# **Department of Finance and Administration**

### **Legislative Impact Statement**

Bill: SB215

Bill Subtitle: TO PROVIDE A SALES AND USE TAX EXEMPTION FOR WORKING HORSES AND FENCING USED IN A COMMERCIAL AGRICULTURAL PRODUCTION.

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## Basic Change :

Sponsor: Sen. Irvin

SB215 creates an exemption from sales and use tax for working horses and livestock fencing. The sale of a working horse or fencing used to contain or separate livestock would be exempt from sales and use tax. To qualify for the working horse exemption, the horse sold must:

- Be a horse used primarily as a work animal in a commercial agricultural production, which is defined as the production of crops, livestock, or animal products as a business operation; and
- Not be a race horse, show horse, or horse used primarily for breeding purposes.

To qualify for the fencing exemption, the fencing sold must:

- Be fencing used to contain or separate, or both, livestock used in or maintained as part of a commercial agricultural operation, which is defined as the production of crops, livestock, or animal products as a business operation; and
- Be used to contain or separate livestock, which is defined as cattle, bison, horses, sheep, goats, donkeys, mules, swine, domesticated rabbits, chickens, turkeys, and other domesticated animals raised primarily for human food consumption.

SB215 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	\$ - 807,000
(Estimated Effective Date 10/1/23 8 months reduced tax collection)	
General Revenue - 4.5%	\$ - 541,373
Property Tax Relief5%	\$ - 60,153
Conservation Fund125%	\$ - 15,038
Educational Adequacy Fund875%	\$ - 105,267
Highway Fund5%	\$ - 62,077
Educational Excellence Trust Fund -	\$ - 0.00
Educational Adequacy (GR Transfer) -	\$ - 0.00
State Central Services -	\$ - 15,643
Constitutional Officers -	\$ - 7,449

## Total Approximate Local City and County Sales and Use Tax Loss \$ - 269,000

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### FY2025

Total Approximate State Sales and Use Tax Loss	\$ - 1,211,000
General Revenue - 4.5%	\$ - 729,077
Property Tax Relief5%	\$ - 90,266
Conservation Fund125%	\$ - 22,567
Educational Adequacy Fund875%	\$ - 157,966
Highway Fund5%	\$ - 93,154
Educational Excellence Trust Fund -	\$ - 76,550
Educational Adequacy (GR Transfer) -	\$ - 6,767
State Central Services -	\$ - 23,475
Constitutional Officers -	\$ - 11,178

## Total Approximate Local City and County Sales and Use Tax Loss \$ - 403,667

### Taxpayer Impact :

A taxpayer purchasing a working horse or fencing used to contain or separate livestock used in or maintained as part of a commercial agricultural operation would no longer be responsible for paying sales and use tax.

#### Resources Required:

None.

### Time Required:

Adequate time is provided for implementation.

### Procedural Changes:

Updates to the Sales and Use Tax Rules will be promulgated and Department of Finance and Administration staff would be trained on this update to Arkansas tax law.

### Other Comments :

None.

#### Legal Analysis:

SB215 may benefit from an amendment to provide guidance on what constitutes a "primary" use in commercial agricultural production. The sales and use tax exemption for farm machinery and equipment uses the standard of "exclusively and directly."

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