

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB483**

**Bill Subtitle: TO ENHANCE ECONOMIC COMPETITIVENESS BY REPEALING THE THROWBACK RULE.**

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### **Basic Change :**

**Sponsor: Sen. J. Dismang**

SB483, concerning apportionment of business income for income tax purposes, repeals the "throwback rule" by amending §§ 26-5-101 and 26-51-716. Under current law, a multistate corporation that conducts business in Arkansas must calculate Arkansas income tax through a formula based on the total sales of the taxpayer in the state. A multistate business is required to include "unreported" out-of-state sales in its sales in this state. Stated differently, all sales must be reported somewhere or else a taxpayer would have untaxed "nowhere" income. "Nowhere" sales are recaptured under § 26-51-716.

Under § 26-51-716, for the purposes of calculating corporate income tax, sales of tangible personal property are "in this state" if the property is delivered to a purchaser within Arkansas. Sales are also considered to be "in this state" if the tangible personal property is shipped from an office, store, warehouse, factory or other place of storage in this state and: (1) the purchaser is the United States Government; or (2) the taxpayer is not taxable in the state of the purchaser. This is known as the "throwback rule." SB483 repeals the throwback rule for sales shipped from Arkansas for tax years beginning on or after January 1, 2022. Beginning in tax year 2022, sales of tangible personal property would be "in this state" only if the property is delivered to a purchaser in Arkansas.

The bill is effective for tax years beginning on or after January 1, 2022.

### **Revenue Impact :**

**FY2023** - \$80.8 million reduction to General Revenue.

### **Taxpayer Impact :**

Taxpayers will not be required to report sales to Arkansas that are shipped from an office, store, warehouse, factory, or other place of storage in this state to the US government or to a state in which the taxpayer is not taxable.

### **Resources Required :**

Computer programs, instruction booklets and manuals would need to be modified.

### **Time Required :**

Adequate time is provided for implementation.

### **Procedural Changes :**

Department employees will need to be educated on changes as well as the taxpayer community.

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**Other Comments :**

None.

**Legal Analysis :**

None.