

2018



ARKANSAS **PARTNERSHIP** Income Tax Instructions AR1050

ATAP

Please visit our secure site ATAP (Arkansas Taxpayer Access Point) at www.atap.arkansas.gov. ATAP allows taxpayers or their representatives to log on, make payments and manage their account online.

ATAP features are

- Make Tax Payments
- Make Estimated Tax Payments
- Make name and address changes
- Check refund status
- View account letters

ATAP is available 24 hours.

(Registration is not required to make payments or to check refund status.)

Simple Reasons to e-file!

- ◆ Filing Confirmation Provided
- ◆ Makes Complex Returns Easy
- ◆ File Federal & State Forms Together
- ◆ Secure



For your questions/comments:

Manager, Individual Income Tax
P. O. Box 3628
Little Rock, AR 72203-3628

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TAX HELP AND FORMS



Internet

You can access the Department of Finance and Administration's website at **www.dfa.arkansas.gov**.

- Get current and prior year forms and instructions
- Access latest income tax info and archived news
- Get e-file information

You can e-mail questions to:

individual.income@dfa.arkansas.gov



Phone

Individual Income Tax Hotline..... (501) 682-1100
or (800) 882-9275

Representatives are available to assist callers at the numbers above during normal business hours (Monday through Friday from 8:00 a.m. to 4:30 p.m.) with:

- Taxpayer Assistance
- Notices Received
- Forms
- Amended Returns
- Audit and Examination
- Payment Information

For hearing impaired access, call (800) 285-1131 using a Text Telephone Device (for Spanish, call (866) 656-1842).

Other useful phone numbers:

Business Incentive Credits (501) 682-7106
Withholding Tax (501) 682-7290
Collections (501) 682-5000
Revenue Legal Counsel (501) 682-7030
Corporate Income Tax (501) 682-4775
Sales and Use Tax..... (501) 682-7104
Problem Resolution and (501) 682-7751
Tax Information Office (Offers In Compromise)

Internal Revenue Service (800) 829-1040
Social Security Administration (800) 772-1213



Forms

To obtain forms and instructions you may:

1. Access our website at:
www.arkansas.gov/incometax
4. Call the Individual Income Tax Hotline
(501) 682-1100 **or** (800) 882-9275

ATAP

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Access ATAP at **www.atap.arkansas.gov** to:

- Make name and address changes
- View account letters
- Make payments
- Check refund status

(Registration is not required to make payments or to check refund status.)



Address

Choose the appropriate address below to mail your return:

Physical:

Arkansas State Income Tax
1816 W 7th Street, Room 2300
Little Rock, AR 72201

Mailing:

Arkansas State Income Tax
P.O. Box 8056
Little Rock, AR 72203-8056

Be sure to apply sufficient postage or your return will not be delivered by the U.S. Postal Service.

REMINDERS

Special Information for tax years beginning on or after January 1, 2018: Act 482 of 2017 provides that a partnership filing an Arkansas partnership return and has income from both within and without Arkansas shall apportion income to Arkansas under the Uniform Division of Income for Tax Purposes Act. If the apportionment of income does not fairly represent the partnership's business activity in this state, the partnership may petition the Department of Finance and Administration for an exception. Any such petition should be address to the following:

**Individual Income Tax Section
Attn: Compliance Unit
P.O. Box 3628
Little Rock, AR 72203-3628**

Partnerships and LLCs File Same as Federal (Act 965 of 2003)

This act adopts the federal "check the box" regulations and requires partnerships and LLCs to file in the same manner in which the entity files and pays federal income tax.

Section 179 Depreciation

Act 580 of 2015 adopted Internal Revenue Code Section 179, **as in effect on January 1, 2009**, regarding depreciation and expensing of property for the purpose of computing Arkansas income tax liability. The maximum deduction allowed for property placed in service during the tax year is \$25,000. The deduction is decreased "dollar for dollar" for property over \$200,000, and no deduction is allowed for property over \$225,000.

You can find more information about Arkansas tax code by visiting the Department of Finance and Administration web site at www.arkansas.gov/incometax

Act 1283 of 1999. Under this act, income attributable to an investment partnership's qualifying investment securities would not be taxed if distributed to a nonresident partner. "Investment partnership" is defined as a partnership with at least 90% of its assets comprised of investment securities plus office equipment. Only income derived from dividends, interest and gains would be excluded from a nonresident partner's income. The provisions of this act do not apply to income derived from investment activity that is interrelated with any trade or business activity of the nonresident or an Arkansas entity in which the nonresident owns an interest.

GENERAL INSTRUCTIONS

Form AR1050 is used to file the income of a partnership. Every domestic or foreign partnership doing business within the State of Arkansas or in receipt of income from Arkansas sources, regardless of amount, must file an AR1050. This form is also to be used by business organizations that are two or more member limited liability companies unless the LLC has “checked the box” to file as a corporation for federal tax purposes. **(Nonresident partners may choose to be included in an Arkansas composite filing. For details see instructions for AR1000CR.)**

WHEN TO FILE

The due date is April 15th for calendar year filers. Fiscal year filers must file on or before the fifteenth (15th) day of the fourth (4th) month following the close of the fiscal year.

EXTENSION OF TIME TO FILE

If you request an extension of time to file your federal partnership tax return (with federal Form 7004) you can receive the same extension on your state return. If you do not file a federal extension, you can request a 180 day Arkansas extension using Form AR1055-PE before the filing date of April 15th (for calendar year filers). Send Form AR1055-PE to:

**Individual Income Tax Section
ATTN: Extension
P.O. Box 8149
Little Rock, AR 72203-3628**

Arkansas Partnership Income Tax Return Instructions (AR1050)

CAUTION: Report only trade or business activity income on page 1 of the AR1050. Do not report Section 179 deductions, charitable contributions, net rental real estate income, other rental activities, royalties, capital gains (losses), interest, dividends, and other income on these lines. Page 1, Column B of the AR1050 should include trade or business activity on an Arkansas basis. All other separately stated items such as interest, dividends, capital gains, etc., should be reported on Schedule K, page 4, which will be further reported on each partner's AR K-1.

INCOME

- Line 4.** Enter gross receipts or sales from all business operations other than those listed on Lines 7 through 10.
- Line 5.** Complete Schedule B, Part I on Page 5 of AR1050. Enter on Line 5 the amount shown on Line 7 of Schedule B, Part I.
- Line 6.** Subtract cost of goods sold, Line 5, from gross receipts or sales, Line 4 and enter the difference.
- Line 7.** Enter the income from any other partnerships or fiduciaries of which is defined as business income for the filing partnership. Attach schedule/federal schedule.
- Line 8.** Enter the net profit/loss received from farming. Attach schedule/federal schedule.
- Line 9.** Enter the ordinary gains or losses from the sale, exchange, or involuntary conversion of assets used in a trade or business activity.
- Line 10.** Enter any other taxable income not included on Lines 6 through 9. Attach statement or schedule.
- Line 11.** Add Lines 6 through 10 and enter the total.

DEDUCTIONS

Do not list deductions here if they have already been included on Lines 4 through 10.

- Line 12.** Enter the amount of salaries and wages paid.
- Line 13.** Enter the amount of payments or credits to a partner for services.
- Line 14.** Enter rent paid on business property.
- Line 15.** Enter the amount of interest paid on business indebtedness to others.
- Line 16.** Enter taxes paid or incurred on business property for carrying on a trade or business.

- Line 17.** Enter the amount of bad debts. You may deduct bad debts when they become worthless or make a reasonable addition to a reserve for bad debts. Attach schedule.
- Line 18.** Enter the cost of incidental repairs that do not add to the value of the property or appreciably prolong its life.
- Line 19.** Enter the allowable amount for depreciation of business property. Schedule A, Part I: Depreciation Reconciliation is required for any entity reporting depreciation regardless of the amount.

Arkansas adopted IRC §179 as in effect on January 1, 2009, thus allowing greater dollar limits and phase out thresholds. The maximum deduction allowed for property placed in service during the tax year is now \$25,000. The deduction is decreased "dollar for dollar" for property over \$200,000, and no deduction is allowed for property over \$225,000. (Arkansas has not yet adopted the most recent federal changes.) Attach schedule.

- Line 20.** Depletion: Enter the amount of depletion. Attach schedule.
- Line 21.** Retirement plan, et.: Enter the contributions made by the partnership for its common-law employees under a qualified retirement plan. Attach schedule.
- Line 22.** Enter any other trade or business deductions not included in Lines 12 through 21. Attach schedule.
- Line 23.** Add lines 12 through 22 and enter the total.
- Line 24.** Subtract Line 23 from Line 11 or Schedule A Part III, Line 6.

PARTNERS' SHARES OF INCOME

NOTE: A completed Schedule K is required to calculate each partner's distributive share items. An AR K-1 for each member of the partnership is also required to be attached to this return.

Enter each partner's name, address, Social Security Number, and share of the business net income, whether distributed or not. If the distributed income is determined on a basis other than a percentage basis, attach an explanatory statement.

SCHEDULE A - INSTRUCTIONS

Part I: Depreciation Reconciliation

Depreciation reconciliation is required to be completed if the partnership has a depreciation deduction of any amount.

- Line 1:** Enter the total amount of federal depreciation claimed on line 22 of Form 4562 and other depreciation included elsewhere. Note: Section 179 depreciation should not be included. Instead, the deduction is to be reported on Schedule K, Line 13, which flows to each partner's AR K-1.
- Line 2:** Subtract bonus depreciation (if applicable) reported on federal Form 4562, Line 25 and Line 14 from Line 1.
- Line 3:** Add or subtract the Arkansas depreciation adjustment (attach schedule). Due to Arkansas limitations on Section 179 expensing and bonus depreciation, there are often differences between federal and Arkansas depreciation. Use line 3 to make an adjustment that reconciles the Arkansas depreciation deduction. Attach schedule.
- Line 4:** Enter any capital gain or loss adjustment for basis difference. Attach schedule.
- Line 5:** Subtract Line 2 from Line 1, add or subtract Line 3 and Line 4 to enter the Arkansas total depreciation deduction.
- Line 6:** Subtract Arkansas depreciation in cost of goods sold or elsewhere from Line 5.
- Line 7:** Subtract Line 6 from Line 5. Enter the Arkansas depreciation deduction on Line 19, Form AR1050.

APPORTIONMENT INSTRUCTIONS

For Taxpayers with Income from Sources Within and Without the State

Multistate partnerships should complete Part II and Part III of Schedule A. The total income taxable to Arkansas from Part III, Line 6 should be reported on Line 24 Columns A and B of AR1050. Column A of the AR1050 should be completed by multistate partnerships. However, Column B, Lines 4-23 will not be completed for multistate partnerships.

Business Income is defined in ACA 26-51-701(a) as income arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management and disposition of the property constitute integral parts of the taxpayer's trade or business operations. In essence, all income which arises from the conduct of trade or business operations of a taxpayer is business income. Income of any type or class and from any source is business income if it arises from transactions and activity occurring in the regular course of a trade or business. In general, all transactions and activities of the taxpayer's economic enterprise as a whole constitute the

taxpayer's trade or business and will be considered "Business Income", unless otherwise excluded by Arkansas law. ACA 26-51-701(e) defines Nonbusiness income as all income other than business income.

Unitary Determination of Intangible Income: Interest, dividends (less than 80% directly owned), rents, royalties and gains and losses from multistate partnerships are apportionable to Arkansas if a unitary business relationship exists between the intangible income and the State of Arkansas. Generally, a unitary business relationship will exist when an activity conducted in one state benefits and is benefited by an activity conducted in another state.

Apportionment Formula:

In general, taxpayers with income derived from activities both within and without the State are required to apportion Business Income and allocate the Nonbusiness income using the following factors:

All multistate partnerships apportion business income to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor, plus double the sales factor, and the denominator of which is four (4). If a taxpayer does not have all four (4) factors, the denominator shall be the same as the number of entries other than zero (0) that apply to the total (everywhere) amounts of the property, payroll and sales factors. When double weighted, the sales factor counts as two (2).

Financial Institutions must use the single weighted sales factor. Construction companies, pipelines, publishing companies, railroads, and TV and radio broadcasters must utilize the double weighted sales factor apportionment method with factor modifications.

Change of Method:

Prior approval Required Before Deviation From the Allocation and Apportionment Method: If the allocation and apportionment provisions as set out above do not fairly represent the extent of the taxpayer's business activity in this State, the taxpayer may petition for, or the Commissioner of Revenue, Department of Finance and Administration may require in respect to all or any part of the taxpayer's business activity, if reasonable:

- A) Separate accounting
- B) The exclusion of any one or more factors;
- C) The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this State, or
- D) The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

To "petition for" and approved by DFA shall mean a formal written request submitted and approved prior to the filing of a return.

SCHEDULE A - APPORTIONMENT OF INCOME FOR MULTISTATE PARTNERSHIP

Part II: Income to Apportion

Line 1: Enter income from page 1, Line 24, Total Column.

Line 2: Enter any add adjustments and attach schedule. Additions should be any other income not listed on Lines 4-10 of the AR1050 that constitute business income that should be apportioned. Note: federal/Arkansas depreciation differences are not to be reported on this line. Schedule A, Part I should be completed and the Arkansas depreciation should be already reported on line 19 of AR1050, Page 1.

Line 3: Enter any deduct adjustments and attach schedule. Subtractions should be any other deductions not listed on Lines 12-22 of the AR1050 that constitute business deductions that should be apportioned. Note: federal/Arkansas depreciation differences are not to be reported on this line. Schedule A, Part I should be completed and the Arkansas depreciation should be already reported on line 19 of AR1050, Page 1.

Line 4: Line 1 + total amount from Line 2 – total amount from Line 3 = Line 4, Total Apportionable Income. Continue to Part III.

Part III: Apportionment Factor

Column A is for Amounts in Arkansas; Column B is the Total Everywhere; Column C is the Percentage of Column (A)÷(B). Calculate all percentages to six (6) places beyond whole percentages. Example 26.123456%

Property Factor: The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in this State during the tax period and the denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the tax period. (ACA 26-51- 710).

Line 1. Enter Property Used in Business

Line a. Tangible Assets Used in Business and Inventories.

(a1) Enter the amount at the beginning of the year in both Column A and Column B.

(a2) Enter the amount at the end of the year in both Column A and Column B.

(a3) Enter total amounts: (Add Lines a1 and a2) in both Columns.

(a4) Enter Average of Tangible Assets: (Line 3 ÷2) in both Columns.

Line b. Enter Rental Property: (8 times annual rent Column A and B).

Line c. For Financial Institutions Only, refer to ACA 26-51-1404 Enter Average Value of Intangible Property in Column A and B. Attach schedule.

Line d. Enter Total Property in both Columns: (Add Lines a.4, b and c).

In Column C, calculate the Arkansas percent by dividing the amount on Line d, Column A by the amount on Line d, Column B.

Payroll Factor: The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the taxpayer for compensation and the denominator of which is the total compensation paid everywhere during the tax period. The payroll factor shall include only that compensation which is included in the computation of the apportionable income tax base for the taxable year. (ACA 26-51-713 and ACA 26-51- 1405)

Column A is total compensation paid within Arkansas; Column B is total compensation paid everywhere during the tax year; Column C is the percentage of Column (A) ÷ (B).

Line 2. Enter Salaries, Wages, Commissions and Other Compensation Related to the Production of Business.

Sales/Receipts Factor: The receipts factor is a fraction, the numerator of which is the total sales of the taxpayer in this State during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period. The method of calculating receipts for purposes of the denominator is the same as the method used in determining receipts for purposes of the numerator. The receipts factor shall include only those receipts which constitute business income and are included in the computation of the apportionable income base for the taxable year. Arkansas requires receipts to be gross receipts instead of net receipts. Financial institutions cannot double weight the sales/receipts factor. (ACA 26-51-715 and ACA 26-51-1403).

Line 3. Sales/Receipt

(a) Enter Destination Shipped from Within Arkansas. Sale of property that is delivered or shipped by a seller located in Arkansas to a purchaser located in Arkansas.

(b) Enter Destination Shipped from Without Arkansas. Sale of property that is delivered or shipped to a purchaser located in Arkansas regardless of the f.o.b. point or other conditions of the sale.

(c) Enter Origin Shipped from Within Arkansas to U.S. Govt. Gross receipts from sales of tangible personal property to the United States Government are in this state if the property is shipped from an office, store, warehouse, factory, or other place of storage in this state and the purchaser is the U.S. Government.

(d) Enter Origin Shipped from Within Arkansas to Other Non-Taxable Jurisdictions: Sales of property that is shipped from an office, store, warehouse, factory or other place of storage in Arkansas to a taxpayer that is not taxable in the state of the purchaser.

(e) Enter Other Gross Receipts: Includes items such as interest income, other income, proceeds from sales of assets, rental income. Attach schedule.

Gross receipts from transactions other than sales of tangible personal property are attributed to Arkansas if: The income producing activity is performed entirely within Arkansas or the income producing activity is performed both inside and outside of Arkansas, in which event the portion of income reportable to Arkansas shall be determined by utilizing the formula for apportioning income to Arkansas during the year of the sale by including the income from income producing activity in the numerator and denominator of the taxpayer's sales factor.

(f) Enter Total Sales/Receipts: (Add Lines 3a through 3e). Divide Line 3f in Column A by Line 3f in Column B to arrive at the percentage for Line 3f in Column C.

(g) Enter Double Weighted: (Applies to tax years beginning on or after January 1, 1995) (Financial Institutions must use Single Weighted Factor, Column C, Line 3f X 2).

Line 4: Enter Sum of Percentages: (Single Weighted: Add Column C, Lines 1d, 2a and 3f) (Double Weighted: Add Column C, Lines 1d, 2a and 3g).

Line 5: Enter Percentage Attributable to Arkansas: Line 4 divided by the Single/Double Weighted Factor. For Part III, Line 5, divide Line 4 by number of entries other than zero which you make on Part III, Column B, Lines (1d), (2a) and (3f). Also, an entry other than zero in Part III, Column B, Line (3f), counts as two (2) entries unless using Single Weighted Factor.

Line 6: Income apportioned to Arkansas

Multiply Part II, Line 4 by Part III, Line 5. Enter the result here and on page 1, line 24, Arkansas column. Note: Line 6 is intended for the use of reporting income derived in the ordinary course of a trade or business that does **NOT** include portfolio income. Portfolio income is considered all gross income, other than income derived in the ordinary course of a trade or business, that is attributable to interest, dividends, royalties, etc. **Report portfolio income and related deductions on Schedule K.**

SCHEDULE K - PARTNERS' DISTRIBUTIVE SHARE ITEMS

Schedule K summarizes all the partners' shares of the partnership's income, credits, deductions, etc. Rental activity income (loss) and portfolio income aren't reported on page 1 of the AR1050. These amounts aren't combined with trade or business activity income (loss). Schedule K is used to report the totals of these and other amounts. The Schedule K is required for all partnerships.

NOTE: *A completed AR K-1 for each member of the partnership is required to be attached to this return.*

Enter each partner's name, address, Social Security Number, and share of the net income, whether distributed or not. If the distributed income is determined on a basis other than a percentage basis, attach an explanatory statement.

Part I: Income (Loss)

1. Ordinary business income (loss)

Enter the amount from page 1, line 24 of the AR1050. Do not include rental activity income (loss) or portfolio income (loss).

2. Net rental real estate income (loss)

Enter the net income (loss) from rental real estate activities. Attach Federal Form 8825.

3a-c. Other gross rental income (loss)

Enter gross income from rental activities other than those reported on Federal Form 8825. Enter the expenses attributable to the other rental activities to arrive at the other net rental income (loss) on 3c.

4. Interest Income

Enter taxable portfolio interest. Tax-exempt interest income is not to be reported on this line. Report tax-exempt interest income on line 15a or b of Part III.

5. Dividends

Enter taxable dividends including any qualified dividends.

6. Royalties

Enter royalties received by the partnership.

7. Net short-term capital gain (loss)

Enter the short-term gain (loss) and attach federal Schedule D (Form 1065).

8a-b. Net long-term capital gain (loss)

Enter the portfolio capital gain or loss. Attach federal Schedule D (Form 1065). Enter the gain or loss from Collectibles on 8b. Note: Capital gains from collectibles are taxed at the ordinary income rates in Arkansas.

9. Unrecaptured section 1250 gain

Enter any unrecaptured section 1250 gain and attach statement.

10. Net section 1231 gain (loss)

Enter any net section 1231 gain (loss) and attach Federal Form 4797.

11. Other income (loss)

Enter any other item of income or loss that is not included on lines 1-10. Identify the type of income in the space provided. If there is more than one type of income, attach a statement that identifies each type and amount.

12. Guaranteed Payments

Enter any guaranteed payments to partners.

Part II: Deductions

13. Section 179 deduction

Figure the partnership's section 179 expense deduction. Report the allowable amount on the Arkansas column. Attach Form 4562. Note: The partnership does not take the deduction itself but instead passes it through to the partners on AR K-1.

14. Other deductions

Enter any other deductions allowable by the partnership. Identify the type of deduction in the space provided. If there is more than one type of deduction, attach a statement that identifies each type and amount.

Part III: Other Information

15a-c. Tax-exempt interest income

Enter any interest income that is tax exempt, as well as other tax-exempt income on 15b. Nondeductible expenses are to be entered on 15c.

16a-b. Distributions of cash and marketable securities

Enter the amount of partnerships distributions of cash, marketable securities, and other property on lines 16a and 16b.

17a-c. Investment income

Enter the investment income, expenses, as well as other items and amounts.

Analysis of Net Income (Loss)

1. Net income (loss)

Combine Schedule K, Lines 1 through 12. From the result, subtract the sum of Schedule K, Lines 13 through 14

SCHEDULE B - ADDITIONAL PARTNERSHIP INFORMATION

Part I: Cost of Goods Sold

To compute the cost of goods sold, answer all questions and enter the amount listed on Line 7 of Schedule B on Line 5, page 1, of AR1050.

Part II: Balance Sheet

The balance sheet is to report the assets and liabilities at the beginning and end of the tax year. The amounts should agree with the partnership's books and records. Attach a statement explaining any differences.