

SUMMARY OF PROPOSAL #22
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Sales Tax Exemption on the Sale of Packaging Material Used by Cotton Gins

Summary of Proposal for Consideration

To repeal the sales tax exemption for sales of bagging, packaging, and tie materials sold to and used by cotton gins in Arkansas for packaging and tying baled cotton in Arkansas under Arkansas Code § 26-52-408, effective for tax years beginning on or after January 1, 2019.

Fiscal Analysis

Repeal of the exemption may result in an estimated \$248,157 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 has a sales tax exemption for sales of bagging, packaging and tie materials sold to and used by cotton gins in Arkansas.

ACT 759 of 1975 created the sales tax exemption for sale of bagging and other packaging and tie materials sold to and used by cotton gins for packaging or tying baled cotton, and further included an exemption for twine used in production of tomato crops.

ACT 1392 of 2013 expanded the sales tax exemption to expendable supplies for farm machinery to include without limitation baling twine, net wrap, silage wrap and cotton wrap, and has not been amended since.

Potential Legal Issues

None.

Other States

- Iowa: Sales tax exemption on the sales price from the sale of property which is a container, label, carton, pallet, packing case, wrapping, baling wire, twine, bag, bottle, shipping case, or other similar article or receptacle sold for use in agricultural, livestock, or dairy production. No specific exemption for cotton. (IA St. § 423.3)
- Louisiana: No exemption.
- Mississippi: Sales tax exemption on the sale of bagging and ties for cotton, hay baling wire and twine, boxes, crates, bags and cans used in growing or preparing agricultural products for market when possession thereof will pass to the customer at the time of sale of the product contained therein. (MS St. § 27-65-103)

- Missouri: Sales tax exemption on sales of new and used farm machinery and equipment, and repair or replacement parts for new and used farm machinery and equipment, other than airplanes, motor vehicles and trailers, which is: manufactured exclusively for agricultural purposes, used on land owned or leased for the purpose of producing farm products and used directly in producing farm products to be sold ultimately in processed form or otherwise at retail or in producing farm products to be fed to livestock or poultry to be sold ultimately in processed form at retail, includes binder twine and packaging, baler twine, baler wire, etc. (MO St. § 144.030)
- Oklahoma: Sales tax exemption on sales of items to be and in fact used in the production of agricultural products, including cotton and including expendable supplies such as wire, twine, etc. (OK St. 68 § 1358)
- Tennessee: No exemption
- Texas: Sales tax exemption on sales of bagging, packaging and tie materials exclusively used or employed on a farm or ranch in the production of agricultural products to be sold in the regular course of business, including cotton. (TX St. § 151.316)