

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1194**

**Bill Subtitle: TO EXEMPT A MANUFACTURER'S REBATE ON A MOTOR VEHICLE FROM SALES AND USE TAX; AND TO EXCLUDE A MANUFACTURER'S REBATE ON A MOTOR VEHICLE FROM THE DEFINITION OF "SALES PRICE" USED FOR PURPOSES OF DETERMINING SALES AND USE TAXES.**

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### Basic Change :

**Sponsor: Rep. L. Johnson and Sen. Payton**

HB1194 excludes a manufacturer's rebate on the sale of a motor vehicle from the definition of "gross receipts", "gross proceeds", or "sales price" for sales and use tax purposes. Under current law, sales and use tax is due on the total consideration paid for a motor vehicle including any rebate paid by the manufacturer to the dealer on the customer's behalf or paid directly as a cash payment to the customer by the manufacturer after the sale. HB1194 would provide that any portion of the sales price paid to the dealer or paid through a manufacturer's rebate will not be subject to sales or use tax.

HB1194 is effective on the first day of the calendar quarter following the effective date of the act. For purposes of the Revenue Impact below, an effective date of October 1, 2023 is assumed.

### Revenue Impact :

#### **FY2024**

**Total Approximate State Sales and Use Tax Loss** **\$ 8.65 Million**

(Estimated Effective Date 10/1/23 --- 9 months reduced tax collection)

General Revenue - 4.5%	\$ - 5.80 Million
Property Tax Relief - .5%	\$ - 0.64 Million
Conservation Fund - .125%	\$ - 0.16 Million
Educational Adequacy Fund - .875%	\$ - 1.13 Million
Highway Fund - .5%	\$ - 0.64 Million
Educational Excellence Trust Fund -	\$ - .000
Educational Adequacy (GR Transfer) -	\$ - .000
State Central Services -	\$ - 0.18 Million
Constitutional Officers -	\$ - 0.09 Million

#### **FY2025**

**Total Approximate State Sales and Use Tax Loss** **\$ 12.0 Million**

General Revenue - 4.5%	\$ - 6.86 Million
Property Tax Relief - .5%	\$ - 0.89 Million
Conservation Fund - .125%	\$ - 0.22 Million
Educational Adequacy Fund - .875%	\$ - 1.57 Million
Highway Fund - .5%	\$ - 0.89 Million
Educational Excellence Trust Fund -	\$ - 1.09 Million
Educational Adequacy (GR Transfer) -	\$ - 0.10 Million
State Central Services -	\$ - 0.25 Million

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Constitutional Officers -

\$ - 0.12 Million

**Taxpayer Impact :**

A manufacturer's rebate on the sale of a motor vehicle would no longer be subject to sales or use tax regardless of whether the purchaser elected to have the rebate paid to the dealer on the customer's behalf or returned to the customer as a cash payment.

**Resources Required :**

The Arkansas Integrated Revenue System (AIRS) would need to be modified at an estimated cost of \$8,000. Yearly AIRS maintenance would also be required for a cost of \$2,000.

**Time Required :**

Adequate time is provided for implementation.

**Procedural Changes :**

Updates to the Sales and Use Tax Rules will be promulgated as well as modifications to the state tax database for motor vehicles. Updates to the Motor Vehicle Manual will be necessary and training for State Revenue Office and Office of Motor Vehicle employees.

**Other Comments :**

None.

**Legal Analysis :**

HB1194 may benefit from an amendment to clarify that, for the purpose of calculating the amount of tax due under §§ 26-52-324 and 26-53-126, the sales price of the vehicle should not be reduced by the amount of a manufacturer's rebate.

Rebates and manufacturer's coupons offered by manufacturers of other products, such as food, electronics, and household goods, will continue to be subject to sales and use tax when used to pay a portion of the purchase price due from the consumer.