

Department of Finance and Administration

Legislative Impact Statement

Bill: SB394

Bill Subtitle: TO AMEND THE LAW CONCERNING THE COLLECTION OF SALES AND USE TAX ON MOTORBOATS; AND TO SUBJECT CERTAIN USED MOTORBOATS TO A SPECIAL RATE OF TAX.

Basic Change :

Sponsors: Sen. J. Boyd and Rep. L. Johnson

SB394 revises the method of collection of sales and use tax on motorboats. Arkansas law requires the purchaser of a new or used motorboat to register the motorboat with the Department of Finance and Administration (DFA) and obtain a certificate of number within 30 days of the date of purchase. SB394 would require the purchaser to pay sales or use tax directly to DFA instead of paying the tax to the seller. The tax is due regardless of whether the motorboat is purchased from a boat dealer, an individual, or another business, and the isolated sales exemption would not apply. A 10% penalty is imposed for failure to pay the tax when due.

Under current law, tax is collected by a business engaged in selling motorboats and that business must remit the taxes to DFA. SB394 requires the payment of sales and use tax on motorboats in the same manner as currently required for payment of tax on motor vehicles and trailers.

SB394 provides that both new and used motorboats having a sales price less than \$4,000 are exempt from sales and use tax. The sale of a new motorboat is subject to the full state sales and use tax rate of 6.5% if the total consideration for the sale is \$4,000 or more. A reduced sales tax rate of 3.5% is imposed on the sale of a used motorboat having a sales price of at least \$4,000 but less than \$10,000. The 3.5% rate consists of the statutory rate of 2.875% and the 0.625% tax rate levied in the Arkansas Constitution. The sale of a used motorboat having a sales price more than \$10,000 is subject to the full state sales and use tax rate.

When a used motorboat is traded in as partial payment on the sale of another new or used motorboat, sales tax will be due on the difference between the consideration paid for the newly acquired motorboat and the credit provided for the used motorboat that was taken in trade. If a used motorboat is sold by private sale rather than traded in, the proceeds from the sale may be taken as a credit against the purchase price of the replacement motorboat. The credit is only available if the used motorboat is sold within 60 days prior to the purchase of the replacement motorboat and the purchaser provides a fully completed bill of sale at the time of registration. No credit is available for taxes paid to another state.

SB394 requires a dealership to register and remit sales tax on a service motorboat removed from its inventory. A "service motorboat" is defined as a motorboat driven exclusively by an employee of the dealership and used either to transport dealership customers or dealership parts and equipment. SB394 provides a sales tax exemption for parts and accessories purchased by motorboat sellers for resale or to be used to rebuild used motorboats. A motorboat sold by the original franchise dealer to any other dealer, person, corporation, or other entity other than a franchise dealer of the same make of motorboat is subject to sales tax.

SB394 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.

Department of Finance and Administration

Legislative Impact Statement

Bill: SB394

Bill Subtitle: TO AMEND THE LAW CONCERNING THE COLLECTION OF SALES AND USE TAX ON MOTORBOATS; AND TO SUBJECT CERTAIN USED MOTORBOATS TO A SPECIAL RATE OF TAX.

Revenue Impact :

FY2024

Total Approximate State Sales and Use Tax Gain \$ 5,225,699

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

General Revenue - 4.5%	\$ 3,505,640
Property Tax Relief - .5%	\$ 389,516
Conservation Fund - .125%	\$ 97,379
Educational Adequacy Fund - .875%	\$ 681,652
Highway Fund - .5%	\$ 401,977
Educational Excellence Trust Fund -	\$ 0
Educational Adequacy (GR Transfer) -	\$ 0
State Central Services –	\$ 101,298
Constitutional Officers -	\$ 48,237

Total Approximate Local City and County Sales and Use Tax Gain \$1,105,700

FY2025

Total Approximate State Sales and Use Tax Gain \$ 7,838,548

(12 months modified tax collection)

General Revenue - 4.5%	\$ 4,718,942
Property Tax Relief - .5%	\$ 584,273
Conservation Fund - .125%	\$ 146,068
Educational Adequacy Fund - .875%	\$ 1,022,478
Highway Fund - .5%	\$ 602,965
Educational Excellence Trust Fund -	\$ 495,698
Educational Adequacy (GR Transfer) -	\$ 43,821
State Central Services –	\$ 151,947
Constitutional Officers -	\$ 72,536

Total Approximate Local City and County Sales and Use Tax Gain \$ 1,658,550

Taxpayer Impact :

A taxpayer who purchases a new or used motorboat with a sales price of less than \$4,000 will not pay sales or use tax. A taxpayer who purchases a new motorboat with a sales price of \$4,000 or more will pay sales or use tax at the full 6.5% state tax rate. A taxpayer who purchases a used motorboat with a sales price greater than \$4,000, but less than \$10,000, will pay sales or use tax at the reduced state tax rate of 3.5%. A taxpayer who purchases a used motorboat with a sales price greater than \$10,000

Department of Finance and Administration

Legislative Impact Statement

Bill: SB394

Bill Subtitle: TO AMEND THE LAW CONCERNING THE COLLECTION OF SALES AND USE TAX ON MOTORBOATS; AND TO SUBJECT CERTAIN USED MOTORBOATS TO A SPECIAL RATE OF TAX.

will pay sales or use tax at the full 6.5% state tax rate. A taxpayer who purchases a motorboat will be allowed to pay on the net difference between the total consideration for the new or used motorboat sold and the credit for the used motorboat taken in trade. Sales tax will be paid at the time of registration.

Resources Required :

Three additional audit staff will be required to administer this process. Staff would review motorboat registration with trade-in information, determine eligibility of credit, and verify correct tax amount was paid at the time of registration. This process will mirror the established motor vehicle process. Anticipated personnel cost totaling \$140,834.00 per year for one Tax Auditor and two Fiscal Support Analysts. The Arkansas Integrated Revenue System (AIRS) would require programming at an estimated cost of \$40,000.00 and \$2,000.00 annual maintenance.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Computer programs, websites and training manuals will need to be updated to account for the change in the sales tax thresholds for motorboats. Office of Motor Vehicle and State Revenue Office employees will need to be educated on changes as well as the taxpayer community. Proper notice to boat dealers and the Arkansas Game and Fish and Commission will be required.

Other Comments :

None.

Legal Analysis :

SB394 may benefit from an amendment to exclude motorboats from the provisions of § 26-52-401(22) pertaining to used automobiles and aircraft.