

SALES TAX PROPOSAL #A
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Local Sales and Use Tax Rate Caps

Summary of Proposal for Consideration

It is proposed that a maximum rate be established for the total aggregate amount of sales and use tax that may be levied by a county or municipality, effective for tax years beginning January 1, 2019.

This proposal would create the following maximum rates:

- The total aggregate amount of sales and use tax that may be levied by a county for general purposes, capital improvements, capital improvements of a community college, food and lodging (also known as the advertising and promotion tax), and economic development may not exceed a total aggregate rate of three percent (3%), effective for tax years beginning January 1, 2019. However, any county that has a total aggregate sales and use tax rate that exceeds three percent (3%) on January 1, 2019, may continue levying a total aggregate sales and use tax rate beyond the three percent (3%) maximum.
- The total aggregate amount of sales and use tax that may be levied by a municipality for general purposes, capital improvements, the temporary acquisition, construction, or improvements of parks, food and lodging (also known as the advertising and promotion tax), and economic development may not exceed a total aggregate rate of four percent (4%), effective for tax years beginning January 1, 2019. However, any municipality that has a total aggregate sales and use tax rate that exceeds four percent (4%) on January 1, 2019, may be permitted to continue levying a total aggregate sales and use tax rate beyond the four percent (4%) maximum.

Fiscal Analysis

The Department of Finance and Administration (DFA) expects there to be no fiscal impact at the State level when creating a maximum rate on municipal sales tax at four percent (4%) and a county sales tax at three percent (3%) because these are local revenues that are sent to the city and county. DFA's records also indicate that there is currently only one county exceeding the proposed cap.