



State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement

Bill: HB1685

Amendment Number: S2

Bill Subtitle: TO CREATE THE GROCERY TAX RELIEF ACT; TO AMEND THE LAW CONCERNING THE SALES AND USE TAXES LEVIED ON FOOD AND FOOD INGREDIENTS, AS AFFIRMED BY REFERRED ACT 19 OF 1958; AND TO EXEMPT GROCERIES FROM STATE SALES AND USE TAXES.

Sponsors:

Reps. Underwood, McCollum, Ray, Achor, Barker, Beaty, Bentley, Breaux, Brooks, A. Brown, K. Brown, M. Brown, N. Burkes, R. Burkes, John Carr, Cavanaugh, Crawford, Evans, Furman, Gazaway, Gonzales, Gramlich, Hawk, Hollowell, Long, Lundstrum, McAlindon, McClure, McElroy, B. McKenzie, J. Moore, Painter, Pilkington, J. Richardson, R. Scott Richardson, Rose, Rye, Torres, Vaught, and Wooldridge

Sen. Hester

Basic Change:

Senate Amendment No. 2 --- HB1685-S2 amends the bill so that the border city 1% sales and use tax levied under §§ 26-52-303, -606 and -607 would continue to be collected on sales of food and food ingredients. The City of Texarkana is the only city that levies this sales and use tax.

Senate Amendment No. 1 --- HB1685-S1 reincludes existing language to define "food," "food ingredients," and "prepared food" in the context of use tax. The definitions match the sales tax definitions for the same terms under Section 9 of the bill.

House Amendment No. 2 --- HB1685-H2 provides that local sales and use taxes would continue to be levied on sales of food and food ingredients under the following enabling acts:

- The Local Government Bond Act of 1985, § 14-164-301 et seq., §§ 26-73-110 — 26-73-113, § 26-74-201 et seq., § 26-74-301 et seq., § 26-74-401 et seq., § 26-74-601 et seq., § 26-75-201 et seq., § 26-75-301 et seq., § 26-75-401 et seq., § 26-75-501 et seq., the Multicounty Airport and Riverport Financing Act, § 26-81-101 et seq., and the Local Sales and Use Tax Economic Development Project Funding Act, § 26-82-101 et seq.

HB1685-H1 imposed local tax on food and food ingredients only if the local tax was enacted under the authority of certain enabling acts specified in the bill. Local taxes enacted under other local tax enabling acts would not have applied to sales of food and food ingredients. HB1685-H2 provides that sales of food and food ingredients are subject to the above local sales and use tax levies regardless of the enabling act under which the tax was enacted.

House Amendment No. 1 --- HB1685 creates the Grocery Tax Relief Act to provide a state sales and use tax exemption for the sale of food and food ingredients. HB1685 provides that "[t]he gross receipts or gross proceeds derived from the sale of food and food ingredients are subject to municipal and county gross receipts taxes."

Under current law, food and food ingredients are taxed at the rate of 0.125%, which is levied under Amendment 75 of the Arkansas Constitution. The levy under Amendment 75 only applies to the sale of



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goods and services that are otherwise subject to sales or use tax. Under HB1685, food and food ingredients would no longer be subject to the current 0.125% state tax levied under Amendment 75.

The bill retains the current definitions of "food" and "food ingredients" for sales and use tax purposes. "Food" and "food ingredients" are defined as "substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value." "Food" and "food ingredients" do not include candy, a soft drink, an alcoholic beverage, tobacco, or a dietary supplement.

The exemption for food and food ingredients provided under HB1685 would not extend to sales of "prepared food", which would continue to be taxed at the full state sales and use tax rate. The following items are excluded from the definition of "prepared food" and therefore would be included in the exemption provided under HB1685:

- Food that is only cut, repackaged, or pasteurized by the seller; or
- Eggs, fish, meat, and poultry, and foods containing these raw animal foods requiring cooking by the consumer to prevent food-borne illnesses.

HB1685 would be effective on and after January 1, 2026.

Fiscal Impact:

FY2026

Total Approximate State Sales and Use Tax Loss **-\$4,413,526**
(Estimated Effective Date 1/1/2026 --- 5 months reduced tax collection)

| | |
|---------------------------|--------------|
| Conservation Fund - .125% | -\$4,281,120 |
| State Central Services - | -\$88,271 |
| Constitutional Officers - | -\$44,135 |

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

FY2027

Total Approximate State Sales and Use Tax Loss **-\$10,920,065**

| | |
|---------------------------|---------------|
| Conservation Fund - .125% | -\$10,592,463 |
| State Central Services - | -\$218,401 |
| Constitutional Officers - | -\$109,201 |

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



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Taxpayer Impact:

A taxpayer would no longer pay state sales or use tax on purchases of food and food ingredients. The sale of food and food ingredients would continue to be subject to city and county sales and use taxes.

Resources Required:

The Arkansas Integrated Revenue System (AIRS) will require programming at an estimated cost of \$14,000.

Time Required:

Adequate time is allowed for implementation.

Procedural Changes:

Computer programs, websites and training manuals will be updated.

Other Comments:

None.

Legal Analysis:

None.