

Department of Finance and Administration

Legislative Impact Statement

Bill: SB134

Bill Subtitle: TO INCREASE THE SALES AND USE TAX EXEMPTION FOR USED MOTOR VEHICLES; AND TO AMEND THE REDUCED SALES AND USE TAX RATE APPLICABLE TO PURCHASES OF USED MOTOR VEHICLES.

Basic Change :

Sponsors: Sens. Payton, Dotson, Stubblefield, and Stone; Reps. Maddox and Lundstrum

SB134 creates a reduced sales and use tax rate of 3.5% for sales of used motor vehicles having a sales price of at least \$10,000 but less than \$15,000. The 3.5% tax rate consists of a 2.875% statutory rate and the .625% sales and use taxes levied by Amendments 75 and 101 to the Arkansas Constitution for conservation and highways. SB134 provides a sales and use tax exemption for used motor vehicles having a sales price of less than \$10,000. Used vehicles with a sales price of \$15,000 or more are subject to the full state sales tax rate.

Under current law, used vehicles costing less than \$4,000 are exempt from tax, used vehicles costing at least \$4,000 but less than \$10,000 are subject to the reduced tax rate, and used vehicles costing \$10,000 or more are subject to the full state tax rate. SB134 does not change current law regarding the tax rates applicable to new motor vehicles or to new or used trailers or semitrailers.

SB134 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 \$10,050,424

(Estimate includes: 8 months loss of tax on used motor vehicles with sales price of at least \$4,000 but less than \$10,000 and 8 months loss of tax on used motor vehicles with sales price of at least \$10,000 but less than \$15,000).

General Revenue - 4.5%	-\$6,742,288
Property Tax Relief - .5%	-\$749,143
Conservation Fund - .125%	-\$187,286
Educational Adequacy Fund - .875%	-\$1,311,000
Highway Fund - .5%	-\$773,110
Educational Excellence Trust Fund -	\$0
Educational Adequacy (GR Transfer) -	\$0
State Central Services -	-\$194,824
Constitutional Officers -	-\$92,773

Total Approximate Local City and County Sales and Use Tax Loss \$2,684,000

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FY2025

Total Approximate State Sales and Use Tax Loss **\$15,075,637**

(Estimate includes: 12 months loss of tax on used motor vehicles with sales price of at least four thousand dollars (\$4,000) but less than ten thousand dollars (\$10,000) and 12 months loss of tax on used motor vehicles with sales price of at least ten thousand dollars (\$10,000) but less than fifteen thousand dollars (\$15,000)).

General Revenue - 4.5%	-\$9,075,795
Property Tax Relief - .5%	-\$1,123,715
Conservation Fund - .125%	-\$280,929
Educational Adequacy Fund - .875%	-\$1,966,501
Highway Fund - .5%	-\$1,159,664
Educational Excellence Trust Fund -	-\$953,360
Educational Adequacy (GR Transfer) -	-\$84,279
State Central Services -	-\$292,235
Constitutional Officers -	-\$139,160

Total Approximate Local City and County Sales and Use Tax Loss **\$4,026,000**

[Statistical data derived from State of Arkansas software reporting for CY2022. All numbers were calculated based on the assumption that vehicle purchases remain constant.]

Summary of Revenue Impact:

FY2024 state sales & use tax loss of approximately \$4.8 million with 21,210 used motor vehicles exempt from sales and use tax and loss of approximately \$5.3 million with 14,577 used motor vehicles subject to 3.5% sales and use tax.

FY2025 state sales & use tax loss of approximately \$7 million with 31,815 used motor vehicles exempt from sales and use tax and a loss of approximately \$8 million with 21,865 used motor vehicles subject to the reduced 3.5% sales and use tax.

Taxpayer Impact :

A taxpayer purchasing a used motor vehicle with selling price less than \$10,000 would not pay sales or use tax on that purchase. A taxpayer purchasing a used motor vehicle with selling price of at least \$10,000 but less than \$15,000 would pay sales or use tax at the reduced 3.5% sales and use tax rate.

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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 280 hours at a cost of \$56,000. This would also require recurring maintenance at a cost of \$20,000 annually.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Computer programs and training manuals will need to be updated to account for the change in the sales tax threshold for used motor vehicles. Department employees and State Revenue Office employees will need to be educated on changes as well as the taxpayer community.

Other Comments :

None.

Legal Analysis :

None.