

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1384

Bill Subtitle: TO AMEND THE SALES AND USE TAX LAWS REGARDING THE APPLICATION OF SALES AND USE TAXES TO CANDY; AND TO PROVIDE FOR SALES AND USE TAXES TO BE LEVIED ON CANDY AT THE SAME RATE AS IS LEVIED ON FOOD AND FOOD INGREDIENTS.

Basic Change :

Sponsor: Rep. L. Johnson

Under current law, the sale of food and food ingredients is taxed at a lower sales and use tax rate than the sale of other tangible personal property. The definition of "food and food ingredients" specifically excludes candy and soft drinks. "Candy" means a preparation of sugar, honey, or other natural or artificial sweeteners in combination with chocolate, fruits, nuts, or other ingredients or flavorings in the form of bars, drops, or pieces. HB1384 removes the exclusion of candy from the definition of "food and food ingredients" and subjects the sale of candy to the same reduced sales and use tax rate as the sale of food and food ingredients. The sale of soft drinks would continue to be taxed at the regular rate.

For purposes of the Revenue Impact below, an effective date of October 1, 2021 is assumed.

Revenue Impact :

FY2022

Total Approximate State Sales and Use Tax Loss **\$ - 12,410,964**
(Estimated Effective Date 10/1/21 --- 8 months reduced tax collection)

General Revenue - 4.5%	\$ - 8,489,099
Property Tax Relief - .5%	\$ - 943,233
Conservation Fund - .125%	\$ - .000
Educational Adequacy Fund - .875%	\$ - 1,650,658
Highway Fund - .5%	\$ - 943,233
Educational Excellence Trust Fund -	\$ - .000
Educational Adequacy (GR Transfer) -	\$ - .000
State Central Services -	\$ - 260,630
Constitutional Officers -	\$ - 124,110

Total Approximate Local City and County Sales and Use Tax Loss **\$ - .000**

FY2023

Total Approximate State Sales and Use Tax Loss **\$ - 19,081,857**

General Revenue - 4.5%	\$ - 11,745,518
Property Tax Relief - .5%	\$ - 1,450,221
Conservation Fund - .125%	\$ - .000
Educational Adequacy Fund - .875%	\$ - 2,537,887
Highway Fund - .5%	\$ - 1,450,221
Educational Excellence Trust Fund -	\$ - 1,200,359

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Educational Adequacy (GR Transfer) -	\$ - 106,114
State Central Services -	\$ - 400,719
Constitutional Officers -	\$ - 190,819
Total Approximate Local City and County Sales and Use Tax Loss	\$ - .000

Taxpayer Impact :

A consumer of candy purchased at retail would pay a reduced state sales and use tax rate consisting of the one eighth of one percent (0.125%) for the Conservation Tax levied under the Arkansas Constitution.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Updates to the Sales and Use Tax Rules will need to be promulgated.

Other Comments :

None.

Legal Analysis :

HB1384 reduces the full sales and use tax rate that applies to the sale of candy to the reduced tax rate on the sale of food and food ingredients. The tax rate on the sale of soft drinks would remain at the full sales and use tax rate. The UPC list described in Act 165 of 2019 would no longer apply to the sale of candy.