

SUMMARY OF PROPOSAL #23
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Sales Tax Exemption for Sales of Cotton, Seed Cotton, Lint Cotton, or Baled Cotton

Summary of Proposal for Consideration

To repeal the sales tax exemption on the sale of cotton, seed cotton, lint cotton or baled cotton whether compressed or not under Arkansas Code § 26-52-401(18)(A)(i), effective for tax years beginning on or after January 1, 2019.

Fiscal Analysis

Repeal of the exemption may result in an estimated \$11,140,628 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 on the sale of cotton, seed cotton, lint cotton or baled cotton whether compressed or not.

ACT 386 of 1941 created the sales tax exemption on the sale of cotton, seed cotton, lint cotton or baled cotton whether compressed or not, and has not been amended since.

Potential Legal Issues

None.

Other States

- Iowa: No exemption.
- Louisiana: Sales tax exemption on the sale of cotton sold by a farm to cotton buyers for the purpose of resale. Sales tax exemption on the sale of seeds purchased by commercial farmers, and sales tax exemption on raw materials. (LA St. § 47:301 & § 47:305)
- Mississippi: Sales tax exemption on the sale of cotton, cottonseed, cotton seed hulls, cottonseed meal or cake; sales tax applies to gross income from compressing and storing cotton. (MS St. § 27-65-103)
- Missouri: Sales tax exemption on baled cotton as agricultural products or the manufactured or processed derivatives of agricultural products. (MO St. § 144.030)
- Oklahoma: Exempts sales of items to be used and in fact used in the production of agricultural products, which includes fiber. (OK St. 68 § 1358)

- Tennessee: Sales tax exemption on seeds, seedlings, plants grown from seed and cuttings that will produce food, fiber or tobacco, includes cotton. (TN St. § 67-6-207)
- Texas: Sales tax exemption on sale of seeds and annual plants commonly recognized as a fiber, including cotton and cotton seed. (TX St. §151.16)