

SUMMARY OF PROPOSAL #6
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Sales Tax Exemption for Federally Chartered Credit Unions

Summary of Proposal for Consideration

To repeal the sales tax exemption for federally chartered credit unions under Arkansas Code § 23-35-103, effective for tax years beginning on or after January 1, 2019.

Fiscal Analysis

Repeal of the exemption may result in an estimated \$683,688 per year increase to General Revenue based upon FY17, as provided by the Department of Finance and Administration's "Sales and Use Tax Revenue Impact of Exemptions" presentation to the Arkansas Tax Reform and Relief Legislative Task Force on March 19, 2018.

Legal Analysis

Background

Arkansas currently exempts sales tax for federally chartered credit unions.

ACT 132 of 1971 created the sales tax exemption for federally chartered credit unions, and has not been amended since.

Potential Legal Issues

Federal law provides that federally chartered credit unions shall be exempt from a state's sales tax under 12 USC § 1768. According to federal law:

Federal credit unions . . . their property, their franchises, capital, reserves, surpluses, and other funds, and their income shall be exempt from all taxation now or hereafter imposed by the United States or by any State, Territorial, or local taxing authority; except that any real property and any tangible personal property of such Federal credit unions shall be subject to Federal, State, Territorial, and local taxation to the same extent as other similar property is taxed.

This federally mandated tax exemption for federally chartered credit unions includes, and is not limited to, state or local sales taxes.

Other States

- Iowa: Exempts federally chartered credit unions from sales tax, however applies a sales tax on service charges imposed by a federally chartered credit union on its customers. (IA St. § 423.2)
- Louisiana: Exempts federally chartered credit unions from sales tax. (LA St. § 6:662)
- Mississippi: Exempts federally chartered credit unions from sales tax. (MS St. § 27-65-105)

- Missouri: Exempts federally chartered credit unions from sales tax. (MO St. § 148.610)
- Oklahoma: Exempts federally chartered credit unions from sales tax. (OK St. § 65-13-130).
- Tennessee: Exempts federally chartered credit unions from sales tax. (TN St. § 67-6-322).
- Texas: Exempts federally chartered credit unions from sales tax. (TX St. § 151.309)