

Stricken language would be deleted from and underlined language would be added to present law.

State of Arkansas
95th General Assembly
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As Engrossed: H2/26/25 H2/27/25

A Bill

HOUSE BILL 1435

By: Representatives Achor, Bentley, Barker, K. Brown, Cavanaugh, Crawford, Dalby, Henley, J.
Mayberry, K. Moore, Vaught
By: Senators J. English, Irvin, B. Davis

For An Act To Be Entitled

AN ACT TO AMEND THE LAW CONCERNING INCOME TAX CREDITS
RELATED TO CHILD CARE; TO AMEND THE INCOME TAX CREDIT
FOR EMPLOYER-PROVIDED CHILD CARE; TO PROVIDE AN
INCOME TAX CREDIT FOR LICENSED CHILDCARE PROVIDERS;
TO DECLARE AN EMERGENCY; AND FOR OTHER PURPOSES.

Subtitle

TO AMEND THE LAW CONCERNING INCOME TAX
CREDITS FOR CHILD CARE; TO AMEND THE
INCOME TAX CREDIT FOR EMPLOYER-PROVIDED
CHILD CARE; TO PROVIDE AN INCOME TAX
CREDIT FOR LICENSED CHILDCARE PROVIDERS;
AND TO DECLARE AN EMERGENCY.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. Arkansas Code § 6-45-109(b), concerning certification of
childcare facilities by the Division of Child Care and Early Childhood
Education, is amended to read as follows:

(b) Upon certification of the childcare facilities, the division shall
provide a listing of all certified facilities and their certification numbers
to the Secretary of the Department of Finance and Administration for the
purpose of the income tax credit or refund provided for in §§ 26-51-502 and
~~26-51-507~~.

SECTION 2. Arkansas Code § 20-78-205(d), concerning the Division of



Child Care and Early Childhood Education, is amended to read as follows:

(d)(1) The Division of Child Care and Early Childhood Education shall create and make available on ~~the~~ its website ~~of the department~~ a form and graphical chart that concisely explains the:

- (A) Minimum licensing requirements for a licensed home;*
- (B) Minimum licensing requirements for a licensed childcare center;*
- (C) Procedure for obtaining licensure as a licensed home or licensed childcare center;*
- (D) Registration requirements for a registered childcare family home;*
- (E) Procedure for registering as a registered childcare family home;*
- (F) Voluntary registry of daycare family homes;*
- (G) Procedure for registering a daycare family home with the voluntary registry;*
- (H) Availability of federal or state funds, grants, programs, or other financial assistance, including without limitation the:

 - (i) Community Facilities Guaranteed Loan Program;*
 - (ii) Community Development Block Grant;*
 - (iii) Child and Adult Care Food Program;*
 - (iv) Child Care and Development Block Grant;*
 - (v) Early Head Start-Child Care Partnership Grant;*
 - (vi) Arkansas Better Chance Program; and*
 - (vii) Arkansas Special Nutrition Program; and**
- (I) Availability of a federal or state tax credit or other federal or state tax benefit, including without limitation the employer-provided child care credit that is available to taxpayers under §§ ~~26-51-507 and~~ 26-51-508.*

(2) The Division of Child Care and Early Childhood Education shall place a form and graphical chart created in accordance with subdivision (d)(1) of this section in a conspicuous location on ~~the~~ its website ~~of the department~~.

SECTION 3. Arkansas Code § 26-51-507 is repealed.

~~26-51-507. Employer provided child care — As qualified under former §~~

~~26-52-401—Definition.~~

~~(a)—A business which qualifies for the exemption from the gross receipts tax under former § 26-52-401(29) shall be allowed an income tax credit of three and nine tenths percent (3.9%) of the annual salary of employees employed exclusively in providing childcare services.~~

~~(b)—If two (2) or more businesses participate in a childcare program for their employees as provided by former § 26-52-401(29), then each business will be allowed an income tax credit of three and nine tenths percent (3.9%) of the annual salary of only those employees who are on the respective business' payroll and are employed exclusively for providing childcare services.~~

~~(c)(1)—To qualify for the income tax credit, the revenue to the business or businesses from the childcare facility cannot exceed the direct operating costs of the facility. If, on an annual basis, the childcare facility receives revenue which exceeds the direct operating costs of the facility, the business or businesses will not be entitled to the income tax credit.~~

~~(2)—As used in this section, “direct operating costs” means:~~

~~(A)—The cost of food and beverages provided to the children;~~

~~(B)—The cost of labor for personnel whose services are performed exclusively on the premises of the childcare facility for the care of the children and all related employment taxes paid by the employer; and~~

~~(C)—All materials and supplies necessary to operate the childcare facility.~~

~~(d)—The income tax credit created by subsection (a) of this section shall first be available in the taxable year following the year the business makes payment of wages to childcare workers. To the extent that the credit is not fully utilized in this first year, it may be carried forward for an additional two (2) years. Any credit remaining thereafter shall expire.~~

~~(e)—The income tax provisions of this section shall be in full force and effect for all income tax years beginning on and after January 1, 1993.~~

SECTION 4. Arkansas Code § 26-51-508 is amended to read as follows:

26-51-508. Employer-provided child care —~~As qualified under § 26-52-516 or § 26-53-132 - Definition~~ Definitions.

~~(a) A business which qualifies for the refund of the gross receipts tax or compensating use tax under § 26-52-516 or § 26-53-132 shall be allowed an income tax credit of three and nine tenths percent (3.9%) of the annual salary of its employees employed exclusively in providing childcare service, or a five thousand dollar income tax credit for the first tax year the business provides its employees with a childcare facility.~~

~~(b) If two (2) or more businesses participate in a childcare program for their employees as provided by § 26-52-516 or § 26-53-132, then each business will be allowed an income tax credit of three and nine tenths percent (3.9%) of the annual salary of only those employees who are on the respective business' payroll and are employed exclusively for providing childcare services. The first year's five thousand dollar credit will be prorated among the businesses based upon the percentage of the cost paid by each business for the initial construction and equipping of the childcare facility.~~

~~(c)(1)(A) To qualify for the income tax credit, the revenue to the business or businesses from the childcare facility cannot exceed the direct operating costs of the facility.~~

~~(B) If, on an annual basis, the business receives revenues from the operation of the childcare facility which exceed the direct operating costs of the facility, the businesses will not be entitled to the income tax credit.~~

~~(2) As used in this subsection, "direct operating costs" means:~~

~~(A) The cost of food and beverages provided to the children;~~

~~(B) The cost of labor for personnel whose services are performed exclusively on the premises of the childcare facility for the care of the children and all related employment taxes paid by the employer; and~~

~~(C) All materials and supplies necessary to operate the childcare facility.~~

~~(d) The income tax credit created by subsection (a) of this section shall first be available in the taxable year following the year the business makes payment of wages to childcare workers. To the extent that the credit is not fully utilized in this first year, it may be carried forward for an additional two (2) years. Any credit remaining thereafter shall expire.~~

(a) As used in this section:

(1) "Eligible expense" means:

(A) The cost of construction, renovation, expansion, or repair of a childcare facility by a taxpayer to provide childcare services for the employees of the taxpayer;

(B) A payment to a childcare facility licensed by the Division of Child Care and Early Childhood Education for the provision of childcare services for one (1) or more employees of the taxpayer;

(C) A payment to a childcare facility licensed by the division to reserve childcare services for one (1) or more employees of the taxpayer; and

(D)(i) Fifty percent (50%) of the amount contributed by an employer for dependent care assistance provided to an employee of the employer under a dependent care assistance program as described in 26 U.S.C. § 129, as it existed on January 1, 2025.

(ii) The total amount of eligible expenses allowed under subdivision (a)(1)(D)(i) of this section shall not exceed two thousand five hundred dollars (\$2,500) per employee of the employer that benefits from a dependent care assistance program during the tax year;

(2) "Rural area" means an area in the state that is not within the boundaries of an incorporated town or a city that has a population of more than twenty-five thousand (25,000) according to the most recent federal decennial census; and

(3) "Small business" means a business that has:

(A) Fewer than two hundred fifty (250) employees; and

(B) Less than five million dollars (\$5,000,000) in yearly revenue.

(b)(1)(A) There is allowed an income tax credit against the income tax imposed by this chapter in the amount equal to the eligible expenses incurred by an employer during the tax year.

(B) The income tax credit allowed under this section shall not exceed five hundred thousand dollars (\$500,000) for an employer in a tax year.

(2)(A) The total aggregate amount of income tax credits allowed under this section for all employers shall not exceed fifteen million dollars (\$15,000,000) in a calendar year.

(B)(i) Three million seven hundred fifty thousand dollars

(\$3,750,000) of the total aggregate amount of income tax credits that may be allowed under subdivision (b)(2)(A) of this section shall be reserved for the award of income tax credits to small businesses and employers that have their primary place of business located in a rural area.

(ii) The remaining amount of income tax credits that may be allowed under subdivision (b)(2)(A) of this section shall be awarded to employers without regard to their location or size.

(c) The amount of the income tax credit under this section that may be claimed by an employer in a tax year shall not exceed the amount of income tax due by the employer.

(d)(1) To claim an income tax credit under this section, an employer shall submit an application for the tax year to the Department of Finance and Administration using the form required under subdivision (d)(2)(A) of this section.

(2) The Department of Finance and Administration shall:

(A) Prepare and provide a standardized form for an employer to use to apply for the income tax credit allowed under this section;

(B) Require an employer submitting an application under this section to:

(i) Certify that the expenses for which the employer is claiming a credit under this section are eligible expenses; and

(ii) Provide documentation to substantiate the amount of eligible expenses for which the employer is claiming a credit under this section; and

(C)(i) Subject to the limitations stated in this section, award an income tax credit under this section to an employer that submits a completed application on the required form and provides the certification and documentation required under this section.

(ii) If an applicant for an income tax credit under this section fails to submit a completed application on the required form or fails to provide the certification or documentation, or both, required under this section, the Department of Finance and Administration shall automatically deny the application.

(e) An employer that is exempt from taxation under 26 U.S.C. § 501(c)(3), as it existed on January 1, 2025, may transfer or sell an income

tax credit allowed under this section.

(f) The Department of Finance and Administration may adopt rules to administer this section.

SECTION 5. Arkansas Code Title 26, Chapter 51, Subchapter 5, is amended to add an additional section to read as follows:

26-51-518. Licensed childcare provider.

(a) As used in this section:

(1) "Eligible children" means individuals who are twelve (12) years of age or younger;

(2) "Licensed childcare provider" means a person or facility that owns or operates a childcare facility licensed by the *Division of Child Care and Early Childhood Education*; and

(3) "Rural area" means an area in the state that is not within the boundaries of an incorporated town or a city that has a population of more than twenty-five thousand (25,000) according to the most recent federal decennial census.

(b)(1) There is allowed an income tax credit against the income tax imposed by this chapter in the amount determined under subdivision (b)(2) of this section for a licensed childcare provider.

(2)(A) Subject to the limitations stated this section, the amount of the income tax credit allowed under this section shall be calculated by multiplying the average monthly number of eligible children enrolled with the licensed childcare provider claiming the income tax credit during the tax year by one thousand five hundred dollars (\$1,500).

(B) The income tax credit allowed under this section shall not exceed twenty-five thousand dollars (\$25,000) for a licensed childcare provider in a tax year.

(3)(A) The total aggregate amount of income tax credits allowed under this section for all licensed childcare providers shall not exceed five million dollars (\$5,000,000) in a calendar year.

(B)(i) One million one hundred twenty-five thousand dollars (\$1,125,000) of the total aggregate amount of income tax credits that may be allowed under subdivision (b)(3)(A) of this section shall be reserved for the award of income tax credits to licensed childcare providers located in a rural area.

(ii) The remaining amount of income tax credits that may be allowed under subdivision (b)(3)(A) of this section shall be awarded to licensed childcare providers without regard to the location of the licensed childcare provider.

(c) The amount of the income tax credit under this section that may be claimed by a licensed childcare provider in a tax year shall not exceed the amount of income tax due by the licensed childcare provider.

(d)(1) To claim an income tax credit under this section, a licensed childcare provider shall submit an application for the tax year to the Department of Finance and Administration using the form required under subdivision (d)(2)(A) of this section.

(2) The Department of Finance and Administration shall:

(A)(i) Prepare and provide a standardized form for a licensed childcare provider to use to apply for the income tax credit allowed under this section.

(ii) The form required under subdivision (d)(2)(A)(i) of this section shall require at least the following information:

(a) Documentation evidencing the applicant's ownership of a childcare facility licensed by the *division*;

(b) The amount of income tax credit for which the licensed childcare provider is submitting an application under this section; and

(c) The average number of eligible children enrolled with the licensed childcare provider submitting the application during the tax year; and

(B)(i) Subject to the limitations stated in this section, award an income tax credit under this section to a licensed childcare provider that submits a completed application on the required forms and provides the information required under this section.

(ii) If an applicant for an income tax credit under this section fails to submit a completed application on the required form or fails to provide the information required under this section, the Department of Finance and Administration shall automatically deny the application.

(e) A licensed childcare provider that is exempt from taxation under 26 U.S.C. § 501(c)(3), as it existed on January 1, 2025, may transfer or sell

an income tax credit allowed under this section.

(f) The Department of Finance and Administration may adopt rules to administer this section.

SECTION 6. EFFECTIVE DATE. Sections 1-5 of this act are effective for tax years beginning on or after January 1, 2026.

SECTION 7. EMERGENCY CLAUSE. It is found and determined by the General Assembly of the State of Arkansas that this act would create significant changes to the state's tax laws; that taxpayers and employers plan to meet their obligations on a calendar-year basis; and that this act is immediately necessary to ensure the financial stability of the state, to allow taxpayers and employers time to plan for and implement the changes in law created by this act, and to ensure that the Department of Finance and Administration has sufficient time to update its forms and software and train its personnel in accordance with this act. Therefore, an emergency is declared to exist, and this act being immediately necessary for the preservation of the public peace, health, and safety shall become effective on:

(1) The date of its approval by the Governor;

(2) If the bill is neither approved nor vetoed by the Governor, the expiration of the period of time during which the Governor may veto the bill; or

(3) If the bill is vetoed by the Governor and the veto is overridden, the date the last house overrides the veto.

/s/Achor