

Department of Finance and Administration

Amended Legislative Impact Statement

Bill: SB26

Bill Subtitle: TO AMEND THE LAW CONCERNING THE REDUCED SALES AND USE TAX RATE FOR UTILITIES USED BY MANUFACTURERS; AND TO APPLY A REDUCED SALES AND USE TAX RATE TO SALES OF COAL FOR USE IN MANUFACTURING.

Basic Change :

Sponsors: Sen. J. Sturch and Rep. S. Smith

SB26 expands the reduced sales and use tax rate on utilities to include coal purchased by a manufacturer classified within sectors 31 through 33 or code 115111 of the North American Industry Classification System. The coal is required to be used directly in the actual manufacturing process to qualify for the reduced sales and use tax rate of five-eighths of one percent (0.625%). The bill also rescinds expired language in existing Arkansas law providing differing tax rates for natural gas and electricity used directly in the manufacturing process.

SB26 would be effective on the first day of the calendar quarter following the effective date of this act. For purposes of the Revenue Impact below, an effective date of October 1, 2021 is assumed.

Revenue Impact :

FY2022

Total Approximate State Sales and Use Tax Loss **\$ - 537,000**

(Estimated Effective Date 10/1/21 --- 8 months reduced tax collection)

General Revenue - 4.5%	\$ - 398,568
Property Tax Relief - .5%	\$ - 44,285
Conservation Fund - .125%	\$ - .000
Educational Adequacy Fund - .875%	\$ - 77,449
Highway Fund - .5%	\$ - .000
Educational Excellence Trust Fund -	\$ - .000
Educational Adequacy (GR Transfer) -	\$ - .000
State Central Services -	\$ - 11,277
Constitutional Officers -	\$ - 5,370

FY2023

Total Approximate State Sales and Use Tax Loss **\$ - 826,000**

General Revenue - 4.5%	\$ - 551,728
Property Tax Relief - .5%	\$ - 68,119
Conservation Fund - .125%	\$ - .000
Educational Adequacy Fund - .875%	\$ - 119,208
Highway Fund - .5%	\$ - .000
Educational Excellence Trust Fund -	\$ - 56,358
Educational Adequacy (GR Transfer) -	\$ - 4,982
State Central Services -	\$ - 17,346
Constitutional Officers -	\$ - 8,260

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[Revenue Impact below reduces the state sales and use tax rate of 6.5% to constitutional levies only. That is, the conservation tax (0.125%) and 1/2 cent highway tax at (0.5%) would remain for a total remaining state tax rate of 0.625% upon sales of coal. Collections for city and county sales and use tax would not be affected.

Statistical data derived using information produced by the U.S. Energy Information Administration regarding coal purchases and consumption used for industrial and electrical power purposes in Arkansas.]

Taxpayer Impact :

SB26 would provide a reduced sales and use tax rate for coal used directly in the actual manufacturing process for manufacturers classified within sectors 31 through 33 or code 115111 of the North American Industry Classification System.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Updates to the Sales and Use Tax Rules would be required.

Other Comments :

SB26 includes coal in the sections pertaining to the reduced rate for manufacturers in sectors 31 through 33 but does not add coal for generators of electric power classified within sector 22 on page 3, lines 6 through 10 and page 5, lines 23 through 27. As a result, this fiscal impact does not include a reduction from the sales of coal to generators of electric power.

Legal Analysis :

SB26 expands the reduced sales and use tax rate for natural gas and electricity that a manufacturer uses directly in the actual manufacturing process to include a reduced sales and use tax rate for coal that a manufacturer uses directly in the actual manufacturing process. The bill also deletes expired provisions in the current statutes that levied various tax rates for periods specified by the statute that were prior to 2015. Since July 1, 2015, the sales and use tax rate for natural gas and electricity that a manufacturer uses directly in the actual manufacturing process has been 0% except for the various excise taxes levied by the Arkansas Constitution. The current statute does not include coal as a reduced tax rate energy source.