

Department of Finance and Administration

Legislative Impact Statement

Bill: SB133

Amendment Number: S1

Bill Subtitle: TO INCREASE THE SALES AND USE TAX EXEMPTION FOR USED MOTOR VEHICLES; AND TO REPEAL THE SPECIAL RATE OF TAX FOR CERTAIN USED MOTOR VEHICLES, TRAILERS, AND SEMITRAILERS.

Basic Change :

Sponsors: Sens. Payton, Dotson, Stubblefield, Stone, and Sullivan

Reps. Lundstrum, Andrews, Beck, S. Berry, M. Brown, John Carr, Cooper, Duffield, Ennett, Hawk, D. Hodges, G. Hodges, Hollowell, Hudson, Ladyman, Long, Lynch, Maddox, McAlindon, McClure, McCollum, McCullough, McGrew, Meeks, J. Moore, Painter, Pearce, Puryear, R. Scott Richardson, Rose, Underwood, Unger, Watson, Whitaker, and Womack

Senate Amendment No.1 --- SB133-S1 clarifies that the state law changes proposed by SB133 do not affect the current sales and use tax exemptions for certain classes of trucks or trailers as follows:

- Class 6 and 7 trucks registered under the International Registration Plan (IRP), which are exempt from sales and use tax;
- Semitrailers designed to carry property and drawn by a Class 6 or 7 truck registered under the IRP, which are exempt from sales and use tax; and
- Class 5 or 8 trucks or Class 6 or 7 trucks not registered under the IRP where the proceeds over \$9,150 exempt.

Original Bill --- Used Motor Vehicles --- Under current law, the sale of a used motor vehicle with a sales price of at least \$4,000 but no more than \$10,000 is subject to a reduced state sales or use tax rate of 3.5%. SB133 provides that the sale of a used motor vehicle for less than \$10,000 will be exempt from sales and use tax. The sale of a used motor vehicle for \$10,000 or more will be taxed at the full state sales tax rate.

Used Trailers and Semitrailers --- Under current law, the sale of a used trailer or semitrailer with a sales price of less than \$4,000 is not subject to sales or use tax. Also, under current law, the sale of a used trailer or semitrailer with a sales price of at least \$4,000 but no more than \$10,000 is subject to a reduced state sales or use tax rate of 3.5%. Under SB133, the sale of a used trailer or semitrailer with a sales price of at least \$4,000 would be subject to the full state sales or use tax rate of 6.5%. The sale of used trailer or semi-trailer with a sales price of less than \$4,000 would continue to be exempt from sales or use tax.

New Motor Vehicles, Trailers, and Semitrailers --- Under current law, the sale of a new motor vehicle, trailer, or semitrailer with a sales price of less than \$4,000 is not subject to sales or use tax. Also under current law, the sale of a new motor vehicle, trailer, or semitrailer with a sales price of \$4,000 or more is subject to the full state sales or use tax rate of 6.5%. SB133 repeals the current exemption for sales of new motor vehicles, trailers, or semitrailers with a sales price of less than \$4,000. Therefore, all sales of new motor vehicles, trailers, and semitrailers would be subject to the full 6.5% sales or use tax rate.

SB133 is effective on the first day of the calendar quarter following the effective date of the act. For purposes of the Revenue Impact below, an effective date of October 1, 2023 is assumed.

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Revenue Impact :

FY2024

Total Approximate State Sales and Use Tax Loss **\$3,376,599**

(Estimate includes: 8 months increase of tax collected on new motor vehicles, trailers, or semitrailers with selling price less than \$4,000; 8 months increase of tax collected on used trailers and semitrailers with sales price of at least \$4,000 but no more than \$10,000 at 6.5%; and 8 months loss of tax on used motor vehicles with sales price at least \$4,000 but no more than \$10,000.)

| | |
|--------------------------------------|--------------|
| General Revenue - 4.5% | -\$2,265,178 |
| Property Tax Relief - .5% | -\$251,686 |
| Conservation Fund - .125% | -\$62,922 |
| Educational Adequacy Fund - .875% | -\$440,451 |
| Highway Fund - .5% | -\$259,738 |
| Educational Excellence Trust Fund - | \$0 |
| Educational Adequacy (GR Transfer) - | \$0 |
| State Central Services - | -\$65,454 |
| Constitutional Officers - | -\$31,169 |

Total Approximate Local City and County Sales and Use Tax Loss **\$978,000**

FY2025

Total Approximate State Sales and Use Tax Loss **\$5,064,898**

(Estimate includes: 12 months increase of tax collected on new motor vehicles, trailers, or semitrailers with selling price less than \$4,000; 8 months increase of tax collected on used trailers and semitrailers with sales price of at least \$4,000 but no more than \$10,000 at 6.5%; and 8 months loss of tax on used motor vehicles with sales price at least \$4,000 but no more than \$10,000.)

| | |
|--------------------------------------|--------------|
| General Revenue - 4.5% | -\$3,049,156 |
| Property Tax Relief - .5% | -\$377,530 |
| Conservation Fund - .125% | -\$94,382 |
| Educational Adequacy Fund - .875% | -\$660,677 |
| Highway Fund - .5% | -\$389,608 |
| Educational Excellence Trust Fund - | -\$320,296 |
| Educational Adequacy (GR Transfer) - | -\$28,315 |
| State Central Services - | -\$98,181 |

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Constitutional Officers -

-\$46,753

Total Approximate Local City and County Sales and Use Tax Loss

\$1,467,000

[Statistical data derived from State of Arkansas software reporting for CY2022. All numbers were calculated based on the assumption that vehicles purchases remain constant.]

Summary of Revenue Impact:

FY2024

- State sales and use tax loss of approximately \$5 million with 21,210 used motor vehicles exempt from sales and use tax (sales price of at least \$4,000 but no more than \$10,000);
- Sales and use tax increase of approximately \$1 million with 6,488 new motor vehicles, trailers and semitrailers taxed at 6.5% (sales price of less than \$4,000); and
- Sales and use tax increase of approximately \$318,000 with 1,682 used trailers and semitrailers taxed at 6.5% (sales price of at least \$4,000 but no more than \$10,000).

FY2025

- State sales and use tax loss of approximately \$7 million with 31,815 used motor vehicles, exempt from sales and use tax (sales price of at least \$4,000 but no more than \$10,000);
- Sales and use tax increase of approximately \$1.6 million with 9,732 new motor vehicles, trailers and semitrailers taxed at 6.5% (sales price of less than \$4,000); and
- Sales and use tax increase of approximately \$478,000 with 2,523 used trailers and semitrailers taxed at 6.5% (sales price of at least \$4,000 but no more than \$10,000).

Taxpayer Impact :

A taxpayer purchasing a used motor vehicle with a total consideration paid of less than \$10,000 would not pay sales or use tax on the transaction. A taxpayer purchasing a used trailer or semitrailer with a total consideration paid of \$4,000 or more would be required to pay the full sales or use tax rate. A taxpayer purchasing a new motor vehicle, trailer, or semitrailer would be required to pay the full sales tax rate regardless of the amount of consideration paid.

Resources Required :

The Arkansas Integrated Revenue System (AIRS) system will need to be programmed to accommodate this change. Requirements gathering, development, testing, and training will take approximately 280 hours at a cost of \$56,000. This would also require recurring maintenance at a cost of \$20,000 annually.

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Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Computer programs and training manuals will need to be updated. Department employees and State Revenue Office and Office of Motor Vehicle staff will need to be educated on changes as well as the taxpayer community. Updates to the Motor Vehicle manual and website will be required.

Other Comments :

None.

Legal Analysis :

Original Bill --- SB133 repeals the entirety of §§ 26-52-324 and 26-53-150. SB133 may benefit from an amendment to include the language contained in §§ 26-52-324(c) and 26-53-150(c) to clarify whether the purchaser of a vehicle may deduct the amount he or she receives from a trade-in or private sale when determining whether a vehicle qualifies for the tax exemption. Under current law, for purposes of the reduced tax rate, the purchase price may not be reduced by the amount received from a trade-in or private sale in order to qualify for the reduced sales or use tax rate.