

## **Title 26. Taxation**

### **Chapter I. Generally, Department of Finance and Administration**

#### **Subchapter E. Corporate Income Tax**

##### **Part 132. Small Business Tax Accounting Use of Accrual Basis and Cash Basis Accounting Methods**

**Codification Notes.** This part as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"Pursuant to the authority vested in the Director of the Arkansas Department of Finance & Administration and in compliance therewith, the Director and Commissioner hereby promulgate the following rule for the proper administration of the Arkansas Income Tax Act of 1929.

#### **1. EFFECTIVE DATE**

This rule shall be effective ten (10) days after it has been filed by the Department of Finance and Administration with the Arkansas Secretary of State."

"Issued this 26th day of June, 2002 in Little Rock, Arkansas"

#### **Subpart 1. Generally**

##### **26 CAR § 132-101. Purpose.**

(a) This part has been promulgated to implement and facilitate Rev. Proc. 01-76, 2001-52 I.R.B. 613, issued by the Internal Revenue Service on December 26, 2001.

(b) Under Arkansas Code § 26-51-401, Arkansas income tax returns must be prepared using the same accounting method as that used for federal income tax purposes.

(c) In order to remain consistent with federal rules on the use of accounting methods, the Secretary of the Department of Finance and Administration has determined that promulgation of this rule is necessary.

**Authority.** Arkansas Code §§ 26-18-301, 26-51-104.

**26 CAR § 132-102. Definitions.**

As used in this part:

(1)(A) "Eligible trade or business" shall mean a trade or business in which the principal business activity is described in a North American Industry Classification System (NAICS) code other than an ineligible NAICS code.

(B) Ineligible NAICS trades or businesses are as follows:

- (i) Codes 31 – 33 (manufacturing);
- (ii) Code 42 (wholesale trade);
- (iii) Codes 44 and 45 (retail trade);
- (iv) Codes 211 and 212 (mining activities); and
- (v) Codes 5111 and 5122 (information industries).

(C)(i) A farming operation is also considered to be an ineligible trade or business.

(ii) However, if a qualifying small business taxpayer is engaged in farming, the cash basis method may apply to the taxpayer's nonfarming trades or businesses, if any; and

(2)(A) "Qualifying small business taxpayer" shall mean any taxpayer with "average annual gross receipts" of greater than one million dollars (\$1,000,000) but less than or equal to ten million dollars (\$10,000,000) that is not prohibited from using the cash method of accounting under I.R.C. § 448.

(B)(i) A taxpayer's average annual gross receipts of ten million dollars (\$10,000,000) or less is determined by averaging the annual gross receipts for a period of three (3) tax years ending immediately prior to the tax year electing the cash method of accounting.

(ii) Taxpayers are required to recalculate their average annual gross receipts each tax year.

(iii) The election to change to the cash method of accounting may be made for tax years ending on or after December 31, 2001.

**Example:** The averaging is based upon the three (3) years prior to the tax year electing the change. If electing for tax year 12/31/01, the averaging is based upon tax years 12/31/98, 12/31/99, and 12/31/00. If electing for tax year 12/31/02, the averaging is based upon tax years 12/31/99, 12/31/00, and 12/31/01. A "short" year will be considered a tax year in the averaging calculation.

**Authority.** Arkansas Code §§ 26-18-301, 26-51-104.

**Codification Notes.** I.R.C. § 448 can be found codified at 26 U.S.C. § 448.

**26 CAR § 132-103. Cash basis accounting for small businesses.**

(a) Qualifying small business taxpayers engaged in an eligible trade or business may use the cash receipts and disbursements method of accounting ("cash method") rather than the accrual method of accounting for tax years ending on or after December 31, 2001.

(b)(1) Rev. Proc. 01-76, 2001-52 I.R.B. 613, does not apply to farming operations.

(2) However, taxpayers engaged in the trade or business of farming may use the cash method of accounting unless the taxpayer is:

(A) Required to use the accrual method under I.R.C. § 447; or

(B) Prohibited from using the cash method under I.R.C. § 448.

(c)(1) Rev. Proc. 01-76, 2001-52 I.R.B. 613, does not apply to a taxpayer with average annual gross receipts of one million dollars (\$1,000,000) or less.

(2) However, such taxpayers may use the cash method of accounting if authorized to do so under Rev. Proc. 01-10, 2001-2 I.R.B. 272.

**Authority.** Arkansas Code §§ 26-18-301, 26-51-104.

**Codification Notes.** I.R.C. § 447 can be found codified at 26 U.S.C. § 447.

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**26 CAR § 132-104. Method of accounting.**

The taxpayer's election of the cash method or accrual method of accounting for the Arkansas income tax return pursuant to this part must be the same method of accounting and for the same tax year as that used for the taxpayer's federal income tax return.

**Authority.** Arkansas Code §§ 26-18-301, 26-51-104.

**26 CAR § 132-105. Questions.**

Questions or requests for additional information on the use of accounting methods by Arkansas taxpayers should be directed to:

Department of Finance and Administration  
Revenue Division  
Corporation Income Tax Section  
P.O. Box 919  
Little Rock, AR 72203-0919  
(501) 682-4775  
FAX (501) 682-7114

**Authority.** Arkansas Code §§ 26-18-301, 26-51-104.