



**State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement**

Bill: HB1319

Bill Subtitle: TO PROVIDE AN EXEMPTION FROM STATE SALES TAX FOR DISABLED VETERANS, SPOUSES OF DISABLED VETERANS, AND SURVIVING SPOUSES OF DISABLED VETERANS.

Sponsors:

Reps. Crawford, Barnes, Berry, Breaux, John Carr, Cooper, Duffield, Ennett, Garner, Gonzales Worthen, Gramlich, Hollowell, Hudson, Johnson, Lynch, McClure, McCullough, McElroy, McGruder, Nazarenko, J. Richardson, Richmond, Rose, Rye, and Steimel

Sens. Boyd and Clark

Basic Change:

HB1319 creates a state sales tax exemption for the purchase of tangible personal property, specified digital products, a digital code, or services by a disabled veteran, the spouse of a disabled veteran, or the unmarried surviving spouse of a disabled veteran. A person is a "disabled veteran" if they qualify for the property tax exemption in § 26-3-306. Under § 306 a disabled veteran is someone who has been awarded special monthly compensation by the U.S. Department of Veterans Affairs for the loss of, or the loss of use of, one or more limbs, for total blindness in one or both eyes, or for service-connected 100% total and permanent disability.

To claim the exemption, a disabled veteran must obtain an identification card containing the veteran's photograph and a unique serial number from the Arkansas Department of Veterans Affairs (ADVA). The surviving spouse of a deceased disabled veteran who seeks to claim the exemption must submit a letter to DFA from the U.S. Department of Veterans Affairs certifying that they are the unmarried surviving spouse of a disabled veteran. A merchant accepting an identification card to make an exempt sale must use the serial number on the card to process the exempt transaction and must include the serial number on the monthly sales tax report submitted to DFA to report and pay sales taxes due.

HB1319 provides that the maximum amount that may be claimed in a calendar year by the disabled veteran is \$5,000. The exemption applies only to sales made at a physical location within Arkansas and does not apply to compensating use taxes (§ 26-53-101 et seq.) or to sales and use taxes levied by local governments, specifically:

- Alternative local sales and use taxes (§ 26-73-113(a)(1)(A));
- County capital improvements taxes (§ 26-74-212(a) and 26-74-312(b));
- Municipal capital improvement taxes (§ 26-75-214(b));
- Municipal parks sales and use taxes (§ 26-75-405(a));
- Municipal gross receipts taxes (§ 26-75-502(a));
- Multicounty airport and riverport financing taxes (§ 26-81-104(a)(1)); and
- Local sales and use tax economic development project funding taxes (§ 26-82-102(9)).

DFA may recover any sales tax claimed as exempt in excess of the maximum authorized amount, including penalty and interest. Any person claiming the exemption with a purpose to defraud may be guilty of a Class C misdemeanor.



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Both DFA and ADVA are required to adopt rules to implement and administer this exemption and are required to collaborate regarding the administration of the various provisions of HB1319.

HB1319 would be effective on the first day of the calendar quarter following the effective date of the act.

Fiscal Impact:

FY2026

Total Approximate State Sales and Use Tax Loss -\$15,207,088

(Estimated Effective Date 10/1/2025 --- 8 months reduced tax collection)

General Revenue - 4.5%	-\$10,212,145
Property Tax Relief - .5%	-\$1,134,683
Conservation Fund - .125%	-\$283,671
Educational Adequacy Fund - .875%	-\$1,985,695
Highway Fund - .5%	-\$1,169,776
Educational Excellence Trust Fund -	\$0
Educational Adequacy (GR Transfer) -	\$0
State Central Services -	-\$280,746
Constitutional Officers -	-\$140,373

Total Approximate Local City and County Sales and Use Tax Loss \$0

FY2027

Total Approximate State Sales and Use Tax Loss -\$23,494,951

General Revenue - 4.5%	-\$14,206,114
Property Tax Relief - .5%	-\$1,753,085
Conservation Fund - .125%	-\$438,271
Educational Adequacy Fund - .875%	-\$3,067,898
Highway Fund - .5%	-\$1,807,304
Educational Excellence Trust Fund -	-\$1,443,997
Educational Adequacy (GR Transfer) -	-\$127,652
State Central Services -	-\$433,753
Constitutional Officers -	-\$216,876

Total Approximate Local City and County Sales and Use Tax Loss \$0



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[Fiscal impact prepared using Information received from the Arkansas Department of Veterans Affairs, U.S. Census Bureau, as well as other expenditure data.]

Taxpayer Impact:

Disabled veterans, spouses of disabled veterans and surviving spouses of disabled veterans will be eligible for a state sales tax exemption up to \$5,000. Those who are eligible to make purchases with the sales tax exemption will be required to keep track of annual exemption totals. Vendors will have to include serial numbers for each veteran-exempted purchase on their monthly sales tax return.

Resources Required:

Computer programs, tax forms, and instructions will need to be updated. Programming costs for the Arkansas Integrated Revenue System (AIRS) are estimated at \$13,000.

Time Required:

Adequate time is allowed for implementation.

Procedural Changes:

The sales tax return (ET-1) must be modified to account for the reporting of identification serial numbers. A database would need to be developed to capture this information, determine annual sales tax limits for compliance, and issue tax assessment for overages. Materials for staff training, vendor training and taxpayer requirements will be needed.

Other Comments:

In Section 1 of HB1319, § 26-52-457(c)(1)(A) appears to conflict with § 26-52-457(f)(1). More specifically, § 457(c)(1)(A) provides that a disabled veteran shall obtain an identification card from ADVA. Section 457(f)(1) provides that ADVA in coordination with DFA shall issue an identification card to each eligible person who applies for an identification card.

It is unclear under HB1319 whether the spouse of a disabled veteran should obtain an identification card for himself or herself to claim the sales tax exemption or if he or she will use the identification card and serial number of the disabled veteran. If individual cards are issued, it is not clear if the assigned serial number would be the same for the disabled veteran and spouse or if the \$5,000 sales tax exemption is per card and serial number or a shared total. A vendor would have to include serial numbers for each veteran-exempted purchase on its monthly sales tax return. Vendors do not currently maintain individual sales tax exemption amounts and HB1319 does not require vendors to report sales tax exemption amounts. It may present administrative difficulty for DFA to monitor the exemption amounts claimed by each eligible disabled veteran, spouse, or surviving spouse.



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HB1319 does not provide a method for monitoring all uses of a sales tax exemption card for disabled veterans, spouse of disabled veterans or surviving spouses of disabled veterans.

Legal Analysis:

The provision of HB1319 enacting a sales tax exemption for in-state purchases by a disabled veteran but disallowing that exemption for out-of-state purchases could be determined to be an unconstitutional violation of the interstate commerce clause by discriminating against out-of-state sellers. The U.S. Supreme Court has explained that where a state imposes both sales and use taxes, the interstate commerce clause requires that they be equivalent and equally applied.

The provision of HB1319 allowing a tax exemption from state sales taxes but denying the exemption for local sales taxes potentially violates the Streamlined Sales and Use Tax Agreement. The Agreement requires that the tax base for local jurisdictions be identical to the state tax base. HB1319 may also violate the Agreement by requiring sellers to remit a list of each identification card serial number on its sales tax report. The Agreement requires Arkansas to accept a standard form sales tax return established by the Agreement. That standard return does not provide for the inclusion of serial numbers associated with exempt purchases.

HB1319 may benefit from an amendment identifying the purpose of the requirement that a surviving spouse submit a letter from the U.S. Dept. of Veterans Affairs to DFA. HB1319 may also benefit from an amendment clarifying the scope of the \$5,000 exemption limit. The bill is unclear regarding whether that limitation is a limit on the total dollar value of exempt purchases a disabled veteran may make each year or a limit on the total dollar value of sales tax that may be avoided annually.