Department of Finance and Administration

Legislative Impact Statement

Bill: SB480
Bill Subtitle: TO AMEND THE INCOME TAX LAWS TO ALLOW ALL TAXPAYERS TO RECEIVE A DOLLAR-FOR-DOLLAR INCOME TAX CREDIT FROM ECONOMIC DEVELOPMENT TAX CREDITS.

Basic Change :

Sponsor: Sen. J. Dismang

SB480 changes the method by which nonresidents and part-year residents compute their Arkansas income tax liability. Current law requires nonresidents or part-year residents to first determine taxable income as if all of the taxpayer's income was earned in Arkansas. The taxpayer then computes the Arkansas tax due on all of the taxpayer's income and subtracts any allowable tax credits to determine the Arkansas income tax that would be due if all of the taxpayer's income was earned in Arkansas. The taxpayer then determines the percentage of the taxpayer's total income earned in Arkansas and applies that percentage to the Arkansas tax computed on all of their income. This computation results in apportionment of both the taxpayer's available tax credits and the tax due.

SB480 continues to require nonresidents and part-year residents to compute the Arkansas income tax due as if all of the taxpayer's income was earned in Arkansas and to apportion that tax due based on the percentage of income earned in Arkansas. SB480 amends current law to require taxpayers entitled to any of 27 specifically identified tax credits to subtract the credit after apportionment of the tax due, rather than before. This change allows the taxpayer to receive an unapportioned tax credit to offset the taxpayer's apportioned Arkansas income tax due, meaning the entirety of the credit is applied to reduce only the taxpayer's Arkansas income tax due. This same computation method will also apply to nonresident members of a pass-through entity participating in a composite income tax return.

The bill is effective for tax years beginning on or after January 1, 2020.

Revenue Impact :

FY2021 - $100,000 reduction in General Revenue

[Revenue Impact is gathered from a review 2019 nonresident individual income tax returns that claimed an economic development tax credit. A total of 46 non-resident returns claimed an economic development tax credit in 2019.]

Taxpayer Impact :

Non-resident and part year residents will receive a dollar for dollar income tax credit from specifically identified economic development tax credits. Pass-through entities will be allowed to claim economic development credits on a composite income tax return.

Resources Required :

Computer programs, tax forms, and instructions will need to be updated.

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Time Required :

Four to six weeks for system changes, form updates and testing of changes will be required. A project cost estimate has been submitted to the Arkansas Integrated Revenue System (AIRS) team.

Procedural Changes :

Department employees will need to be educated as well as the tax community.

Other Comments :

SB480 is effective for tax years beginning on and after January 1, 2020, which will require significant testing, staging and staff time that will be taken away from other current year changes that have been made because of Acts 248 and 154 of 2021. This will potentially slow those amended returns. New lines will need to be added to current returns, which change tax calculations. Non-resident/composite forms and instructions will need to be rebuilt. A new form will need to be designed for composite tax credits.

Legal Analysis :

None.