

EXEMPTIONS FROM THE 6% ARKANSAS GROSS RECEIPTS TAX AND COMPENSATING USE TAX

Department of Finance and Administration
Economic Analysis and Tax Research
April 2012

This document is designed to provide revenue estimates of various exemptions to the Arkansas Gross Receipts tax and the Arkansas Compensating Use tax. It is not an official list of sales tax exemptions. Each description is a brief summary and does not provide detail. Always refer to the provisions of state law and the rules published by DFA for definitive guidance about any sales tax exemption.

The estimates do not represent an official revenue estimate of any particular tax proposal. They do not necessarily represent the revenue gain that would occur if the exemptions were eliminated. The estimates are based on estimated activity during FY2011. The value of a particular exemption may vary widely from year to year depending on prices, industry activity and demographic trends.

Each exemption is considered independently although there is overlap between individual exemptions. For this reason, the sum of all the estimates would not represent the combined value of all Arkansas sales tax exemptions.

All estimates in this document are for fiscal year 2011. Additional exemptions or expansion of exemptions that became effective after fiscal year 2011 are noted separately at the end of the document.

MOTOR FUEL EXEMPTIONS

1. Gasoline or motor vehicle fuel on which the gasoline or motor vehicle fuel tax has been paid.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(11)(A)(i)
\$325,237,468
2. Sales of motor fuel to owners or operators of motor buses operated on designated streets, according to regular schedules, under municipal franchise, for municipal transportation purposes.
Act 600 of 1971; Ark. Code Ann. § 26-52-417(a)
\$94,317
3. Sales of special fuel or petroleum products for consumption by vessels, barges, other commercial watercraft, and railroads.
Act 1005 of 1995; Ark. Code Ann. § 26-52-401(11)(A)(ii)
\$13,602,208

4. Sales of dyed diesel. The sales tax was replaced by a per gallon tax.
Act 87 of 2007; Ark. Code Ann. §26-52-401(11)(A)(iii)
\$41,263,111

FEDERAL GOVERNMENT EXEMPTIONS

1. Purchases legally made with food stamps or the Special Supplemental Food Program for women, Infants, and Children (WIC).
Act 1033 of 1987; Ark. Code Ann. §26-52-401(27)(A)
\$46,226,160
2. Sales to the United States Government and its agencies.
Ark. Code Ann. §26-52-401(5)
\$45,720,000
3. Sales or rental of medical equipment by medical equipment suppliers in Arkansas for the benefit of persons enrolled in and eligible for Medicare or Medicaid programs under the Federal Social Security Act.
Act 414 of 1991; Ark. Code Ann. §26-52-401(20)
\$7,021,800
4. Sales of motor vehicles used to transport the aged, disabled, or mentally ill under DHS programs where the vehicles are purchased in lots of 10 or more and (1) purchased by non-profit organizations, and used for the performance of contracts with the Department of Human Services, or (2) purchased with Urban Mass Transit Administration Funds.
Act 910 of 1991; Ark. Code Ann. §26-52-420
\$15,000
5. Sales of motor vehicles and adaptive equipment to disabled veterans who have purchased them with financial assistance from the Department of Veterans Affairs.
Act 403 of 1973; Ark. Code Ann. §26-52-401(6)
\$39,501

MEDIA EXEMPTIONS

1. Services purchased by radio and television companies for use in providing their services.
Act 769 of 1989; Ark. Code Ann. § 26-52-301(3)(C)(ii)
\$2,197,688
2. Sales of newspapers.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(4)
\$2,094,866
3. Sale or rental of advertising space in newspapers and publications.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(13)
\$12,713,596

4. Sale of billboard advertising.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(13)
\$1,660,968
5. Sale of any publication (other than newspapers) through regular subscription.
Act 617 of 1993; Ark. Code Ann. § 26-52-401(14)
\$4,183,330

EXEMPTIONS FOR LOW-INCOME HOUSEHOLDS

1. The sale of the first 500 kilowatt hours of electricity per month to each residential customer whose household income does not exceed \$12,000.00 per year.
Act 120 of 1983 (Ex. Sess.); Ark. Code Ann. § 26-52-416(a)
\$3,473,971
2. Sales of new or used motor vehicles or trailers of less than \$2,500.00.
Act 1232 of 1997; Ark. Code Ann. § 26-52-510(b)(1)(B)
\$20,624,590
3. Sales of food and food ingredients to non-profit agencies organized under the Arkansas Nonprofit Corporation Act (4-28-201) for free distribution to the poor and needy.
Act 1144 of 1993; Ark. Code Ann. § 26-52-421
\$313,661

MEDICAL EXEMPTIONS

1. Sales and purchases of prescription drugs by licensed pharmacists, hospitals, or physicians and oxygen prescribed by a licensed physician for human use.
Act 416 of 1987, Act 704 of 1997, Act 884 of 1997; Ark. Code Ann. § 26-52-406
\$142,520,059
2. Sales of test strips for testing human blood sugar levels (Sales of insulin are included under the prescription drugs exemption).
Act 215 of 1991; Ark. Code Ann. § 26-52-419
\$1,610,307
3. Sales, rentals, or repair of durable medical equipment, mobility-enhancing equipment, prosthetic devices, and disposable medical supplies when the items are prescribed by a physician prior to purchase.
Act 414 of 1991; Ark. Code Ann. § 26-52-433
\$9,867,095

AGRICULTURAL EXEMPTIONS

1. Sales of raw products, including Christmas trees, from the farm, orchard, or garden where the sale is made directly by the producer to the consumer, including sales by the producer to the consumer at farmers' markets.
Act 386 of 1941, Act 458 of 1991, Act 1205 of 2009; Ark. Code Ann. § 26-52-401(18)(A)(iii) and (B)(ii)
\$501,453
2. Sale of baby chickens in Arkansas.
Act 15 of 1949; Ark. Code Ann. § 26-52-401(18)(A)(v)
\$18,844,313
3. Sales of livestock, poultry, poultry products, and dairy products of producers who own not more than five (5) cows.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(18)(A)(iv)
\$100,807
4. Sales of twine used in the production of tomatoes.
Act 759 of 1975; Ark. Code Ann. § 26-52-408(b)
\$2,438
5. Sales of bagging, packaging, and tie materials sold to and used by cotton gins in Arkansas for packaging and tying baled cotton in Arkansas.
Act 759 of 1975; Ark. Code Ann. § 26-52-408(a)
\$303,939
6. Sales of cotton, seed cotton, lint cotton or baled cotton whether compressed or not.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(18)(A)(i)
\$23,540,800
7. Sales of seed to be used in the commercial production of any agricultural product or agricultural seed.
Act 133 of 1965; Ark. Code Ann. § 26-52-401(18)(A)(ii)
\$22,200,000
8. Sales of agricultural fertilizer, agricultural limestone, and agricultural chemicals, pesticides, herbicides used in the commercial production of agricultural products, and vaccines, medications, and medicinal preparations used in treating livestock and poultry for commercial production.
Act 68 of 1973; Ark. Code Ann. § 26-52-405
\$51,200,000
9. Sales of feedstuffs used in the commercial production of livestock or poultry.
Act 94 of 1955; Ark. Code Ann. § 26-52-404(a)
\$98,541,351

10. Sales of machinery and equipment used exclusively and directly in farming for commercial purposes, including machinery and equipment used for production of sod and nursery products.
Act 432 of 1981, Act 1033 of 1999; Ark. Code Ann. § 26-52-403
\$25,983,750
11. Irrigation pipe carrying water from the well to the crop is exempt as farm equipment.
Act 587 of 1995; Ark. Code Ann. § 26-52-403(a)(1)(B)(i)
\$475,275
12. Sales of livestock reproduction equipment or substances.
Act 2168 of 2005; Ark. Code Ann. §26-52-439
\$27,776

INDUSTRIAL MACHINERY OR EQUIPMENT EXEMPTIONS

1. Sale of machinery and equipment used directly in manufacturing or processing.
Act 5 of 1968(1st Ex. Sess.), Act 841 of 1985; Ark. Code Ann. § 26-52-402
\$85,373,388
2. Sale of pollution control machinery and equipment utilized by manufacturing or processing plants or facilities or cities or towns in Arkansas to prevent or reduce air or water pollution.
Act 5 of 1968(1st Ex. Sess.); Ark. Code Ann. § 26-52-402(a)(3) and 26-53-114(a)(3)
\$15,470,607
3. The first \$50,000 of the purchase price of timber harvesting equipment is exempt if the purchaser's primary activity is harvesting timber and if the equipment is used exclusively for harvesting timber.
Act 1334 of 1999, Act 622 of 2001; Ark. Code Ann. 26-52-431
\$378,134
4. Sales of fuel packaging materials and machinery and equipment (including analytical equipment and chemicals) used in the business of processing hazardous and non-hazardous waste into fuel products.
Act 1683 of 2001; Ark. Code Ann. §26-52-401(36)
\$43,709
5. Chemicals, catalysts, and reagents consumed in manufacturing.
Act 854 of 1999; Ark. Code Ann. §26-52-401(35)
\$21,100,000

ENERGY EXEMPTIONS

1. Sale of electricity used in the manufacture of aluminum metal by the electrolytic reduction process.
Act 986 of 1987; Ark. Code Ann. § 26-52-401(24)
No current production or corresponding revenue loss.
2. Sales of natural gas used in the process of manufacturing glass.
Act 1140 of 1993; Ark. Code Ann. § 26-52-423
\$130,268
3. Sales of natural gas and electricity to qualified manufacturers of steel.
Act 48 of 1987; Ark. Code Ann. § 26-52-903
\$6,582,349
4. Sales of railroad ties, solid waste (except for wood byproducts and chips), used motor oil and other petroleum based waste, and waste fuel if used as fuel in manufacturing operations.
Act 1024 of 1993, Act 1134 of 1995, Act 825 of 1997; Ark. Code Ann. § 26-52-425
\$285,745
5. Sale of gas produced from “biomass” and sold for the purpose of generating energy, which is then sold back to the gas producer.
Act 999 of 1997; Ark. Code Ann. § 26-52-429(a)
\$41,482
6. Sales of natural gas and electricity used in wall and floor tile manufacturing if construction began before 1/1/2003.
Act 1375 of 2001; Ark. Code Ann. §26-52-435
\$0
7. Sale of electricity used for production of chlorine and other chemicals using a chlor-alkali manufacturing process.
Act 877 of 2005; Ark. Code Ann. §26-52-438
\$0
8. Partial sales tax exemption (3.25% rate in FY2011) on manufacturers’ use of natural gas and electricity.
Act 185 of 2007, Acts 691 and 695 of 2009; Ark. Code Ann. §26-52-319
\$18,449,277.
9. Sales of natural gas and electricity used in the manufacture of new motor vehicle tires.
Act 548 of 2007; Ark. Code Ann. §26-52-441
\$733,109

EXEMPTIONS FOR LOCAL GOVERNMENTS OTHER THAN SCHOOL DISTRICTS

1. Sales by municipalities or counties of tickets or admissions to places of amusement or athletic, entertainment, or recreational events.
Act 509 of 1981, Act 657 of 2007; Ark. Code Ann. § 26-52-411
\$150,377
2. Sales to Public Housing Authorities.
Act 298 of 1937; Ark. Code Ann. § 14-169-235
\$3,532,842
3. Sales to Regional Water Distributions Districts.
Act 114 of 1957; Ark. Code Ann. § 14-116-405
\$4,394,706
4. Sales to Regional Airport Authority organized under Ark. Code Ann. 14-362-101.
Act 17 of 1968; Ark. Code Ann. § 14-362-121
\$360,144
5. Fire protection equipment and emergency equipment (including motor vehicles used for this purpose) to be owned by and exclusively used by volunteer fire departments.
Act 1010 of 1995; Act 1473 of 2003; Ark. Code Ann. § 26-52-434(a)
\$460,507
6. Construction supplies and materials used in construction and maintenance of volunteer fire departments.
Act 441 of 1997; Act 1473 of 2003; Ark. Code Ann. § 26-52-434(b)
\$391,085
7. County purchases of law enforcement aircraft thermal imaging equipment.
Act 767 of 2009; Ark. Code Ann. §26-52-442
\$9,900

EXEMPTIONS FOR NON-PROFIT, RELIGIOUS or CHARITABLE ORGANIZATIONS

1. Sales to Boys' and Girls' Clubs of America and any local Councils.
Act 252 of 1977 & Act 630 of 1979; Ark. Code Ann. § 26-52-401(8)
\$59,394
2. Sales to The Poets Roundtable of Arkansas.
Act 630 of 1979; Ark. Code Ann. § 26-52-401(9)
\$120

3. Sales to Boy Scouts of America and Girl Scouts of America and any Scout Councils located in Arkansas.
Act 922 of 1975; Ark. Code Ann. § 26-52-401(7)
\$106,981
4. Sales to 4-H Clubs and FFA Clubs located in Arkansas, the Arkansas 4-H Foundation, the Arkansas Future Farmers of America Foundation, and the Arkansas Future Farmers of America Association.
Act 630 of 1979; Ark. Code Ann. § 26-52-401(10)
\$71,645
5. Sales to Orphans' homes and Children's homes in Arkansas, not operated for profit, and operated by church, religious or other charitable organizations.
Act 82 of 1949; Ark. Code Ann. § 26-52-413
\$44,892
6. Sales to Humane Societies not operated for profit and organized for the prevention of cruelty to animals.
Act 417 of 1979; Ark. Code Ann. § 26-52-414
\$83,354
7. Sales of food to governmental agencies for free distribution to any public, penal, or eleemosynary institution or for free distribution to the poor and needy.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(19)
\$75,401
8. Sales by churches and charitable organizations not engaged in business for profit.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(1) & § 26-52-401(2)
\$559,881
9. Sales to any hospital, sanitarium, or not-for-profit nursing homes operated for charitable and non-profit purposes.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(21)
\$103,507,885
10. Sales to non-profit organizations whose sole purpose is to provide temporary housing to the family of patients in a hospital or sanitarium.
Act 753 of 1989; Ark. Code Ann. § 26-52-401(21)
\$2,344
11. Sales of new motor vehicles to a veteran of the U.S. Armed Services who is blind as a result of a service-connected injury.
Act 70 of 1979; Ark. Code Ann. § 26-52-415(a)
\$6,475
12. Sales to Fort Smith Clearing House.
Act 913 of 1993; Ark. Code Ann. § 26-52-424
\$8,480

13. Sales to federally chartered credit unions.
Act 386 of 1941; Ark. Code Ann. § 23-35-103
\$1,460,016
14. Sales of articles sold on the premises of the Arkansas Veterans' Home.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(25)
\$1,671
15. Sales to Habitat for Humanity.
Act 516 of 1995; Ark. Code Ann. § 26-52-401(31)
\$111,954
16. Sales to the Salvation Army.
Act 603 of 1997; Ark. Code Ann. § 26-52-401(33)
\$93,758
17. Sales to Heifer Project International, Inc.
Act 1222 of 1997; Ark. Code Ann. § 26-52-401(34)
\$178,225
18. Sales by gift shops operated by charitable organizations at for-profit hospitals.
Act 628 of 2001; Ark. Code Ann. §26-52-430(c)(2)
\$3,278
19. Sales to the Arkansas Symphony Orchestra Society.
Act 2132 of 2005; Ark. Code Ann. §26-52-401(37)
\$6,843
20. Sales to Arkansas Search Dog Association, Inc.
Act 1176 of 2009; Ark. Code Ann. §26-52-443
\$1,000
21. Hospital and Medical Service Corporations.
Act 148 of 1959; Ark. Code Ann. §23-75-120
\$200,000
22. Arkansas National Guard – sales by canteen.
Act 489 of 1977; Ark. Code Ann. §12-63-406
\$900,000

AVIATION OR AEROSPACE

1. Sales of new or used aircraft of less than \$2,000.
Act 3 of 1991; Ark. Code Ann. § 26-52-505(b)
\$835

2. Aircraft held for resale that is used in a charter service for a period of 24 months from the date of purchase.
Act 499 of 1995; Ark. Code Ann. § 26-52-409
\$2,457,207

EXEMPTIONS FOR SCHOOL DISTRICTS AND OTHER EDUCATIONAL INSTITUTIONS

Arkansas taxes sales to itself and to the local governments.

1. Sales of school buses to school districts in Arkansas or to other purchasers if they exclusively use buses to provide school bus service under contract with an Arkansas school district.
Act 339 of 1947, Act 1303 of 1997; Ark. Code Ann. § 26-52-410(b) and (c)
\$2,845,947
2. Sales of motor vehicles to municipalities, counties, state-supported colleges, state supported universities, or public school districts in Arkansas.
Act 49 of 1971; Ark. Code Ann. § 26-52-410(a)
\$1,206,606
3. Motor vehicles purchased by technical or community colleges and used exclusively for training purposes.
Act 1297 of 1995; Ark. Code Ann. § 6-51-101(a)(1)
\$12,428
4. Sales of food in public, common, high school or college cafeterias and lunchrooms.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(3)
\$5,220,039
5. Sales of textbooks and other instructional materials (including sheet music, electronic software, maps, globes, charts, DVDs, etc.) purchased by an Arkansas school district or Arkansas public school that receives state funding, or purchased by the State of Arkansas for free distribution to Arkansas school districts or Arkansas public schools. .
Act 605 of 1995, Act 1441 of 2005; Ark. Code Ann. § 26-52-437
\$2,506,586
6. Sales of tickets for admissions to athletic events and interscholastic activities at public and private elementary and secondary schools in Arkansas.
Act 516 of 1973; Ark. Code Ann. § 26-52-412(a)
\$1,376,428
7. Sales of tickets for admission to athletic events at public or private universities and colleges in Arkansas.
Act 124 of 1995; Ark. Code Ann. § 26-52-412(b)
\$2,439,885

8. Sales tax exemption for parking space charges or fees by state institutions.
Act 2162 of 2005; Ark. Code Ann. §25-17-307(a)(2)(B)
\$135,385

OTHER EXEMPTIONS

1. Sales of automobile parts which constitute "core charges" which are received for the purpose of securing a trade-in for the article purchased.
Act 986 of 1987; Ark. Code Ann. § 26-52-401(26)
\$54,723
2. Services provided by coin-operated car washes where the labor is performed solely by the customer or mechanical equipment.
Act 181 of 1973; Ark. Code Ann. § 26-52-301(3)(B)(ii)
\$134,417
3. Admission fees at state, district, county or township fairs. Admission fees to rodeos.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(15)
\$287,369
4. Repair or remanufacture of industrial metal rollers.
Act 89 of 1989 (3rd Ex. Sess.); Ark. Code Ann. § 26-52-301(3)(B)(v)
\$6,475
5. Isolated sales not made by an established business or in an established manner. This exemption does not apply to the sale of motor vehicles, trailers, semi-trailers, mobile homes, or airplanes.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(17)
\$422,241
6. Sales of used property if item was taken in trade and tax was collected on the full purchase price of the new item.
Act 386 of 1941; Ark. Code Ann. § 26-52-401(22)
\$6,880,889
7. Construction materials and furnishings for use in the initial construction and equipping of a child care facility operated by a business for the primary purpose of providing child care services to their employees.
Act 850 of 1995; Ark. Code Ann. § 26-52-516
\$87,202
8. Sales of motor vehicles to persons engaged in the business of renting licensed motor vehicles.
Act 1059 of 1993, Act 182 of 2007; Ark. Code Ann. § 26-63-302 and 26-63-304
\$6,915,743

9. Fees charged for the transfer of fill material by a business engaged in transporting or delivering fill material, provided such fill material was obtained free of charge by a business engaged in transporting or delivering fill material and the charge to the customer or user is only for delivery.
Act 1183 of 1993; Ark. Code Ann. § 26-52-401(30)
\$328,233
10. Sales of new manufactured homes and modular homes are taxed on 62% of the gross sales price. Sales of used manufactured and modular homes are exempt.
Act 1192 of 1997, Act 2254 of 2005; Ark. Code Ann. § 26-52-802
\$3,414,140
11. Any interstate or international private communications service and any interstate or international 800 service or 900 service.
Act 1273 of 2003; Ark. Code Ann. § 26-52-315
Unknown.
12. Sales of new aircraft manufactured or substantially completed in Arkansas to a purchaser for use exclusively outside Arkansas.
Act 377 of 1981; Ark. Code Ann. § 26-52-505(c)
\$22,960,453
13. Repair or maintenance services of railroad parts, cars, and equipment brought into Arkansas for repair or maintenance, solely and exclusively and then returned to a point outside Arkansas.
Act 848 of 1995; Ark. Code Ann. § 26-52-301(3)(B)(iii)
\$5,599,345
14. Sale of vessels, barges, and towboats of at least fifty (50) tons load displacement and the parts and labor used in their repair and construction.
Act 449 of 1979; Ark. Code Ann. § 26-52-407
\$287,638
15. Sales tax exemption for gross receipts in excess of \$9,150 selling price of truck tractor (Class Five – Class Eight trucks) and gross receipts in excess of \$1,000 selling price of a semi-trailer.
Act 551 of 2003; Ark. Code Ann. §26-52-436
\$7,288,596
16. Sales tax exemption for purchases by a “Qualified Museum” for construction, repair, expansion, or operation. A “Qualified Museum” must have a collection with a value greater than \$100,000,000 in an Arkansas facility prior to January 1, 2013. The aggregate costs of construction and acquisition must exceed \$30 million.
Act 1865 of 2005; Ark. Code Ann. §26-52-440
\$2,700,000

17. Partial sales tax exemption (2.0% rate in FY2011) on food and food ingredients.
Act 110 of 2007, Act 436 of 2009; Ark. Code Ann. §26-52-317
\$176,046,787
18. Arkansas Entertainers Hall of Fame Board.
Act 671 of 1985; Ark. Code Ann. § 13-9-104
\$3,237

ADDENDUM: EXEMPTIONS PASSED IN 2011 LEGISLATIVE SESSION

These exemptions are placed in an addendum to this FY2011 document because their impacts would not yet have been felt in FY2011.

Increase the sales tax exemption on food and food ingredients by 0.5% (e.g., reduce the sales tax rate from the 2.0% rate effective in FY2011 to 1.5% for FY2012 forward).

Act 755 of 2011; Ark. Code Ann. §26-52-317

\$20,800,000 incremental impact in FY2012.

Increase the sales tax exemption on manufacturers' use of natural gas and electricity (e.g., reduced the sales tax rate from 3.25% rate effective in FY2011 to 2.75% for FY2012 forward) and extend the exemption to high-efficiency electric power generators with a longer phase-in period.

Act 754 of 2011; Ark. Code Ann. §26-52-319

\$5,270,000 incremental impact in FY2012 and \$10,200,000 incremental impact in FY2013.

Increase the threshold for exemption on sales of new or used motor vehicles or trailers from \$2,500 to \$4,000 effective 1/1/2012.

Act 753 of 2011; Ark. Code Ann. § 26-52-510(b)(1)(B), 26-53-126(b)(2).

\$2,500,000 incremental impact in FY2012 and \$5,000,000 incremental impact in FY2013.

Sale of back-to-school supplies, clothing and clothing accessories on the first weekend (Saturday and Sunday) in August.

Act 757 of 2011; Ark. Code Ann. §26-52-444

\$2,120,000 in FY2012.

Agricultural water purchases that reduce groundwater use.

Act 824 of 2011; Ark. Code Ann. §26-52-405(4)

\$0 impact in FY2012 because there will be virtually no use of water from public projects designed to substitute surface water use for groundwater use in eastern Arkansas until around 2015.

Sales to Arkansas Black Hall of Fame Foundation.

Act 998 of 2011; Ark. Code Ann. § 26-52-401(39)

\$3,000 impact in FY2012.

Sales of Class 7 and 8 trucks and semi-trailers.

Act 1058 of 2011; Ark. Code Ann. § 26-52-436

\$4,000,000 impact in FY2013. There is no earlier impact because this exemption is effective on July 1, 2012.

Purchases of kegs by a wholesale manufacturer of beer that are used to sell beer wholesale.

Act 1226 of 2011; Ark. Code Ann. § 26-52-445

\$1,200 impact in FY2012.