**Summary of Proposed Sales Tax Rate Reduction**

* Sets the new rate at 3 percent
* The rate applies to tangible property and services
* Removes almost all exemptions (except for those Constitutionally required/federals)
* Sunsets sales tax exemptions after 2022 and remains in effect until the exemptions or limitations to the contrary are authorized by the General Assembly.
* The elimination of exemptions must be phased-in in five equal installments of twenty percent. Exemptions would be eliminated in 2028.
* The rate must be reduced during each year by an amount to be determined by the Revenue and Fiscal Affairs office. The amount of the reduction must be determined by estimating the amount of sales and use tax that would be collected in the upcoming year if the provisions of this section did not exist and then reducing the rate to an amount that will produce the same sales and use tax revenue.

**Section by Section**

* Section 1 - Amends to include “all” services.
* Section 2-6 - Add sections and categories related to the “selling of services”; “the proceeds from the sale of services”; the category of “sales of services;” and, “any services that are the basis of the sale”.
* Section 7 - Reduces the rate of sales taxes to 3 percent related to tangible personal property
* Section 8 - Reduces the rate of sales taxes to 3 percent related to rooms, etc. Also, reduction commensurate with fees due (re Infrastructure maintenance fee).

Also, in Section 12-36-960 (regarding the new car fee from the roads bill) reduces the amount of sales tax due by the amount of the fee due.

* Section 9 - This repeal pertains to the homestead exemption fund to reimburse schools, which with these changes is no longer needed.
* Section 10, 11 - Reduction of sales tax to 3 percent regarding use taxes (e.g., includes wireless, materials in transient construction, etc. and adds gross proceeds accruing or proceeding from the sale of services.
* Section 12 - 12‑36‑2110 of the 1976 Code is repealed. This relates to Maximum Tax and Exemptions - Maximum tax on sale or lease of certain items; calculation of tax on manufactured homes; maximum tax on purchase of certain property by religious organizations; maximum tax on sale or use of machinery for research and development.
* After Section 12, un-numbered: Regarding Section 12-36-2120, deletes the sales tax exemptions. (3(a)) through (83)

The two items remaining exempted: “tangible personal property or receipts of any business which the State is prohibited from taxing by the Constitution or laws of the United States of America or by the Constitution or laws of this State;” and “tangible personal property sold to the federal government”

* Related to Section 12-36-2530. Ensures documentation of entitlement to tax exemption for goods to be delivered out of state; tax on property delivered in state for removal from state by purchaser.
* This section relates to 12-36-2620 (Sales and use taxes composed of two components); 12-36-2630 (sales tax on accommodations for transients composed of three component); 12-36-2640 (Casual excise tax composed of two components), which are technical amendments to reflect the reduction to 3 percent. These sections deal with the crediting of the revenue -- it keeps the same percentage of the sales tax going to the same places. In current law, 2620 and 2640 are a 5% tax, because the 1% added in 2006 goes to locals.  The extra 1% is deleted, so an item was added at the end of those 2 sections to credit that portion to the locals.
* SECTION \_\_\_. Article 25, Chapter 36, Title 12 of the 1976 Code is amended by adding various provisions applying to the revenues from the sales, use, and casual excise taxes on the sale or lease of motor vehicles, aircraft and motorcycles and boats, etc.

Reduces the rate of sales taxes to 3 percent related excise taxes (motor vehicles, boats, motors and airplanes).

As a result of taking off all exemptions, cars are now subject to the new amount of 3 percent sales tax, with no cap; however, this bill, also reduces the amount of sales tax due by the amount of the fee (from the roads bill) due. (Reduced by the amount one has to pay in the Infrastructure Maintenance Fee.) Calculations are pending but this essentially would place a 3 percent sales on the value of a car exceeding about $8,000-10,000).

However, funding to roads remains the same as in the roads bill. Any amount gained over the $500 referenced in the roads bill goes to the General Fund (thus, the amount below continues to fund infrastructure. In that legislation, the money from the new fee and the increase went to roads. No funding in this draft is taken from roads. So this section keeps all the money that the roads bill sent to roads going to roads and only the excess going to the General Fund from the rest of the sales tax dollars.

* Section 12‑36‑2646 of the 1976 Code is repealed - Retailers to post notice of tax exclusion available to individuals 85 years of age or over;
* Article 11 - General Provisions

 Section 4-10-1110. Reduction of any local sales and use tax rate

This new Article 11 reduces all the locally imposed taxes I half just like the state tax because presumably the base is doubled.

Unnumbered SECTION: The Revenue and Fiscal Affairs Office is to monitor the effects of the amendments made regarding sales and use tax revenue collections. By February 15, 2019, and each February fifteenth thereafter, the Revenue and Fiscal Affairs Office is to issue a report detailing the effects of this act and any updates to previous reports and estimates. The report must be issued to the Senate Finance Committee and the House Ways and Means Committee.

Also, the taxation of services, the elimination of exemptions, and the reduction of sales tax rates must be phased-in equally over a five year period, with the phase-in beginning on January first of each year.

The taxation of services must be phased-in so that only twenty percent of the gross proceeds of sales are taxable in the first year, 2023, and an additional twenty percent each year thereafter until one hundred percent of the gross proceeds of sales on services are taxable in 2028.

The elimination of the exemptions contained in Section 12-36-2120 must be phased-in in five equal installments of twenty percent, so that in the first year of implementation, 2023, the exemption only applies to eighty percent of the gross proceeds of sales. The percentage of gross proceeds to which the exemption applies must be reduced by twenty percent each additional year, until the exemption is completely eliminated in 2028.

The state sales tax rate must be reduced by six-tenths of one percent each year, beginning in 2023, until the state sales tax rate equals three percent in 2028.

 (E) The reduction of any local sales and use tax rate pursuant to Section 4-10-1110, must be reduced by five equal installments, beginning in 2023, until, in 2028, when the rate is one-half of the December 31, 2022, rate. Note: the general 5 year phase in of the bill, including the reduction of the locally imposed taxes.

Except where provided otherwise, the act takes effect **January 1, 2023.**