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Dining out takes a bigger bite out of your wallet as new taxes sink in  
By Eric E. Harrison

If you experienced a sudden lightness in your wallet March 1, you're not alone. It's due to the record increase in the state Sales and Use tax, from 5.125 percent to 6 percent, mandated by the Arkansas General Assembly as part of a package to increase funding for education.

Another shock to the pocketbook, lighter and more subtle but no less significant, comes July 1 when new sales taxes take effect on a range of previously untaxed services, including collection and disposal of solid waste; dry cleaning and laundry; body piercing, tattooing and electrolysis; pest control; and pet grooming and kennel services.

The heaviest immediate impact of the March 1 increase comes in the total price, including tax, on big-ticket items like cars and appliances. The tax on a new \$20,000 motor vehicle, for example, went up from \$1,025 to \$1,200.

But where it will hit many Arkansans most often--and perhaps most surprisingly--will be in the price of restaurant meals.

It's more than just the state sales tax. In most of the state's bigger cities, you figure in local sales taxes and "advertising and promotion" taxes (also known as hospitality taxes or "hamburger" taxes).

"Everyone in town is passing taxes--city, county, local, state--and nobody's bothering to add them up," says Montine McNulty, executive director of the Little Rock-based Arkansas Hospitality Association, which represents the state's hotels and restaurants. In some places, you'll end up paying a higher percentage of state and local taxes on your club sandwich or your Chateaubriand than you will in major metropolitan areas like New York, Los Angeles and Chicago:

Effective March 1, the total tax on restaurant food in Little Rock is 9.5 percent--6 percent state sales tax, 1 percent Pulaski County sales tax, 0.5 percent city sales tax and 2 percent "A&P" tax.

- In Jonesboro, where the city and Craighead County each have a 1 percent levy but there is no separate restaurant tax, you pay 8 percent.
- In North Little Rock, which exacts a full penny city tax on the dollar, a penny for Pulaski County and an "A&P" tax of 3 percent (the legal limit), the tax tab is 11 percent over and above the cost of your meal.

- In Bentonville, which takes in a 2 percent city tax, 1 percent Benton County tax and a 1 percent “A&P” levy, the total is 10 percent.
- In Eureka Springs, which depends heavily on tourism dollars, including restaurant receipts, restaurants charge 2.25 percent city tax, 0.5 percent Carroll County tax and a 2 percent restaurant tax, for a total of 10.75 percent.
- Fayetteville diners have to contend with a 1.75 percent city tax, a 1.5 percent Washington County tax and a 2 percent “A&P” tax, totaling 11.25 percent.
- And Hot Springs’ total, counting in a 2 percent city tax, 0.5 Garland County tax and a 3 percent “A&P,” will come to a whopping 11.5 percent of your restaurant bill.

Compare that to the total New York sales tax of 8.625 percent, according to the Chicago-based Sales Tax Institute. Combined state and city sales tax in Los Angeles is 8.25 percent. Neither of those cities has a separate restaurant tax.

In Chicago, the general sales tax on restaurant meals is 8.75 percent; in a limited area of central downtown and near O’Hare International Airport, the Metropolitan Pier and Exposition Authority adds 1 percent to maintain a convention center. That brings the total in those areas to 9.75 percent.

(Order a soda or other soft drink in a Chicago restaurant, by the way, and you’ll pay a total of 12.75 percent tax on that. Stick to coffee or water.)

### **Unwelcome addition**

“One of our least favorite taxes is the sales tax,” McNulty says. “Added on, it increases the cost to the consumer. “Restaurant owners don’t like it, and Arkansans don’t like it either. I think we’ve hit the ceiling, if not surpassed it, on what they can increase. I don’t think the public will stand for it.”

(McNulty also notes restaurateurs continue to gripe about the continuing high taxes on alcohol. For example, tax on mixed drinks in Little Rock is 31.5 percent, she notes; in Hot Springs, it’s 32.5 percent.)

McNulty says it’s too early to assess what impact the tax increase will have on how much people will spend in restaurants.

“As [the cost of purchases] go up, it may affect what you order,” she says. “The cost of eating just went up, whether it’s in a restaurant or in the grocery store.” Attempts in the Legislature and in petition drives to eliminate the sales tax on groceries have repeatedly come to nothing.

“I don’t think it’s become a conscious thought yet,” says tax consultant B.J. Pritchett, who operates Pritchett Sales and Use Tax Consulting and the affiliated Arkansas Sales and Use Tax School out of Hot Springs Village.

“Everybody lives within his own means. A lot of people won’t be buying anything new.”

In the case of restaurant meals, it probably won’t have much impact on the purchase of a hamburger and fries, but in fancier restaurants, some customers might eschew ordering an appetizer or dessert item to keep the total meal cost down to about where it was before the tax increase took effect.

Pritchett notes the “hidden” advertising and promotion tax is paid directly to cities, which are supposed to use it to bolster tourism-related activities, such as convention centers.

“An increase of 1 cent [per dollar] in the state tax rate does not seem at face value to be extreme,” she says. “The problem is not the 1 cent increase to the \$1 spent. The problem is compounded by the multiple tax structure. Prior to 1981, Arkansans only dealt with the state tax. After 1981, any and all local taxing jurisdictions have the ability to impose local taxes. Currently, there are over 300 local taxing jurisdictions imposing a city or county tax.”

### **Headaches for bureaucrats**

Pritchett also warns of plenty of problems leading up to the July 1 imposition of state sales taxes on 15 services that were previously exempt:

- Wrecker and towing services
- Collection and disposal of solid waste
- Cleaning of parking lots and gutters
- Dry cleaning and laundry services
- Industrial laundry services
- Mini-warehouse and self-storage rental
- Body piercing, tattooing and electrolysis (hair removal)
- Initial installation labor on items on which sales taxes are collected (for example, a heating and air conditioning system)
- Pest control

- Replacement of flooring
- Security and alarm monitoring
- Boat storage and docking fees
- Furnishing camping spaces
- Locksmith services
- Pet grooming and kennel services.
- Taxes on vending machines will also increase to 7 percent.

“You’d better get your tattooing and body piercing done before July 1,” Pritchett warns, only half in jest.

Pritchett expects lots of headaches for the state Department of Finance and Administration, which will have to come up with rules and regulations before the Legislature-mandated increases go into effect.

“For example,” she says, “take pet grooming and trimming. If you take the dog to the vet to have his toenails clipped, is that taxable grooming or a nontaxable medical expense? When does it become a taxable event vs. a tax-exempt event?”

The department will have to figure out just what is taxed when it comes to collection and disposal of solid waste. Will there be an additional tax line added to your water bill? “I have the feeling the intent behind it was to tax the hauling of solid waste,” Pritchett says. “When it takes effect, who’s going to say what’s taxable under the law?”

How will the state collect tax from cleaners of parking lots and gutters, some of whom may not have fixed business addresses? “How do you make them register?” Pritchett asks. And what about a locksmith who also repairs doors or re-keys an existing lock--a service that under current law is a nontaxable service performed by a contractor? “That probably won’t affect people personally so much as it will affect businesses,” she adds.

Sometimes the Legislature has to go back and retune. Pritchett cites the example of Act 5 of 1992, which put a tax on lawn-care services.

“But there’s a lot of kids in the neighborhood out there mowing lawns,” she says, and there was no way to collect taxes from them. The law had to be revised to mean “commercial lawn-care services.”

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Pritchett’s Arkansas Sales and Use Tax School will hold a Beginner’s Basic Course and an Advanced Course & Case Study Course on March 25 and 26, respectively, at the Hot Springs Convention Center. A registration form is available at Pritchett’s Web site,

[www.salesusetax.com](http://www.salesusetax.com).

Additional information on state and local sales taxes is available at these Web sites:

- [www.taxsites.com/state.html](http://www.taxsites.com/state.html) < multi-state Web site (listing state home pages)
- [www.state.ar.us/dfa/taxes/salestax/](http://www.state.ar.us/dfa/taxes/salestax/) < Arkansas' Department of Finance and Administration site
- [www.statelocalgov.net/state ar.htm](http://www.statelocalgov.net/state_ar.htm) < a directory of Arkansas state and local government Web sites
- [www.salestaxinstitute.com](http://www.salestaxinstitute.com)--the Sales Tax Institute's Web site.