

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1235

Amendment Number: H1

Bill Subtitle: TO CREATE AN EXEMPTION FROM SALES TAX FOR ALL PURCHASES BY A NONPROFIT THAT WORKS WITH ARKANSAS CITIZENS WHO HAVE BEEN DIAGNOSED WITH A DEVELOPMENTAL DISABILITY.

Basic Change :

Sponsors: Reps. Crawford, Gramlich, J. Richardson, Rose, and L. Johnson; Sen. J. Boyd

House Amendment No. 1 --- HB1235-H1 (engrossed H1/31/23) expands the eligible group of people a nonprofit must work with to qualify for the sales tax exemption from individuals "diagnosed with a developmental disability" to individuals "diagnosed with a developmental disability or developmental delay." To become eligible for the exemption, a nonprofit must apply for a certificate on a form approved by the Department of Finance and Administration (DFA) demonstrating that it works with people who have been diagnosed with a developmental disability or developmental delay.

"Diagnosed with a developmental disability or developmental delay" is defined under HB1235-H1 to be a person who has been diagnosed with a:

Disability that:

- Is attributable to:
 - An intellectual disability, cerebral palsy, epilepsy, spina bifida, Down syndrome, or autism;
 - Another condition found to be closely related to an intellectual disability because the condition:
 - Results in an impairment of general intellectual functioning or adaptive behavior similar to that of a person with an intellectual disability; or
 - Requires treatment and services similar to that required for a person with an intellectual disability; or
 - Dyslexia resulting from a disability or condition described above;
 - Originates before the person reaches the age of 22;
 - Has continued or can be expected to continue indefinitely; and
 - Constitutes a substantial impairment to the person's ability to function without appropriate support services, including without limitation:
 - Planned recreational activities;
 - Medical services such as physical therapy and speech therapy; and
 - Possibilities for sheltered employment or job training; or
- Delays that affects a child in any one of the following areas:
 - Physical development;
 - Cognitive development;
 - Language and speech development;
 - Psychosocial development; or
 - Self-help skills.

Original Bill --- HB1235 creates a new section, § 26-52-455, to provide a sales and use tax exemption for sales to a nonprofit that works with people who have been diagnosed with a developmental disability. To become eligible for the exemption, the nonprofit must apply for a certificate on a form approved by the Department of Finance and Administration (DFA) demonstrating that it works with

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people who have been diagnosed with a developmental disability.

A person is determined to have a developmental disability for purposes of this bill when:

- A person has a disability attributable to:
 - An intellectual disability, cerebral palsy, epilepsy, spina bifida, Down syndrome, or autism;
 - Another condition of the person found to be closely related to an intellectual disability because the condition either results in an impairment of general intellectual functioning or adaptive behavior similar to that of a person with an intellectual disability, or requires treatment and services similar to that required for a person with an intellectual disability; or
 - Dyslexia resulting from a similar disability or condition;
- The disability originated before the person reaches the age of 22;
- The disability has continued or can be expected to continue indefinitely; and,
- The disability constitutes a substantial impairment to the person's ability to function without appropriate support services, including without limitation:
 - Planned recreational activities;
 - Medical services such as physical therapy and speech therapy; and
 - Possibilities for sheltered employment or job training.

The exemption 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 \$ - 1,400,000

(Estimated Effective Date 10/1/23 --- 8 months reduced tax collection)

General Revenue - 4.5%	\$ - 939,185
Property Tax Relief - .5%	\$ - 104,354
Conservation Fund - .125%	\$ - 26,088
Educational Adequacy Fund - .875%	\$ - 182,619
Highway Fund - .5%	\$ - 104,354
Educational Excellence Trust Fund -	\$ - .000
Educational Adequacy (GR Transfer) -	\$ - .000
State Central Services -	\$ - 29,400
Constitutional Officers -	\$ - 14,000

Total Approximate Local City and County Sales and Use Tax Loss \$ - 466,667

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FY2025

Total Approximate State Sales and Use Tax Loss	\$ - 2,100,000
General Revenue - 4.5%	\$ - 1,264,236
Property Tax Relief - .5%	\$ - 156,531
Conservation Fund - .125%	\$ - 39,133
Educational Adequacy Fund - .875%	\$ - 273,929
Highway Fund - .5%	\$ - 156,531
Educational Excellence Trust Fund -	\$ - 132,801
Educational Adequacy (GR Transfer) -	\$ - 11,740
State Central Services -	\$ - 44,100
Constitutional Officers -	\$ - 21,000

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

Taxpayer Impact :

A non-profit entity performing the services outlined in this bill would no longer be responsible for paying sales and use taxes on purchases of tangible personal property or services. These entities would be required to obtain a certification from DFA prior to claiming this exemption.

Resources Required :

The Arkansas Integrated Revenue System (AIRS) system will need to be programmed to accommodate this change. Requirements gathering, development, testing, and training will take approximately 80 hours at a cost of \$8,000.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Updates to the Sales and Use Tax Rules will be promulgated. DFA staff would be trained on this new law and the new process of issuing a new permit type to these entities identifying their tax-exempt purpose.

Other Comments :

None.

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Legal Analysis :

None.