

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1253

Bill Subtitle: TO REPEAL THE REQUIREMENT THAT CERTAIN RETAILERS PREPAY SALES TAXES.

Basic Change :

Sponsor: Representative Wardlaw

HB1253 would repeal § 26-52-512, which requires certain retailers make prepayments of state sales taxes due. Instead of making remittance of state sales taxes due by the 20th day of the month following the month of collection, larger retailers are required to prepay a portion of the state sales tax during the month in which the sale occurs as they are collecting the tax from customers. Retailers subject to the prepay provisions are those that have average monthly taxable sales in excess of \$200,000 per month. The requirement for larger retailers to make the prepayments has been in effect since January 1, 1988. At present, 2,135 Arkansas retailers are required to make prepayments of their state sales taxes due.

The prepayment requirement provides retailers two procedures when making prepayments. The retailer may choose to make two prepayments during the month to be remitted on the 12th and 24th using a DFA supplied schedule with each payment calculated at 40% of the state tax amount the retailer reported in the same month during the previous year. In the alternative, the retailer may choose to remit 80% of the actual state sales taxes that will be due for the month on the 24th. The remainder of the state tax and all local sales taxes will be remitted by the 20th day of the following month. Retailers that do not have sales exceeding \$200,000 average per month remit all state and local sales taxes by the 20th day of the month following the month of sale. This bill would be effective on the first day of the calendar quarter following the effective date of the act.

Revenue Impact :

FY2018

Total Impact to State Sales Tax Revenues -- One Time Loss of \$124.8 million

[One time Reduced Tax Collections Occurring During October 2017 -- Effective Date of Act would be October 1, 2017]

| | |
|--------------------------------------|-------------------|
| State General Revenue (4.5%) | -\$ 83.63 million |
| Educational Adequacy (.875% tax) | -\$ 16.26 million |
| Property Tax Relief Trust Fund (.5%) | -\$ 9.29 million |
| Conservation Tax (.125%) | -\$ 2.32 million |
| Highway Fund (.5%) | -\$ 9.29 million |
| State Central Services | -\$ 2.75 million |
| Constitutional Officers | -\$ 1.25 million |

[Beginning with October 2017, no prepayments would be remitted with the only state sales tax revenue collected during October being the remaining amount to be paid to settle the total tax due for September 2017. No prepayments would be received in October for the tax return due on November 20, 2017. State tax collections for the following months would be for the total state tax due for sales occurring during the previous month resulting in a one-time loss in state sales tax collections.]

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Taxpayer Impact :

A taxpayer with average net sales of more than \$200,000 per month for the preceding calendar year would no longer be required to make prepayments of taxes due for the month of October 2017 going forward.

Resources Required :

Education of the staff and the adoption of rules for this addition would also be necessary. Modifications to DFA's tax processing computer system will be required.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

None.

Other Comments :

The current calendar year prepayment schedules have been issued to taxpayers whom qualified based on the previous year's monthly sales volume. With the effective date provided in this proposal a statement would need to be issued to notify all taxpayer affected that the current schedules would be null and void for dates beginning October 1, 2017. Also, DFA would be required to update its tax system to accommodate this change in law in order to remove the prepayment requirements for all current qualifying taxpayers in order to avoid non-payment penalties for the remaining three (3) months of calendar year 2017.

| Month | Pre-Payments to be Received |
|--------------|-----------------------------|
| January-17 | \$ 112,485,000.00 |
| February-17 | \$ 123,017,800.00 |
| March-17 | \$ 132,014,200.00 |
| April-17 | \$ 122,265,400.00 |
| May-17 | \$ 123,446,000.00 |
| June-17 | \$ 130,847,700.00 |
| July-17 | \$ 126,854,340.00 |
| August-17 | \$ 128,309,600.00 |
| September-17 | \$ 128,712,760.00 |
| October-17 | \$ 124,793,200.00 |
| November-17 | \$ 120,661,600.00 |
| December-17 | \$ 144,657,800.00 |
| | \$ 1,518,065,400.00 |

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Legal Analysis :

None.