



December 1, 2007

Changes in Arkansas Sales and Use Tax Law Effective January 1, 2008

Beginning January 1, 2008, there are several changes to Arkansas sales and use tax law that will affect Arkansas businesses. This guide reviews some of the significant changes which become effective January 1, 2008.

This guide is designed to offer general guidance and information and is not meant to be all inclusive. Businesses must familiarize themselves with the upcoming changes in Arkansas law that affect their business, and should contact the Department of Finance and Administration for a written legal opinion concerning specific transactions if needed.

To request a written legal opinion, please contact:

Office of Revenue Legal Counsel
P. O. Box 1272
Little Rock, AR 72203

Please review the list below to see if these changes will have an impact on the way you report and remit state and local sales and use tax to the State of Arkansas.

- Delivery of Merchandise to Customers
- Sales by Meter and Route Delivery
- Florists
- Taxable Services Performed in Arkansas
- Rental or Lease of Tangible Personal Property
- Rental or Lease of Motor Vehicles, Trailers, Semi-Trailers or Aircraft
- Taxable Services Purchased from Out of State Vendors for Use in the State of Arkansas
- Elimination of City and County Local Tax Caps
- Rebates or Refunds of Local Tax Paid to the Seller
- Refunds for Tax Collected for Construction Contracts When there is a Rate Change
- Refunds for Tax Collected for Eligible Timber Harvesting Equipment
- Bad Debt Write Offs

If you have additional questions, please call our Taxpayer Services Unit at (501) 682-7104.

Delivery of Merchandise to Customers

Beginning January 1, 2008, if your business makes a retail sale of property and delivers the tangible property through common carrier, your truck, mail, or by any other shipping or delivery method to your customer, you will charge the state, county, and city taxes based on where the purchaser takes receipt or delivery. All Arkansas city and county sales tax rates are available on the Department of Finance and Administration's website at <http://www.arkansas.gov/dfa>. By clicking on the Sales and Use Taxes link you will see a link provided for local rates by city and by county.

The terms "receive" and "receipt" mean taking possession of tangible personal property or making first use of services. The terms do not include possession by a shipping company on behalf of a purchaser.

Example 1 – In-Store Sales: If your customer receives their merchandise at your store, the local taxes are based on the location of the store. If your business is located in Little Rock, Pulaski County and the customer receives and takes the merchandise with them, you will collect the state sales tax and local sales taxes for Little Rock and Pulaski County. This is not a change from current requirements.

<u>Prior to January 1, 2008</u>		<u>Effective January 1, 2008</u>	
Sales Price	\$ 2000.00	Sales Price	\$ 2000.00
State Tax (6%)	\$ 120.00	State Tax (6%)	\$ 120.00
Little Rock City Tax (0.5%)	\$ 10.00	Little Rock City Tax (0.5%)	\$ 10.00
Pulaski County Tax (1%)	<u>\$ 20.00</u>	Pulaski County Tax (1 %)	<u>\$ 20.00</u>
Total Tax	\$ 150.00	Total Tax	\$ 150.00

Example 2 – Delivery in Company Truck: If you sell furniture which includes delivery, then the local taxes are based on where it is delivered. If your business is located in Little Rock, Pulaski County and you deliver the furniture inside the city limits of Sherwood, you will collect the state sales tax and local sales taxes for Sherwood and Pulaski County.

<u>Prior to January 1, 2008</u>		<u>Effective January 1, 2008</u>	
Sales Price	\$ 2000.00	Sales Price	\$ 2000.00
State Tax (6%)	\$ 120.00	State Tax (6%)	\$ 120.00
Little Rock City Tax (0.5%)	\$ 10.00	Sherwood City Tax (1%)	\$ 20.00
Pulaski County Tax (1 %)	<u>\$ 20.00</u>	Pulaski County Tax (1%)	<u>\$ 20.00</u>
Total Tax	\$ 150.00	Total Tax	\$ 160.00

Example 3 – Delivery by Mail or Common Carrier: If you sell automobile parts and mail a part to a city other than the store's location, then the local taxes are based on where the part is delivered. If your business is located inside the city limits of Cabot, Lonoke County, and you mail the part to an address in Jonesboro, Craighead County, you will collect the state sales tax and local sales taxes for Jonesboro, Craighead County.

<u>Prior to January 1, 2008</u>		<u>Effective January 1, 2008</u>	
Sales Price	\$ 1000.00	Sales Price	\$ 1000.00
State Tax (6%)	\$ 60.00	State Tax (6%)	\$ 60.00
Cabot City Tax (2%)	\$ 20.00	Jonesboro City Tax (1%)	\$ 10.00
Lonoke County Tax (1%)	<u>\$ 10.00</u>	Craighead County Tax (2%)	<u>\$ 20.00</u>
Total Tax	\$ 90.00	Total Tax	\$ 90.00

Example 4 – Delivery by Company Personnel: You own a pizza restaurant in North Little Rock, Pulaski County. Your employee delivers pizza on your behalf to the City of Little Rock. You will collect state, Little Rock and Pulaski County taxes.

<u>Prior to January 1, 2008</u>		<u>Effective January 1, 2008</u>	
Sales Price	\$ 20.00	Sales Price	\$ 20.00
State Tax (6%)	\$ 1.20	State Tax (6%)	\$ 1.20
No Little Rock City Tax (1%)	\$ 0.20	Little Rock City Tax (0.5%)	\$ 0.10
Pulaski County Tax (1%)	\$ 0.20	Pulaski County Tax (1%)	\$ 0.20
Total Tax	\$ 1.60	Total Tax	\$ 1.50

Example 5 – Delivered Out-of-State: If your business is located in Fayetteville, Arkansas and you sell restaurant equipment and deliver it by common carrier to Tulsa, Oklahoma, then no Arkansas sales tax is due. If you are registered or have a presence in Oklahoma, you may be required to collect and remit Oklahoma sales or use tax. If you deliver or ship outside the State of Arkansas, you should contact the taxing authority in the receiving state to determine how its tax laws may apply.

In this example, you may need to contact the State of Oklahoma to determine if you have a tax obligation with that state.

Sales by Meter and Route Delivery

Beginning January 1, 2008, local sales taxes will be collected based on where the purchaser takes receipt or delivery. **The seller will collect the local tax of the delivery location.** Examples of items commonly sold through meter and route delivery include propane and LP gas.

Example: Your business is in Little Rock, Pulaski County. You sell propane that is delivered by truck through meter and route delivery to your customer located in rural Lonoke County (not within any city's limits). You will collect the state and Lonoke County sales taxes.

<u>Effective January 1, 2008</u>	
Sales Price	\$2000.00
State Tax (6%)	\$ 120.00
Lonoke County Tax (1%)	\$ 20.00
Total Tax	\$ 140.00

Sales by Florists

Florists will continue to collect state and local taxes based on the seller's location. The cap on local sales and use tax will be eliminated for sales by florists beginning January 1, 2008.

Taxable Services Performed in Arkansas

Beginning January 1, 2008, state and local sales and use tax for taxable services will be collected based on where the customer receives the service. If the service is not received by the purchaser at the seller's business location, the local taxes due are based on where the purchaser takes receipt of the service provided. In most cases, the customer will take receipt of the taxable services where it is performed; however, this may not apply in all circumstances.

Example 1 – Customer Picks-up Repaired Item at Store Location : Your business is located in Jacksonville, Pulaski County and you repair automobile motors. After repairing the motor, your customer picks up the motor at your shop in Jacksonville. You will collect the state sales tax and the local sales tax for Jacksonville and Pulaski County.

<u>Prior to January 1, 2008</u>		<u>Effective January 1, 2008</u>	
Sales Price	\$ 1000.00	Sales Price	\$ 1000.00
State Tax (6%)	\$ 60.00	State Tax (6%)	\$ 60.00
Jacksonville City Tax (2%)	\$ 20.00	Jacksonville City Tax (2%)	\$ 20.00
Pulaski County Tax (1%)	<u>\$ 10.00</u>	Pulaski County Tax (1%)	<u>\$ 10.00</u>
Total Tax	\$ 90.00	Total Tax	\$ 90.00

Example 2 – Repaired Item Delivered or Shipped to Customer: Your business is located in Jacksonville, Pulaski County and you repair automobile motors. After repairing the motor, you ship the motor by common carrier to Conway, Faulkner County. Since your customer took receipt of the service in Conway, you will collect the state, Conway, and Faulkner County sales taxes.

<u>Prior to January 1, 2008</u>		<u>Effective January 1, 2008</u>	
Sales Price	\$ 1000.00	Sales Price	\$ 1000.00
State Tax (6%)	\$ 60.00	State Tax (6%)	\$ 60.00
Jacksonville City Tax (2%)	\$ 20.00	Conway City Tax (1.75%)	\$ 17.50
Pulaski County Tax (1%)	<u>\$ 10.00</u>	Faulkner County Tax (0.5%)	<u>\$ 5.00</u>
Total Tax	\$ 90.00	Total Tax	\$ 82.50

Example 3 – Perform Taxable Service at Customer Location: Your business performs a landscaping job in Monticello, Drew County. You will collect the state, Monticello and Drew County sales taxes. This is not a change from current requirements.

Example 4: Your business is located in West Memphis, Crittenden County and you repair office equipment at your West Memphis location. After repairing the equipment, you ship it by common carrier to Nashville, Tennessee where the customer takes receipt. No Arkansas tax is collected, but Tennessee taxes could apply. You should contact the taxing authority of the receiving state to determine how its tax laws may apply.

In this example, you may need to contact the State of Tennessee to determine if you have a tax obligation with that state.

Note: Your customer takes receipt when the customer takes possession of tangible personal property or makes first use of taxable services. Receipt does not include a shipping company taking possession on behalf of the purchaser.

Rental or Lease of Tangible Personal Property

(Other than Motor Vehicles, Trailers, Semi-Trailers, Aircraft, and Transportation Equipment)

A lease or rental that **requires periodic payments** is subject to sales tax as follows:

1. The first periodic payment is subject to state and local taxes based on where the lessee receives the property.
2. For periodic payments made after the first payment, the state, city, and county taxes are based on the "primary property location" of the tangible personal property for each period covered by the payment.

The primary property location is the address for the property provided by the lessee to the lessor in the ordinary course of business. The primary property location is not changed by intermittent use at different locations. If the property is moved to a new location and the lessor has been notified of the new location, the lessor will tax subsequent payments based on the new location. If the lessor does not receive notice of a change in location, sales tax will continue to apply based on the address the lessee gave the lessor for the primary property location.

Example 1: Your business is located in Little Rock, Pulaski County and you lease forklifts. The payment terms are a down payment and 24 monthly payments. The customer picks up the forklift in Little Rock and takes it to the customer's warehouse in North Little Rock. In addition to the state sales tax, the local sales taxes collected on the first payment are Little Rock and Pulaski County. You will collect the state, North Little Rock, and Pulaski County taxes for all remaining payments.

Effective January 1, 2008

<u>First Payment</u>		<u>Subsequent Payments</u>	
Sales Price	\$ 2000.00	Sales Price	\$ 2000.00
State Tax (6%)	\$ 120.00	State Tax (6%)	\$ 120.00
Little Rock City Tax (0.5 %)	\$ 10.00	No. Little Rock City Tax (1 %)	\$ 20.00
Pulaski County Tax (1%)	<u>\$ 20.00</u>	Pulaski County Tax (1%)	<u>\$ 20.00</u>
Total Tax	\$ 150.00	Total Tax	\$ 160.00

Example 2: Your business is located in Little Rock, Pulaski County and you lease forklifts. The terms are a down payment and 24 monthly payments. You deliver the forklift to the customer's warehouse in North Little Rock. You will collect the state, North Little Rock and Pulaski County taxes on the down payment and all remaining payments.

Effective January 1, 2008

<u>First Payment</u>		<u>Subsequent Payments</u>	
Sales Price	\$ 2000.00	Sales Price	\$ 2000.00
State Tax (6%)	\$ 120.00	State Tax (6%)	\$ 120.00
No. Little Rock City Tax (1%)	\$ 20.00	No. Little Rock City Tax (1 %)	\$ 20.00
Pulaski County Tax (1%)	<u>\$ 20.00</u>	Pulaski County Tax (1%)	<u>\$ 20.00</u>
Total Tax	\$ 160.00	Total Tax	\$ 160.00

Example 3: You lease backhoes and deliver a backhoe to your customer in Jonesboro, Craighead County on January 1st. Two months later your customer moves to Little Rock, Pulaski County. On March 1st your customer informs you that the backhoe is in Little Rock. You will collect the state, Jonesboro, and Craighead County taxes for January and February. You will collect the state, Little Rock, and Pulaski County taxes on the lease payments beginning with the March payment.

Effective January 1, 2008

<u>January & February Payments</u>		<u>Subsequent Payments</u>	
Sales Price	\$ 2000.00	Sales Price	\$ 2000.00
State Tax (6%)	\$ 120.00	State Tax (6%)	\$ 120.00
Jonesboro City Tax (1%)	\$ 20.00	Little Rock City Tax (0.5 %)	\$ 10.00
Craighead County Tax (2%)	<u>\$ 40.00</u>	Pulaski County Tax (1%)	<u>\$ 20.00</u>
Total Tax	\$ 180.00	Total Tax	\$ 150.00

Example 4: You lease a backhoe for six months to your customer to use at a construction site in Tennessee. Your customer picks up the backhoe at your business location in Jacksonville, Pulaski County. Because the lessee receives the equipment in Arkansas, the first payment is subject to Arkansas state and local taxes. Since the equipment is located in Tennessee and you have this information, the remaining lease payments are subject to any applicable Tennessee sales and use taxes.

Effective January 1, 2008

<u>First Payment</u>		<u>Subsequent Payments</u>
Sales Price	\$ 2000.00	
State Tax (6%)	\$ 120.00	<i><u>You will need to contact the State of Tennessee to determine if you have a tax obligation with that state.</u></i>
Jacksonville City Tax (2 %)	\$ 40.00	
Pulaski County Tax (1%)	<u>\$ 20.00</u>	
Total Tax	<u>\$ 180.00</u>	

For a lease or rental that **does not require periodic payments**, the state, city, and county taxes are based on where the purchaser takes receipt of the property.

Example 1: Your business is located in Little Rock, Pulaski County and you rent videotapes which are picked up at your business location. You will collect the state, Little Rock, and Pulaski County taxes, as well as the short-term rental tax.

Effective January 1, 2008

Sales Price	\$ 20.00
State Tax (6%)	\$ 1.20
Little Rock City Tax (0.5%)	\$ 0.10
Pulaski County Tax (1%)	\$ 0.20
Short-Term Rental Tax (1%)	<u>\$ 0.20</u>
Total Tax	<u>\$ 1.70</u>

Example 2: Your business is located in Little Rock and you rent tables and chairs for meetings and parties. You deliver the tables and chairs to a location in North Little Rock. You will collect the state, North Little Rock, and Pulaski County taxes as well as the short-term rental tax.

Effective January 1, 2008

Sales Price	\$ 500.00
State Tax (6%)	\$ 30.00
Little Rock City Tax (0.5%)	\$ 2.50
Pulaski County Tax (1%)	\$ 5.00
Short-Term Rental Tax (1%)	<u>\$ 5.00</u>
Total Tax	<u>\$ 42.50</u>

Rental or Lease of Motor Vehicles, Trailers, Semi-Trailers, or Aircraft

If your business leases or rents motor vehicles, trailers, semi-trailers, or aircraft that requires **recurring periodic payments**, you will collect the state, county, and city taxes due based on the primary property location. The primary property location is the address provided by the lessee in the ordinary course of business. The primary property location does not change by intermittent use at different locations. For a lease or rental that **does not require recurring periodic payments**, the local taxes are based on where the leased equipment is received by the purchaser.

Example 1: Your business is located in Little Rock, Pulaski County and you rent motor vehicles **short-term** (less than 30 days). Your customer picks up the vehicle at your business location. You will collect the state, Little Rock, Pulaski County, as well as, state and local short-term rental vehicle taxes. Use of the vehicle outside of Little Rock or Pulaski County does not affect the state or local taxes collected.

Effective January 1, 2008

Sales Price	\$ 500.00
State Tax (6%)	\$ 30.00
Little Rock City Tax (0.5%)	\$ 2.50
Pulaski County Tax (1%)	\$ 5.00
Short-Term Rental Vehicle Tax (10%)	\$ 50.00
Little Rock City Rental Vehicle (0.5%)	\$ 2.50
Pulaski County Rental Vehicle (1%)	\$ 5.00
Total Tax	\$ 95.00

Example 2: Your business is located in Little Rock, Pulaski County and leases motor vehicles long-term (30 days or more). Your customer picks up a vehicle at your business location, but the primary property location of the vehicle is in Sherwood, Pulaski County. You will collect the state, Sherwood, and Pulaski County taxes as well as the long-term rental tax **if sales tax was not paid on the vehicle at the time of registration**. If sales tax was paid on the vehicle at the time of registration, the taxes are not collected on the periodic payments.

Effective January 1, 2008

Sales Price	\$ 800.00
State Tax (6%)	\$ 48.00
Sherwood City Tax (1%)	\$ 8.00
Pulaski County Tax (1%)	\$ 8.00
Long-Term Rental Vehicle Tax (1.5%)	\$ 12.00
Total Tax	\$ 76.00

Example 3: Your business is located in Memphis, Tennessee and leases motor vehicles long-term (30 days or more). Your customer obtains a vehicle at a dealership in Little Rock, Pulaski County. The primary property location indicated in your records for the leased vehicle is Cabot, Lonoke County. You will collect the state, Cabot, and Lonoke County taxes as well as the long-term rental vehicle tax on the down payment and all remaining payments, if the sales tax was not paid on the vehicle at the time of registration. If sales tax was paid on the vehicle at the time of registration, the taxes are not collected on the periodic payments.

Effective January 1, 2008

Sales Price	\$ 800.00
State Tax (6%)	\$ 48.00
Cabot City Tax (2%)	\$ 16.00
Lonoke County Tax (1%)	\$ 8.00
Long-Term Rental Vehicle Tax (1.5%)	\$ 12.00
Total Tax	\$ 84.00

Example 4: Your business is located in Little Rock, Pulaski County and you rent airplanes short-term (less than 30 days). Your customer takes receipt of the airplane in Little Rock. You will collect the state, Little Rock, and Pulaski County taxes as well as the one percent (1%) short-term rental tax, even if the tax was paid on the airplane at the time of purchase.

Effective January 1, 2008

Sales Price	\$ 1500.00
State Tax (6%)	\$ 90.00
Little Rock City Tax (0.5%)	\$ 7.50
Pulaski County Tax (1%)	\$ 15.00
Short-Term Rental Tax (1%)	<u>\$ 15.00</u>
Total Tax	\$ 127.50

Example 5: Your business is located in Little Rock, Pulaski County and you lease an airplane for six months to a business (long-term rental). The primary property location of the airplane is in Fayetteville, Washington County. You will collect the state, Fayetteville, and Washington County taxes on all payments for the lease of the airplane. If sales tax was paid on the aircraft at the time of purchase, the tax is not collected on the payments for the long term rental.

Effective January 1, 2008

Sales Price	\$ 1500.00
State Tax (6%)	\$ 90.00
Fayetteville City Tax (2%)	\$ 30.00
Washington County Tax (1.25%)	<u>\$ 18.75</u>
Total Tax	\$ 138.75

Taxable Services Purchased from Out-of-State Vendors for Use in the State of Arkansas

If you purchase services from outside the State that are subject to tax in Arkansas and first use the service within the State of Arkansas, then Arkansas state and local use tax is due based on where you take receipt of the services. Credit will be given for taxes legally imposed and paid in the state where the taxable service was performed.

Example 1: Your business ships office equipment out-of-state for repairs. Office equipment repairs are subject to tax in Arkansas. When the repaired equipment comes back into the State of Arkansas, use tax is due on the parts, labor, and delivery charges based on where it is delivered. However, a credit is allowed against the amount of Arkansas use tax due for any sales tax paid to the state where the services were performed.

Effective January 1, 2008

Repair Parts	\$ 800.00
Labor	\$ 1000.00
Delivery (to Blytheville)	<u>\$ 200.00</u>
Invoice Total	\$ 2000.00
Arkansas Use Tax (6%)	\$ 120.00
Blytheville City Tax (1.25%)	\$ 25.00
Mississippi County Tax (2%)	<u>\$ 40.00</u>
Total Tax	\$ 185.00

Example 2: Your business ships a computer out of state for repairs. Taxes are collected in the state where the repairs were performed. When the computer is returned to Arkansas, use tax is due on the parts, labor and delivery charges based on where it is delivered. However, a credit is allowed against the amount of Arkansas use tax due for any sales tax paid to the state where the services were performed.

Effective January 1, 2008

Parts	\$ 800.00
Labor	\$ 1000.00
Delivery (to Blytheville)	<u>\$ 200.00</u>
Invoice Total Before Tax	\$ 2000.00
Legally Imposed Missouri Tax	<u>\$ 100.00</u>
Invoice Grand Total	\$ 2100.00
Arkansas Use Tax (6%)	\$ 120.00
Less: Tax Paid to Missouri	<u>\$ (100.00)</u>
Arkansas State Tax Due	\$ 20.00
Blytheville City Tax (1.25%)	\$ 25.00
Mississippi County Tax (2%)	<u>\$ 40.00</u>
Total Tax	\$ 85.00

City and County Tax Caps Have Been Eliminated

Beginning January 1, 2008, local tax caps on single transactions will no longer apply when retailers collect city and county sales and use taxes. Since the caps no longer apply, retailers will collect the full amount of state, city, and county taxes on all transactions. Your customer may be eligible to apply to DFA for a refund of the local tax for qualified business purchases made on or after January 1, 2008.

The local tax cap will continue to apply to the first \$2500 per item on the sale of motor vehicles, aircraft, watercraft, modular homes, manufactured homes, or mobile homes. Sellers should continue to apply the cap on the sales of those items **only**.

All existing single transaction definitions will expire effective January 1, 2008.

Example: Sale of plasma television by Fayetteville retailer with a selling price of \$ 3,000

<u>Prior to January 1, 2008</u>		<u>Effective January 1, 2008</u>	
Sales Price	\$ 3000.00	Sales Price	\$ 3000.00
State Tax (6%)	\$ 180.00	State Tax (6%)	\$ 180.00
Fayetteville City Tax (2%)	\$ 50.00	Fayetteville City Tax (2%)	\$ 60.00
Washington County Tax (1.25%)	\$ 31.25	Washington County Tax (1.25%)	\$ 37.50
Total Tax	\$ 261.25	Total Tax	\$ 277.50

Rebates or Refunds of Additional Local Tax Paid – Business Purchasers Only

Qualifying businesses may be eligible for a rebate or refund of the additional local tax paid on qualifying business purchases on purchase invoices that exceed \$2500.00. A qualifying business purchase means a purchase of tangible personal property or a taxable service for which a business may claim a business expense deduction or depreciation deduction for federal income tax purposes. The purchase will be eligible even though the business purchaser may not be required to file an income tax return. In addition, governmental agencies (including schools and colleges or universities) and non-profit organizations (including churches) may apply for rebates/refunds of additional local taxes paid.

For purposes of calculating the rebate or refund amount, a uniform single transaction definition has been adopted effective January 1, 2008:

“Single transaction shall mean any sale of tangible personal property or taxable service reflected on a single invoice, receipt, or statement for which an aggregate sales or use tax amount has been reported or remitted to the state for a single local taxing jurisdiction.”

Note: Refunds or rebates will no longer be issued by the city or county for purchases made on or after January 1, 2008.

There is a six month time limit on requesting a rebate which begins on the date of the purchase or from the date of payment of the tax to the seller, whichever is later.

Claiming Your Rebate or Refund – Business Purchases Only

There are two methods to claim the rebate or refund for additional local taxes paid in excess of the first \$2500 per invoice on qualifying business purchases.

Method 1: Claiming the rebate on your Excise Tax Reporting Form

Businesses that hold an active Arkansas sales and use tax permit and file Excise Tax reports with DFA may deduct the amount of additional city or county tax on business purchases on which the full amount of local tax has been collected by the seller. The total amount of the additional tax for a qualifying rebate for each city and county for which the tax was paid must be listed on the form. When completing the form, a credit for any additional tax paid will be deducted from the local tax due for that reporting period.

Example: Smith's Restaurant purchases kitchen equipment for use at its Little Rock restaurant location. The equipment is purchased and picked up by Smith's Restaurant at the location of the seller in Conway, Arkansas. The total invoice for the purchase is \$8,200. Previously, the tax would have been calculated only on the first \$2,500 for the city of Conway and Faulkner County tax.

The Conway city tax was collected at the rate of 1.75% totaling \$143.50. The eligible rebate for the Conway city tax is calculated at \$99.75 (\$143.50 minus \$43.75). The business may claim a credit for the City of Conway tax (local code 2301) on the monthly Excise Tax report for the \$99.75 excess city tax which was collected

Rebate Calculation:

Invoice Amount	\$ 8,200.00
Single Transaction	<u>\$ 2,500.00</u>
Qualifying Amount	\$ 5,700.00 (\$8,200 minus \$2,500)
Conway Tax to be claimed	\$ 99.75 (\$5,700 times 1.75%)

The Faulkner county tax was collected at the rate of 0.5% totaling \$41.00. The eligible rebate for the Faulkner County tax is calculated at \$28.50 (\$41.00 minus \$12.50). The business may claim a credit for the Faulkner County tax (local code 2300) on the monthly Excise Tax report for the \$28.50 excess county tax which was collected

Rebate Calculation:

Invoice Amount	\$ 8,200.00
Single Transaction	<u>\$ 2,500.00</u>
Qualifying Purchase Amount	\$ 5,700.00 (\$8,200 minus \$2,500)
Faulkner County Tax to be claimed	\$ 28.50 (\$5,700 times 0.5%)

To claim the credit, Smith's Restaurant will list each local code and the amount of additional tax paid to the seller for the qualifying business purchase (in this case, restaurant equipment). The total credit of \$128.25 (\$99.75 plus \$28.50) would be deducted from the local sales tax being reported for the sales activity of Smith's Restaurant. If the total amount of the credit is larger than the local tax due for that month, Smith's Restaurant will then deduct the remaining credit from the State tax due and remit the difference.

Local Sales and Use Taxes		(If you have additional local taxes to report, please attach a supplemental schedule)								
A. City & County	B. Code	C. Type	Tax D & Purchases	E. Rate	F. Gross Tax Due	G. Discount	Less 2% Local Cap	H. Rebate	I. Net Tax Due	For Office Use Only
18. LITTLE ROCK	6005	SALES	10,000	0.500%	50.00	1.00			49.00	
		USE								
19. PULASKI CO.	6000	SALES	10,000	1.000%	100.00	2.00			98.00	
		USE								
20. CONWAY	2301	SALES						-99.75	-99.75	
		USE								
21. FAULKNER CO.	2300	SALES						-28.50	-28.50	
		USE								
22.		SALES								
		USE								
24. Total Local Sales and Use Tax (Include local tax from all schedules)									18.75	

Method 2: Requesting a refund of the additional local tax

Businesses not holding an active sales and use tax permit and filing an Excise Tax report will use the ***Claim for Local Cap Rebate Form Number ET-179A***.

In order to request a refund of the local sales and use tax for qualifying purchases, the purchaser should complete ***Form Number ET-179A*** and the supplemental schedule ***Form Number ET-179B***, if needed. The form requires a listing of the invoices on which the local tax has been paid to the seller and a determination of the amount of refund owed to the purchaser as well as **photocopies of the invoices** for which the refund is being requested. The completed form and copies of the invoices should be mailed to:

**DFA Local Tax Rebate Unit
P O Box 3566
Little Rock, AR 72203**

The form may be obtained by contacting the Sales and Use Tax Section by telephone at (501) 682-7105 or may be downloaded from our website at: www.state.ar.us/salestax and selecting Sales and Use Tax Forms.

Refunds of Additional State and Local Sales Tax Resulting from Rate Changes Construction Contractors - Construction Materials only

Effective January 1, 2008, a contractor which purchases tangible personal property which becomes a recognizable part of a completed structure or improvement to real property will be eligible for a rebate or refund of any additional state or local taxes which are paid as a result of a rate change provided there is a construction contract in effect prior to the effective date of the rate change.

The rebate or refund will be allowed for tangible personal property purchased within five (5) years of the effective date of the levy of any additional state, city or county tax.

The rebate or refund does not apply to cost-plus contracts which allow the contractor to pass any additional tax on to the principal as part of the contractor's costs.

The refund or rebate must be claimed directly from DFA using the ***Claim for Refund Form 2004-6***.

Refunds of Additional Tax Paid to Seller for Eligible Timber Harvesting Equipment

Machinery or equipment and related attachments that are sold to a person primarily engaged in the harvesting of timber shall be eligible for a rebate or refund of the state and local tax collected on the first \$50,000 of the purchase price. To be eligible for the rebate, the equipment must be purchased by someone whose primary activity is the harvesting of timber. Primary activity means the principal activity in which the purchaser is engaged and to which more than fifty percent (50%) of all the resources of the purchaser's activities are committed.

Eligible equipment means all off-road equipment and related attachments used in every forestry procedure starting with the severing of a tree from the ground through the point at which the tree or its parts in any form have been loaded in the field in or on a truck or other vehicle for transport to the place of use. Eligible equipment means only complete systems or units that operate exclusively and directly in the harvesting of timber. Off road equipment means and includes skidders, feller bunchers, delimiters of all types, chippers of all types, loaders of all types, and bulldozers equipped with grapples used as skidders.

The refund or rebate must be claimed directly from DFA using the ***Claim for Refund Form 2004-6***.

Bad Debt Deductions

Beginning January 1, 2008, bad debts may be deducted on the Excise Tax report for the tax period during which the bad debt is written-off as uncollectible on your books and eligible to be deducted for federal income tax purposes. The bad debt deduction is eligible for **sales on which the tax has previously been reported and paid to DFA**. The bad debt must have resulted from a sale that has occurred within the last three years. The deduction is available for taxpayers even though the business may not be required to file an income tax return. Some examples are governmental agencies (including schools and colleges or universities) and non-profit organizations (including churches).

Bad debts include, but are not limited to, worthless checks, worthless credit card payments, and uncollectible credit accounts. Bad debts do not include financing charges or interest, uncollectible amounts on property that remain in the possession of the taxpayer or vendor until the full purchase price is paid, expenses incurred in attempting to collect any debt, debts sold or assigned to third parties for collection, or repossessed property.

Any part of a bad debt deducted, but later collected, must be reported and sales and use tax paid on the return filed for the period in which you make the collection.

If the amount of bad debt deducted on your Excise Tax report exceeds the taxable sales for the period, you may file a Claim for Refund (Form 2004-6) with your Excise Tax report. The refund claim must be filed within three years from the due date of the Excise Tax report on **which the bad debt could first be claimed**. The taxpayer who originally reported and paid the tax to DFA is the only party who may claim the deduction unless a taxpayer is using the services of a Streamlined Sales Tax Governing Board approved Certified Service Provider. A Certified Service Provider may claim the deduction on behalf of the taxpayer who is utilizing the provider's services.

Additional Changes to Sales and Use Tax Code Provisions

This guide is designed to offer general guidance and information and is not meant to be all inclusive. Changes in Arkansas Sales and Use Tax Code provisions have also been adopted for sales of certain types of products and services. Included within these changes are new provisions regarding sales of medical equipment and prosthetic devices; telecommunications and related services; and sourcing for direct mail sellers.

Businesses must familiarize themselves with the upcoming changes in Arkansas law that affect their business, and should contact the Department of Finance and Administration for assistance.

To request a written legal opinion concerning taxation for a specific type of sales transaction, please contact:

Office of Revenue Legal Counsel
P. O. Box 1272
Little Rock AR 72203

The Sales and Use Tax Section's Taxpayer Services Group may also be contacted for assistance at (501) 682-7104 or you may visit our website at: www.state.ar.us/salestax .