

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1465

Amendment Number: H1

Bill Subtitle: TO PROVIDE A STATE SALES TAX EXEMPTION FOR DISABLED VETERANS.

Basic Change :

Sponsor: Rep. Crawford

House Amendment No. 1 --- HB1465-H1 (engrossed H3/7/23) removes the exemption for the spouse of a disabled veteran, including the surviving spouse of a deceased disabled veteran.

Original Bill --- HB1465 creates a state sales tax exemption for the purchase of tangible personal property, specified digital products, a digital code, or services by a disabled veteran, the spouse of a disabled veteran, or a household member where the veteran resides who is authorized to make purchases on behalf of and for the benefit of the disabled veteran. The exemption applies only to sales made at a physical location in the state. The disabled veteran or surviving spouse must provide a letter from the U.S. Department of Veterans Affairs certifying that he or she is a disabled veteran in order to receive an exemption card from the Department of Finance and Administration (DFA).

HB1465 provides a maximum authorized amount that the disabled veteran, spouse, or household member may claim as follows:

- \$25,000 per year for purchases of tangible personal property, specified digital products, a digital code, and services by the disabled veteran, the disabled veteran's spouse, or a household member authorized to make purchases on behalf of the disabled veteran; and
- \$2,500 per year for purchases of tangible personal property and services by the un-remarried surviving spouse of a deceased disabled veteran or a household member authorized to make purchases on behalf of the surviving spouse.

The exemption provided under HB1465 does not apply to:

- Compensating use taxes (§ 26-53-101 et seq.); and
- Certain local government taxes, specifically:
 - Alternative local sales and use taxes (§ 26-73-113(a)(1)(A));
 - County capital improvements taxes (§ 26-74-212(a) and 26-74-312(b));
 - Municipal capital improvement taxes (§ 26-75-214(b));
 - Municipal parks sales and use taxes (§ 26-75-405(a));
 - Municipal gross receipts tax (§ 26-75-502(a)); and
 - Multicounty airport and riverport financing tax (§ 26-81-104(a)(1)).

DFA may recover any sales tax claimed as exempt that exceeds the maximum authorized amount, including penalty and interest.

HB1465 would become 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.

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1465

Amendment Number: H1

Bill Subtitle: TO PROVIDE A STATE SALES TAX EXEMPTION FOR DISABLED VETERANS.

Revenue Impact :

FY2024

Total Approximate State Sales and Use Tax Loss **\$ - 15,200,000**

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

General Revenue - 4.5%	\$ - 10,196,862
Property Tax Relief - .5%	\$ - 1,132,985
Conservation Fund - .125%	\$ - 283,246
Educational Adequacy Fund - .875%	\$ - 1,982,723
Highway Fund - .5%	\$ - 1,169,231
Educational Excellence Trust Fund -	\$ - 0.00
Educational Adequacy (GR Transfer) -	\$ - 0.00
State Central Services -	\$ - 294,646
Constitutional Officers -	\$ - 140,308

Total Approximate Local City and County Sales and Use Tax Loss **\$ - 0**

FY2025

Total Approximate State Sales and Use Tax Loss **\$ - 22,800,000**

General Revenue - 4.5%	\$ - 13,725,995
Property Tax Relief - .5%	\$ - 1,699,477
Conservation Fund - .125%	\$ - 424,869
Educational Adequacy Fund - .875%	\$ - 2,974,085
Highway Fund - .5%	\$ - 1,753,846
Educational Excellence Trust Fund -	\$ - 1,441,836
Educational Adequacy (GR Transfer) -	\$ - 127,461
State Central Services -	\$ - 441,969
Constitutional Officers -	\$ - 210,462

Total Approximate Local City and County Sales and Use Tax Loss **\$ - 0**

Taxpayer Impact :

A disabled veteran, or a household member who is authorized to make purchases on behalf of and for the benefit of the disabled veteran in the disabled veteran's absence, will be eligible for a state sales tax exemption up to \$25,000 of tax for purchases per year.

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1465

Amendment Number: H1

Bill Subtitle: TO PROVIDE A STATE SALES TAX EXEMPTION FOR DISABLED VETERANS.

Resources Required :

Five additional audit staff will be required to administer this new exemption process. Staff would review requests, eligibility and to determine limitation amounts of the exemption. Anticipated personnel cost totaling \$324,570.00 per year for one (1) Tax Auditor Supervisor and four (4) Tax Auditors.

The Arkansas Integrated Revenue System (AIRS) would require programming at an estimated cost of \$16,000.00

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Updates to the sales and use tax rules will be promulgated. DFA would create a disabled veteran exemption card for issuance to qualifying veterans. DFA would also be required to develop a method of administering and monitoring this new business process.

Other Comments :

HB1465 provides for an exemption maximum of \$25,000 per year for a disabled veteran, but the bill is unclear as to how the DFA would monitor when the maximum claimed would be met. This process would be more easily be administered by DFA if the disabled veteran were to utilize a rebate claim procedure rather than making purchases via an exemption card.

Legal Analysis :

None.