

Department of Finance and Administration

Legislative Impact Statement

Bill: HJR1007

Bill Subtitle: A CONSTITUTIONAL AMENDMENT TO LEVY AN EXCISE TAX ON CERTAIN TAXABLE SALES TO REIMBURSE COUNTIES FOR THE HOMESTEAD PROPERTY TAX CREDIT AND ADMINISTER THE APPLICATION OF THE HOMESTEAD PROPERTY TAX CREDIT.

Basic Change :

Sponsors: Rep. L. Fite and Sen. K. Hammer

HJR1007 proposes a constitutional amendment to levy an additional 0.50% excise tax on sales of tangible personal property, specified digital products, and enumerated services as a special revenue levy to reimburse counties for the tax revenue reduction resulting from the homestead property tax credit and for administering the credit. The additional 0.50% excise tax would not apply to the sale of food and food ingredients or used motor vehicles, trailers, and semitrailers.

The new levy would be in addition to the existing 0.50% excise tax that is special revenue that is deposited in the Property Tax Relief Trust Fund used to reimburse counties for the homestead property tax credit.

If approved by voters, the amendment would be effective on and after January 1, 2025.

Revenue Impact :

FY2025

Total Approximate State Sales and Use Tax Increase to be directed to offset the tax revenue loss from the Homestead Property Tax Credit	\$ 142.4 Million
State Central Services Increase -	\$ 3.1 Million
Constitutional Officers Increase -	\$ 1.5 Million

FY2026

Total Approximate State Sales and Use Tax Increase to be directed to offset the tax revenue loss from the Homestead Property Tax Credit	\$ 348.1 Million
State Central Services Increase -	\$ 7.5 Million
Constitutional Officers Increase -	\$ 3.6 Million

Taxpayer Impact :

A taxpayer's purchases of tangible personal property, specified digital products, a digital code, and services will be subject to an additional 0.50% sales and use tax. The additional tax would not be levied upon purchases of food and food ingredients or used motor vehicles, trailers, and semitrailers.

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 240 hours at a cost of \$48,000. This would also require recurring maintenance at a cost

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of \$2,000 annually.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Updates to the sales tax rules will be promulgated. Modifications to the States tax database and Office of Motor Vehicle registration systems will be required.

Other Comments :

HJR1007 provides that the funds shall be designated to reimburse counties for the tax revenue reduction as a result of the homestead property tax credit and to administer the credit. HJR1007 does not identify the fund in which the collections will be deposited.

Legal Analysis :

In the November 2000 general election, voters approved Arkansas Constitutional Amendment 79 to provide property tax relief. In response, the Arkansas General Assembly increased the Arkansas sales and use tax by 0.5% effective January 1, 2001. The revenues from this 0.5% sales and use tax are special revenues credited to the Property Tax Relief Trust Fund.

In addition, the General Assembly established the homestead property tax credit at \$300 per homestead. That amount was subsequently raised to \$375 per homestead. A homeowner may qualify for the tax credit for his or her principal place of residence and land contiguous thereto. Each county assessor is responsible for identifying the parcels of real property eligible for the credit within their county and reflecting the \$375 credit on the tax bill sent to the property owner by the county collector. Act 315 of 2023 raised the credit to \$425, effective for assessment years beginning on and after January 1, 2023.