



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

Bill: HB1685

Bill Subtitle: TO CREATE THE GROCERY TAX RELIEF ACT; TO AMEND THE LAW CONCERNING THE SALES AND USE TAXES LEVIED ON FOOD AND FOOD INGREDIENTS, AS AFFIRMED BY REFERRED ACT 19 OF 1958; AND TO EXEMPT GROCERIES FROM STATE SALES AND USE TAXES.

Sponsors:

Rep. Underwood and Sen. Hester

Basic Change:

HB1685 creates the Grocery Tax Relief Act to provide a state sales and use tax exemption for the sale of food and food ingredients. HB1685 provides that "[t]he gross receipts or gross proceeds derived from the sale of food and food ingredients are subject to municipal and county gross receipts taxes."

Under current law, food and food ingredients are taxed at the rate of 0.125%, which is levied under Amendment 75 of the Arkansas Constitution. The levy under Amendment 75 only applies to the sale of goods and services that are otherwise subject to sales or use tax. Under HB1685, food and food ingredients would no longer be subject to the current 0.125% state tax levied under Amendment 75.

The bill retains the current definitions of "food" and "food ingredients" for sales and use tax purposes. "Food" and "food ingredients" are defined as "substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value." "Food" and "food ingredients" do not include candy, a soft drink, an alcoholic beverage, tobacco, or a dietary supplement.

The exemption for food and food ingredients provided under HB1685 would not extend to sales of "prepared food", which would continue to be taxed at the full state sales and use tax rate. The following items are excluded from the definition of "prepared food" and therefore would be included in the exemption provided under HB1685:

- Food that is only cut, repackaged, or pasteurized by the seller; or
- Eggs, fish, meat, and poultry, and foods containing these raw animal foods requiring cooking by the consumer to prevent food-borne illnesses.

HB1685 would be effective on and after January 1, 2026.

Fiscal Impact:

FY2026

Total Approximate State Sales and Use Tax Loss -\$4,413,526

(Estimated Effective Date 1/1/2026 --- 5 months reduced tax collection)

Conservation Fund - .125%	-\$4,281,120
State Central Services -	-\$88,271
Constitutional Officers -	-\$44,135

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



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FY2027

Total Approximate State Sales and Use Tax Loss	-\$10,920,065	
Conservation Fund - .125%		-\$10,592,463
State Central Services -		-\$218,401
Constitutional Officers -		-\$109,201
Total Approximate Local City and County Sales and Use Tax Loss	\$0	

Taxpayer Impact:

A taxpayer would no longer pay state sales or use tax on purchases of food and food ingredients. The sale of food and food ingredients would continue to be subject to city and county sales and use taxes.

Resources Required:

The Arkansas Integrated Revenue System (AIRS) will require programming at an estimated cost of \$14,000.

Time Required:

Adequate time is allowed for implementation.

Procedural Changes:

Computer programs, websites and training manuals will be updated.

Other Comments:

None.

Legal Analysis:

None.