchase price of less than \$4,000 would continue to be exempt from sales or use tax under existing law. The amendment does not change the bill with regards to the exemption provided under §§ 26-52-510 and 26-53-126 that would exempt used motor vehicle sales with a purchase price of \$4,000, but less than \$7,500, on the effective date of the act. Also, two years following the effective date of the act, the \$7,500 threshold would increase to \$10,000.

House Amendment No. 2 --- HB1160-H2 (engrossed) amends the bill as originally filed to allow the sale of a used semitrailer purchased for less than \$4,000 to be exempt from sales or use tax.

Original Bill --- 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.

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Revenue Impact :

FY2022

Total Approximate State Sales and Use Tax Loss **\$ -9,500,000**

(Estimated Effective Date 9/1/21 --- 9 months reduced tax collection on used motor vehicles with sales price of \$4,000 to less than \$7,500)

General Revenue - 4.5%	\$-6,373,038
Property Tax Relief - .5%	\$-708,115
Conservation Fund - .125%	\$-177,029
Educational Adequacy Fund - .875%	\$-1,239,202
Highway Fund - .5%	\$-708,115
Educational Excellence Trust Fund -	\$0
Educational Adequacy (GR Transfer) -	\$0
State Central Services -	\$-199,500
Constitutional Officers -	\$-95,000

Total Approximate Local City and County Sales and Use Tax Loss **\$ -1,700,000**

FY2023

Total Approximate State Sales and Use Tax Loss **\$ -12,700,000**

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

General Revenue - 4.5%	-\$7,538,936
Property Tax Relief - .5%	-\$946,638
Conservation Fund - .125%	-\$236,660
Educational Adequacy Fund - .875%	-\$1,656,617
Highway Fund - .5%	-\$946,638
Educational Excellence Trust Fund -	-\$901,148
Educational Adequacy (GR Transfer) -	-\$79,663
State Central Services -	-\$266,700
Constitutional Officers -	-\$127,000

Total Approximate Local City and County Sales and Use Tax Loss **\$ -2,240,000**

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FY2024

Total Approximate State Sales and Use Tax Loss **\$ -24,400,000**

(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%	\$-15,057,457
Property Tax Relief - .5%	\$-1,818,738
Conservation Fund - .125%	\$-454,685
Educational Adequacy Fund - .875%	\$-3,182,792
Highway Fund - .5%	\$-1,818,738
Educational Excellence Trust Fund -	\$-1,204,692
Educational Adequacy (GR Transfer) -	\$-106,497
State Central Services -	\$-512,400
Constitutional Officers -	\$-244,000

Total Approximate Local City and County Sales and Use Tax Loss **\$ -3,500,000**

FY2025

Total Approximate State Sales and Use Tax Loss **\$ -28,400,000**

(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%	\$-16,532,896
Property Tax Relief - .5%	\$-2,116,892
Conservation Fund - .125%	\$-529,223
Educational Adequacy Fund - .875%	\$-3,704,562
Highway Fund - .5%	\$-2,116,892
Educational Excellence Trust Fund -	\$-2,314,527
Educational Adequacy (GR Transfer) -	\$-204,608
State Central Services -	\$-596,400
Constitutional Officers -	\$-284,000

Total Approximate Local City and County Sales and Use Tax Loss **\$ -3,900,000**

[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 \$9.5 million with 27,045 motor vehicles exempt from sales and use tax.
- FY2023 State Sales & Use tax loss of approximately \$12.7 million with 36,060 motor vehicles exempt from sales and use tax.
- FY2024 State Sales & Use tax loss of approximately \$24.4 million with 58,302 motor vehicles exempt from sales and use tax.
- FY2025 State Sales & Use tax loss of approximately \$28.4 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 \$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.

Resources Required :

Computer programing, manual updates and employee training will be required.

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. Updates to the Sales and Use Tax Rules will be required.

Other Comments :

None.

Legal Analysis :

House Amendment No. 3 --- HB1160-H3 (engrossed 2/3/2021) adds the standard \$4,000 exemption back in place for new motor vehicles, new and used semitrailers, and new and used trailers. The increased threshold of \$7,500 (and \$10,000 in two years) would only apply to sales of used motor vehicles.

House Amendment No. 2 --- HB1160 as originally introduced removed the exemption for sales and

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use tax on all sales of semitrailers and new trailers with a selling price of less than \$4,000. HB1160-H2 (engrossed) adds the exemption back in place as to used semitrailers.

Original Bill --- 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 the 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.