

SUMMARY OF PROPOSAL #15
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Sales Tax Exemptions of less than Ten Thousand Dollars (\$10,000)

Summary of Proposal for Consideration

To repeal any sales tax exemption less than ten thousand dollars (\$10,000), effective for tax years beginning on or after January 1, 2019.

Fiscal Analysis

Repeal of the exemptions may result in an estimated \$41,679 per year increase to General Revenue based upon figures from FY11 and 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 has the following sales tax exemptions that are less than ten thousand dollars (\$10,000):

- Sales of twine used in the production of tomatoes under Arkansas Code § 26-52-408(2)
 - Per DFA, the Fiscal Impact in FY11 was \$1,829
 - The sales tax exemption was created by ACT 759 of 1975, and has not been amended since.
- Agricultural water purchases that reduce groundwater use under Arkansas Code § 26-52-405(4)
 - Per DFA, the Fiscal Impact in FY17 was \$0
 - The sales tax exemption was created by ACT 824 of 2011, and has not been amended since.
- Sale of electricity used in the manufacture of aluminum metal by the electrolytic reduction process under Arkansas Code § 26-52-401(24)
 - Per DFA, the Fiscal Impact in FY17 was \$0
 - The sales tax exemption was created by ACT 1013 of 1976, and has not been amended since.
- Sales of natural gas and electricity used in wall and floor tile manufacturing if construction began before January 1, 2003 under Arkansas Code § 26-52-435
 - Per DFA, the Fiscal Impact in FY17 was \$0
 - The sales tax exemption was created by ACT 1375 of 2001, and has not been amended since.
- Sale of electricity used for production of chlorine and other chemicals using a chlor-alkali manufacturing process under Arkansas Code § 26-52-438
 - Per DFA, the Fiscal Impact in FY11 was \$0

- The sales tax exemption was created by ACT 877 of 2005, and has not been amended since.
- County purchases of law enforcement aircraft thermal imaging equipment under Arkansas Code § 26-52-442
 - Per DFA, the Fiscal Impact in FY11 was \$7,425
 - The sales tax exemption was created by ACT 267 of 2009, and has not been amended since.
- Sales to The Poets Roundtable of Arkansas under Arkansas Code § 26-52-401(9)
 - Per DFA, the Fiscal Impact in FY11 was \$83
 - The sales tax exemption was created by ACT 630 of 1979, and has not been amended since.
- Sales to non-profit organizations whose sole purpose is to provide temporary housing to the family of patients in a hospital or sanitarium under Arkansas Code § 26-52-401(21)
 - Per DFA, the Fiscal Impact in FY11 was \$1,623
 - The sales tax exemption was created by ACT 753 of 1989, and has not been amended since.
- Sales of new motor vehicles to a veteran of the U.S. Armed Services who is blind as a result of a service-connected injury under Arkansas Code § 26-52-415(a)
 - Per DFA, the Fiscal Impact in FY11 was \$4,483
 - The sales tax exemption was created by ACT 70 of 1979, and has not been amended since.
- Sales to Fort Smith Clearing House under Arkansas Code § 26-52-424
 - Per DFA, the Fiscal Impact in FY11 was \$5,871
 - The sales tax exemption was created by ACT 913 of 1993, and has not been amended since.
- Sales of articles sold on the premises of the Arkansas Veterans' Home under Arkansas Code § 26-52-401(25)
 - Per DFA, the Fiscal Impact in FY11 was \$1,157
 - The sales tax exemption was created by ACT 324 of 1979, and has not been amended since.
- Sales by gift shops operated by charitable organizations at for-profit hospitals under Arkansas Code § 26-52-430(c)(2)
 - Per DFA, the Fiscal Impact in FY11 was \$2,269
 - The sales tax exemption was created by ACT 628 of 2001, and has not been amended since.
- Sales to the Arkansas Symphony Orchestra Society under Arkansas Code § 26-52-401(37)
 - Per DFA, the Fiscal Impact in FY11 was \$4,737
 - The sales tax exemption was created by ACT 2132 of 2005, and has not been amended since.
- Sales to Arkansas Search Dog Association, Inc. under Arkansas Code § 26-52-443
 - Per DFA, the Fiscal Impact in FY11 was \$692
 - The sales tax exemption was created by ACT 1176 of 2009, and has not been amended since.

- Sales of new or used aircraft of less than two thousand dollars (\$2,000) under Arkansas Code § 26-52-505(b)
 - Per DFA, the Fiscal Impact in FY11 was \$626
 - The sales tax was created without a limitation by ACT 270 of 1959.
 - Sales tax exemption for aircraft of less than two thousand dollars (\$2,000) was created by ACT 3 of 1991, and has not been amended since.
- Repair or remanufacture of industrial metal rollers under Arkansas Code § 26-52-301(3)(B)(v)
 - Per DFA, the Fiscal Impact in FY11 \$4,856
 - Repair or remanufacture of industrial metal rollers was taxed as a service under the category of “repair of mechanical equipment” by ACT 181 of 1973. Repair or remanufacture of industrial metal rollers was removed as a taxable service by ACT 89 of 1989, and has not been amended since. Sales tax exemption only applies to repair or remanufacture of industrial metal rollers or platens that have a remanufactured, nonmetallic material covering on all or part of the roller or platen surface which are brought into the State of Arkansas solely and exclusively for the purpose of being repaired or remanufactured in this state and are then shipped back to the state of origin.
- Sales to Arkansas Entertainers Hall of Fame Board under Arkansas Code § 13-9-104
 - Per DFA, the Fiscal Impact in FY11 was \$2,428
 - The sales tax exemption was created by ACT 671 of 1985, and has not been amended since.
- Sales to Arkansas Black Hall of Fame Foundation under Arkansas Code § 26-52-401(39)
 - Per DFA, the Fiscal Impact in FY17 was \$2,562
 - The sales tax exemption was created by ACT 998 of 2011, and has not been amended since.
- Purchases of kegs by a wholesale manufacturer of beer that are used to sell beer wholesale under Arkansas Code § 26-52- 445
 - Per DFA, the Fiscal Impact in FY17 was \$1,038
 - The sales tax exemption was created by ACT 1226 of 2011, and has not been amended since.
- Any interstate or international private communications service and any interstate or international 800 service or 900 service under Arkansas Code § 26-52-315
 - Per DFA, the Fiscal Impact is unknown
 - The sales tax exemption was created by ACT 1273 of 2003, and has not been amended since.

Potential Legal Issues

None.

Other States

- Iowa: Iowa's Department of Revenue is required by the legislature to release its tax expenditure report every five years outlining the total value of the state's tax credits, deductions, exclusions and exemptions. (IA St. § 421)
- Louisiana: Sales Tax Streamlining and Modernization Commission - commissioned from July 2015 until June 2017 to perform a comprehensive study of Louisiana's state and local sales tax systems, and to make recommendations to the legislature regarding revision of practices, administrative procedure, statutory law, and Louisiana Constitution, all for the purpose of streamlining and modernizing this vital revenue source for the state and its local governments. (LA St. 47:301.2)
- Mississippi: Requires an annual tax expenditure report by the University Research Center of Mississippi. (MS St. § 57-13-45)
- Missouri: No statutory review process or minimum threshold for establishment of a sales tax exemption.
- Oklahoma: Requires a biannual tax expenditure report by the Oklahoma tax Commission which identifies sales and use tax exemptions and makes recommendations. (OK St. 68 § 101).
- Tennessee: No statutory review process or minimum threshold for establishment of sales tax exemption.
- Texas: Before each regular session of the legislature, the comptroller shall report to the legislature and the governor on the effect, if it is possible to assess, of exemptions, discounts, exclusions, special valuations, special accounting treatments, special rates, and special methods of reporting relating to sales, excise, and use tax under Chapter 151, Tax Code; the report may include: an assessment of the intended purpose of the provision and whether the provision is achieving that objective; and a recommendation for retaining, eliminating, or amending the provision. (TX St. §403.014)