ARKANSAS 2006

Individual Income Tax Booklet

Full Year Resident

Part-Year Resident

Nonresident

A Message to Arkansas Taxpayers

It is easier and more convenient this year for taxpayers to check the status of their income tax refunds. Taxpayers may check the status of their refunds directly over the internet by Automated Refund Inquiry. Your refund status information may be found by accessing our web site at www.arkansas.gov/dfa/ and selecting "Income Tax Refund Inquiry". You may also check the status of your refund by touch tone telephone. You can access the Tele-file system by calling 501-682-0200 (Pulaski County) or 1-800-438-1992 (statewide). The refund information on these sites is updated each day, and is available 24 hours a day, 7 days a week. Both sites are simple to use and taxpayers will receive a much faster response than when calling our help line.

This booklet includes a Table of Contents which has not been available in previous years. We hope that you will use this feature and it will assist you in finding the information you need to file your 2006 Arkansas Individual Income Tax Return.

Other reminders for filing 2006 returns:

Your state return is due on April 15, 2007 the same as your federal return.

Arkansas has not adopted federal income tax laws that were recently enacted by the federal Tax Increase Prevention and Reconciliation Act of 2005 and the Pension Protection Act of 2006

This booklet contains an Arkansas Use Tax form for taxpayers to report and pay Arkansas Use Tax on out of state purchases (eg. Purchases made from catalogs, the Internet, or by phone) where no Arkansas sales tax has been collected.

Arkansas continues to be one of the more successful states for electronic filing. Last year over 52% of all Arkansas returns were filed electronically. You can e-file from home using tax preparation software accessed through our web site, or your tax preparer may file your return electronically. Arkansas is now a member of the Free E-File Alliance which allows many qualifying Arkansas taxpayers to file free over the Internet. Visit our web site at: www.arkansas.gov/dfa/ for additional information about all available e-file opportunities.

For your convenience, the Arkansas Voter Registration Application is included in this booklet. This form can be used for new voter registrations or to update current registration information. If needed, complete the form and send it to the Secretary of State's office. Please do not mail your Voter Registration Application to the Revenue Division or enclose it with your tax return.

We appreciate your suggestions and constructive criticism. We want to provide you the best service possible. Please mail your suggestions and comments to: Manager, Individual Income Tax Section, P.O. Box 3628, Little Rock, Arkansas 72203-3628. Thank you.

Sincerely,

Tim Leathers
Commissioner of Revenue

Important Addresses for additional information and assistance:
Internet: www.arkansas.gov /dfa/
E-mail: individual.income@rev.state.ar.us

YOU MUST FILE BY APRIL 15, 2007

397207
State of Arkansas
State Income Tax
P. O. Box 1000
Little Rock, AR 72203-1000

PRESORTED
STANDARD
U.S. POSTAGE
PAID
STATE OF
ARKANSAS

QUICK AND EASY ACCESS TO TAX HELP AND FORMS

Internet

You can access the Department of Finance and Administration's website 24 hours a day 7 days a week, at:

www.arkansas.gov/dfa

- Check the status of your refund
- Download current and prior year forms and instructions
- Access latest Income Tax news and archived news
- Get E-File information

You can e-mail questions to:

individual.income@rev.state.ar.us

Mail

Choose the appropriate address below to mail your return:

TAX DUE RETURN:
Arkansas State Income Tax
P.O. Box 2144
Little Rock, AR 72203-2144

REFUND RETURN:
Arkansas State Income Tax
P.O. Box 1000
Little Rock, AR 72203-1000

NO TAX DUE RETURN:
Arkansas State Income Tax
P.O. Box 8026
Little Rock, AR 72203-8026

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

Phone

Automated refund inquiry....................................... (501) 682-0200
or (800) 438-1992

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

By calling the automated refund lines, 24 hours a day, 7 days a week taxpayers may access general information about filing.

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

- Taxpayer Assistance
- Forms
- Audit and Examination
- Refunds
- Amended Returns
- Delinquent Income Taxes

(For Hearing Impaired Access call (501) 682-4795 using a Text Telephone Device.)

Other Useful Phone Numbers:

Estimated Tax .... (501) 682-7272
Withholding Tax .... (501) 682-7290
Corporate Income Tax .... (501) 682-4775
Sales and Use Tax.......................... (501) 682-7104

Internal Revenue Service .... (800) 829-1040

Walk-In

Representatives are available to assist walk-in taxpayers with income tax questions, but are not available to prepare your return.

No appointment is necessary, but plan to arrive before 4:00 p.m. to allow sufficient time for assistance.

The Individual Income Tax Office is located in Room 2300, Ledbetter Building, at 1816 W. 7th St. in Little Rock.

Office hours are Monday through Friday from 8:00 a.m. to 4:30 p.m.

Forms

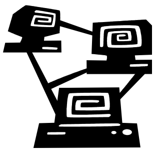
To obtain forms you may:

- Access our website at:
  www.arkansas.gov/dfa
- Call the Individual Income Tax Hotline (see "phone")
- Obtain them at county revenue offices
- Write to:
  Arkansas State Income Tax Forms
  P.O. 3628
  Little Rock, AR 72203-3628

CONTENTS

ELECTRONIC FILING

Last year over 612,000 taxpayers used an electronic filing option to file their Arkansas Individual Income Tax Returns. Electronic Filing allows you to file your Arkansas tax return with a tax professional, or file your own tax return using a personal computer.

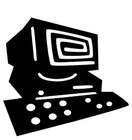


FEDERAL/STATE ELECTRONIC FILING

The State of Arkansas participates in the Federal/State Electronic Filing Program for Individual Income Tax. The benefits of Electronic Filing are:

- ***Simultaneous Federal/State filing*** — Both your Federal and State of Arkansas Income Tax Returns are filed electronically in one transmission.
- ***Processing*** — If you file a complete and accurate return, your refund will be issued within ten *(10)* days **after you receive your state acknowledgment**.
- ***Accuracy*** — Computer programs catch 98% of tax return errors before your return is received and accepted.
- ***Acknowledgment*** — The State of Arkansas notifies your transmitter within two *(2)* days if your return has been received and accepted.

This program is available to full year residents, certain qualifying nonresidents, and part-year residents filing a 2006 Arkansas Individual Income Tax Return. However, filers claiming business and incentive tax credits are not eligible to file electronically. Electronic Filing is available whether you prepare your own return or use a preparer. In addition to tax preparers, other firms are approved to offer electronic filing services. Check with your tax preparer or electronic filing service to see if they are participating in the Federal/State program.



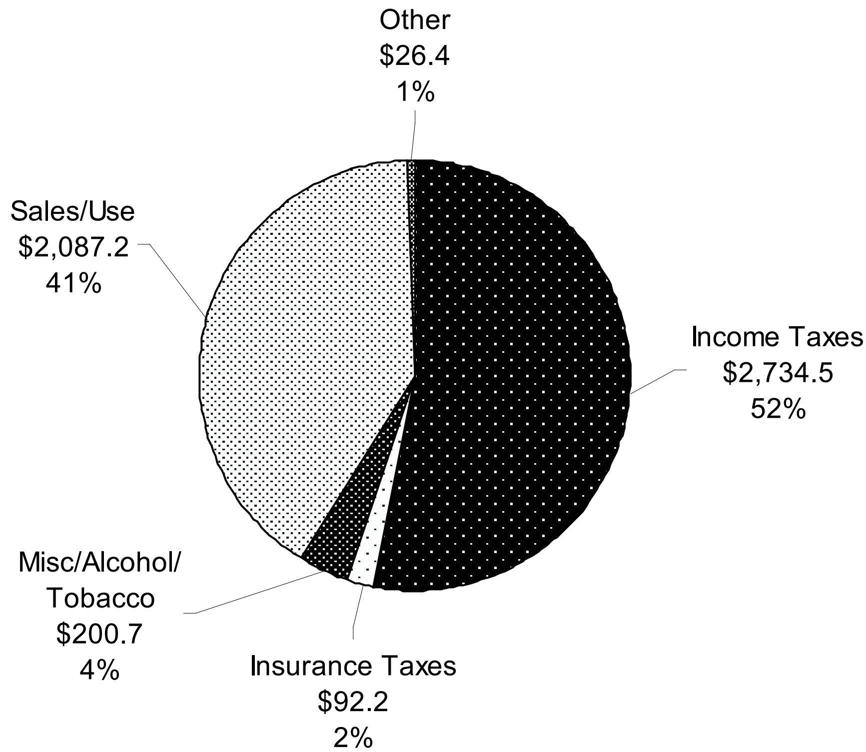
ON-LINE FILING

Over 86,700 taxpayers took advantage of On-Line Filing last year. The same advantages are obtained by On-Line Filing as by Electronic Filing, but it does not require a preparer. For a nominal fee your federal and state returns can be prepared and filed electronically.

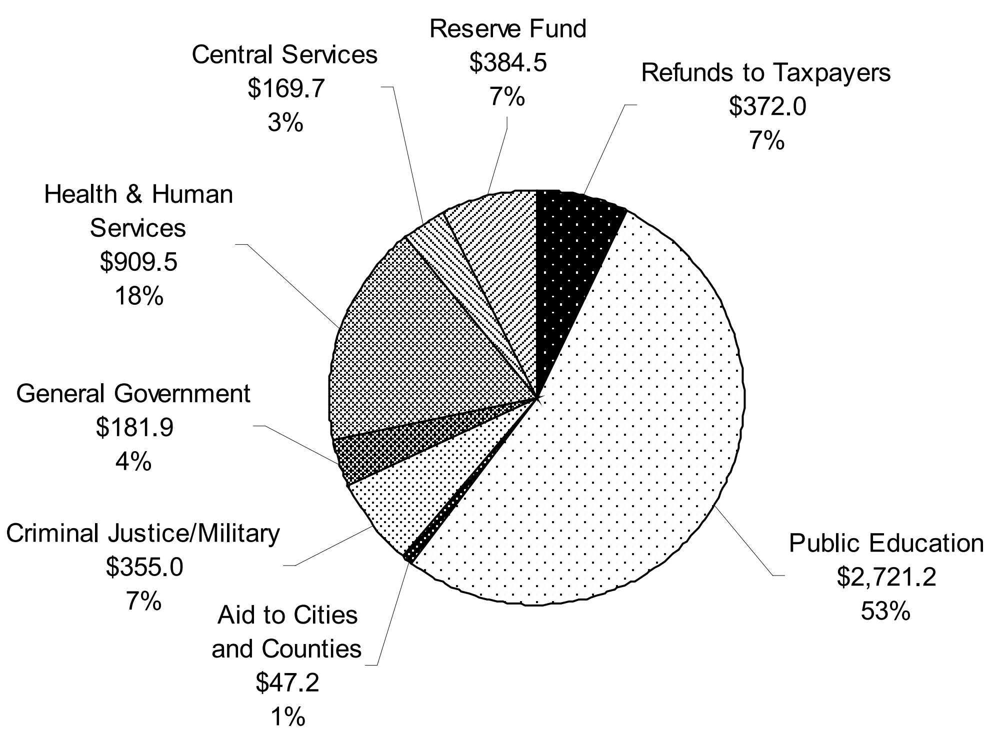
FOR TAXPAYERS' INFORMATION

Individual and Corporation Income Taxes Are The Largest Source of State General Revenue.

$5,141 MILLION GENERAL REVENUE TAX
Where It Comes From:



$5,141 MILLION GENERAL REVENUE TAX
Where It Is Spent:



SPECIAL INFORMATION FOR 2006

Due Date April 15, 2007

If April 15 falls on a Saturday, Sunday, or legal holiday, the return will be considered timely filed if it is postmarked on the next succeeding business day which is not a Saturday, Sunday, or legal holiday.

This year April 15 falls on a Sunday; therefore, the return is not due until the next business day which is April 16.

Personal Tax Credit Increased Pursuant to Act 1819 of 2001

Act 1819 of 2001 authorizes the indexing of the personal tax credit if certain budget requirements are met. The requirements have been met; therefore, the personal tax credit has been increased to $22.

Health Savings Accounts Adopted and MSAs Extended (Act 94 of 2005)

This act adopts specific subdivisions of IRC §223 as in effect January 1, 2005, concerning Health Savings Accounts. Health Savings Accounts are exempt from Arkansas income tax if the account meets the requirements of §223. The act amends the definition of "gross income" to exclude from the employee's gross income, contributions by an employer to a Health Savings Account.

The act also adopts the following IRC sections as in effect on January 1, 2005:

1. §129 (exclusion from income of dependent care assistance),
2. §§72, 219, 401-404, 406-416, and 457 (deductibility from income of contributions made to deferred compensation plans) and
3. §220 (deductibility from income of contributions made to a Medical Savings Account by the taxpayer or the taxpayer's employer.)

This act is effective on February 10, 2005 and applies to tax years beginning on or after January 1, 2004.

Certain Contributions to Deferred Tuition Savings Plan Allowed as Deduction (Act 1973 of 2005)

This act allows a deduction from the taxpayer's adjusted gross income for contributions to a tuition savings account established under the Arkansas Tax-Deferred Tuition Savings Program. Deductible contributions cannot exceed $5,000 per taxpayer per tax year.

This act is effective for tax years beginning on or after January 1, 2005.

Withholding from Payments of Deferred Income Required (Act 1309 of 2005)

This act adopts IRC §3405, with certain modifications, to require withholding from certain periodic and lump sum payments of deferred income. For state purposes, withholding from non-periodic payments is 3%. Withholding from rollover distributions is 5%.

For additional information access the Withholding Branch's website at:
www.arkansas.gov/dfa/income_tax/tax_wh_forms.html

This act applies to tax years beginning on or after January 1, 2006.

Federal Acts not adopted by the State of Arkansas

Katrina Emergency Tax Relief Act of 2005
Gulf Opportunity Zone Act of 2005
Tax Increase Prevention and Reconciliation Act of 2005
Energy Tax Incentives Act of 2005
Heroes Earned Retirement Opportunities Act
Pension Protection Act of 2006

Income Tax Technical Corrections Act (Act 675 of 2005)

This act amends Arkansas Code to adopt changes to the Internal Revenue Code (IRC). The act adopts or readopts the following IRC Sections:

1. Readopts IRC §2(b) regarding the definition of Head of Household;
2. Readopts IRC §1033 relating to the exclusion of gain from the involuntary conversion of a taxpayer's property;
3. Readopts IRC §121 relating to the gain on the sale of property owned and used as a taxpayer's principal residence;
4. Readopts IRC §129 regarding the exclusion from income for dependent care assistance;
5. Adopts IRC §134 regarding the exclusion from income of child care benefits provided to members of the United States military;
6. Readopts Subchapter S of the Internal Revenue Code regarding small business corporations;
7. Readopts IRC §§453, 453A, and 453B regarding the installment method of accounting;
8. Readopts IRC §§72, 219, 401-404, 406-416, and 457 relating to annuities, retirement savings and employee benefit plans;
9. Readopts IRC §162 regarding trade or business expenses;
10. Readopts IRC §170 regarding deductions for charitable contributions;
11. Readopts IRC §274 regarding the deductions of expenses for entertainment, amusement, recreation, business meals, travel, et cetera;
12. Readopts IRC §198 regarding the deduction of costs paid or incurred for the cleanup of certain hazardous substances;
13. Adopts IRC §194 regarding the amortization of qualified reforestation expenses;
14. Readopts IRC §§611-613, 613A, 614, 616, and 617 regarding computing the depletion allowance deduction for natural resources;
15. Adopts IRC § 470 regarding leasing transactions between taxpayers;
16. Readopts IRC § 248 regarding capitalization and amortization of a corporation's organizational expenses;
17. Adopts IRC §709 regarding amortization of a partnership's organizational expenses;
18. Readopts IRC §530 relating to educational Individual Retirement Accounts;
19. Readopts IRC §152 regarding the definition of Dependent;
20. Readopts IRC §21 for the purpose of determining the allowable credit for household and dependent care services;
21. Readopts IRC §2(a) regarding the definition of Head of Household and Qualifying Widow or Widower with a dependent child.

This act applies to tax years beginning January 1, 2005 and after.

Rice Straw Credit Established (Act 2247 of 2005)

This act allows an income tax credit in the amount of $15 for each ton of rice straw in excess of 500 tons that is purchased by an Arkansas taxpayer who is the end user of the straw (person who purchases and uses the straw for processing, manufacturing, generating energy or producing ethanol). The credit is limited to 50% of the income tax due for the tax year. Unused credit may be carried forward for 10 consecutive tax years following the year in which the credit is earned.

This act is effective for tax years beginning on or after January 1, 2006.

MILITARY PERSONNEL

Treatment of Combat Pay Clarified (Act 29 of 2005):

This act adopts Sections 112 and 692 of the Internal Revenue Code as in effect on January 1, 2005 to clarify that combat zone compensation is exempt from Arkansas individual income tax and that the income of a member of the armed forces is exempt in the year of the person's death.

This act applies to tax years beginning on or after January 1, 2005.

The Servicemembers Civil Relief Act of 2003:

Section 510 - Income taxes

(a) Deferral of Tax - Upon notice to the Internal Revenue Service or the tax authority of a state or a political subdivision of a state, the collection of income tax on the income of a servicemember falling due before or during military service shall be deferred for a period not more than 180 days after termination of or release from military service, if a service member's ability to pay such income tax is materially affected by military service.

(b) Accrual of Interest or Penalty - No interest or penalty shall accrue for the period of deferment by reason of nonpayment on any amount of tax deferred under this section.

(c) Statute of Limitations - The running of a statute of limitations against the collection of tax deferred under this section, by seizure or otherwise, shall be suspended for the period of military service of the servicemember and for an additional period of 270 days thereafter.

Section 511 - Residence for tax purposes

(a) Residence or Domicile - A servicemember shall neither lose nor acquire a residence or domicile for purposes of taxation with respect to the person, personal property, or income of the servicemember by reason of being absent or present in any tax jurisdiction of the United States solely in compliance with military orders.

(b) Military Service Compensation - Compensation of a servicemember for military service shall not be deemed to be income for services performed or from sources within a tax jurisdiction of the United States if the servicemember is not a resident or domiciliary of the jurisdiction in which the servicemember is serving in compliance with military orders.

(d) Increase of Tax Liability - A tax jurisdiction may not use the military compensation of a nonresident servicemember to increase the tax liability imposed on other income earned by the nonresident servicemember or spouse.

The Military Family Tax Relief Act of 2003:

The provisions of this act which include the sale of your principle residence, deduction for overnight travel expenses of National Guard and Reserve members, and exclusion from income of certain benefits, must be adopted by the Arkansas Legislature before they become effective.

Reminders:

For military personnel stationed in Arkansas with Home of Record other than Arkansas: **DO NOT** include your military wages on your Arkansas return. Your military income is reported to your state of residency (HOR) only and not used in the calculation of your Arkansas tax liability. Your non-military wages, if any, must be included on Line 8.

U.S. Military retirement **DOES NOT** qualify as U.S. Military Enlisted or U.S. Military Officer's compensation, and **IS NOT** eligible for the $6,000 or the $9,000 military exemption on Lines 9A or 9B. U.S. Military retirement is eligible for the $6,000 retirement exclusion and should be listed on Lines 19A and/or 19B.

FREQUENTLY ASKED QUESTIONS

You may get additional information on the following topics 24 hours a day, 7 days a week by accessing our website at:

www.arkansas.gov/dfa/income_tax/tax_individual_faqs.html

TOPICS

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- Extensions of time to file
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- Billing procedures
- Penalty and interest charges
- Collection procedures

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- How to apportion tax liability

ELECTRONIC FILING
- Electronic filing program

INSTRUCTIONS

THESE INSTRUCTIONS ARE FOR GUIDANCE ONLY AND DO NOT STATE THE COMPLETE LAW

A. WHO MUST FILE A TAX RETURN

1. IF YOU WERE A FULL YEAR RESIDENT OF ARKANSAS FOR 2006, USE THE CHART BELOW TO DETERMINE IF YOU MUST FILE A RETURN:

Find your marital status at the end of 2006, then read across to find your filing status and age at the end of 2006. You must file a return if your gross income was at least the amount shown in the last column. Gross income means any and all income, before deductions, that you received, **except** the kinds of income specifically described in Section I (see Page 11).

MARITAL STATUS	FILING STATUS	AGE*	GROSS INCOME
Single (Including divorced and legally separated)	Single	under 65	$7,800
		65 or over	$9,300
	Head of Household	under 65	$12,100
		65 or over	$13,000
Married	Married filing joint	under 65 (both spouses)	$15,500
		65 or over (one spouse)	$15,600
		65 or over (both spouses)	$16,200
	Married filing separately, same or different returns	any age	$3,999
Widowed in 2004 or 2005, not remarried in 2006	Qualifying Widow(er) with dependent child	under 65	$15,500
		65 or over	$16,000

*If you turned 65 on January 1, 2007, you are considered to be age 65 at the end of 2006.

If your gross income was less than the amount shown in the last column for your filing status, you are not required to file a return. **However, you must file a return to claim any refund due.**

2. IF YOU WERE A NONRESIDENT and you received income from Arkansas sources, you must file an Arkansas Tax Return AR1000NR regardless of your income level. See Section H for additional information. **Attach a copy of your Federal return.**

3. IF YOU WERE A PART-YEAR RESIDENT and you received taxable income while an Arkansas resident, you must file an Arkansas tax return AR1000NR regardless of income level or source of income. See Section H for additional information. **Attach a copy of your Federal return.**

4. IF YOU ARE THE EXECUTOR OR ADMINISTRATOR OF THE ESTATE OF SOMEONE WHO DIED IN 2006, you must file a individual tax return for that person if any of the conditions listed below apply between January 1st and the time of death:

   (a) The person was SINGLE (under age 65) and earned a gross income of $7,800 or more.

   (b) The person was SINGLE (age 65 or over) and earned a gross income of $9,300 or more.

   (c) The person was MARRIED (both under age 65) with combined gross income of $15,500 or more.

   (d) The person was MARRIED (one under age 65) with combined gross income of $15,600 or more.

   (e) The person was MARRIED (both age 65 or over) with combined gross income of $16,200 or more.

B. WHEN TO FILE YOUR TAX RETURN

1. You can file your Calendar Year Tax Return any time after December 31, 2006, but NO LATER THAN **APRIL 15, 2007**, (unless an extension has been granted).

2. If you file a Fiscal Year Tax Return, your return is due NO LATER THAN **three and one-half (3 ½) months following the close of the income year.**

NOTE: **The date of the postmark stamped by the U.S. Postal Service is the date you filed your return.**

3. If the due date of your return falls on a Saturday, Sunday, or legal holiday, the return shall be considered timely filed if it is postmarked on the next business day which is not a Saturday, Sunday, or legal holiday.

4. Statute of Limitations – Refunds. An amended return or verified claim for refund of an overpayment of any state tax for which the taxpayer is required to file a return must be filed by the taxpayer within three (3) years from the time the return was filed or two (2) years from the time the tax was paid, whichever is later.

C. IF YOU NEED MORE TIME TO FILE

If you request an extension of time to file your federal income tax return (by filing Federal Form 4868 with the IRS) you are entitled to receive the same extension on your Arkansas income tax return. In order to receive the extension for state purposes, when you file your return check the box on the face of the Arkansas return indicating you filed a federal extension.

The Department no longer requires that a copy of Federal Form 4868 be attached to your state tax return as long as the box is checked on the front of the return.

The federal automatic extension extends the deadline to file until October 15th. When the return is complete and ready to file, simply check the box on the face of the return.

NOTE: *If the box on the front of the AR1000 is not checked, you will not receive credit for your federal extension.*

If you do not file a federal extension, you can file an Arkansas extension using Form AR1055 before the filing due date of April 15th. Send your request to:

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

NOTE: *The maximum extension that will be granted on an AR1055 is one hundred and twenty (120) days, extending the due date until August 15th.*

Attach a copy of your approved AR1055 extension to the face of your tax return WHEN YOU FILE. IF YOU DO NOT ATTACH YOUR EXTENSION, YOUR RETURN WILL BE CONSIDERED DELINQUENT AND PENALTIES WILL BE ASSESSED.

Payments made on extension should be made on Form AR1000ES, Voucher 5.

Inability to pay is not a valid reason to request an Arkansas extension.

Interest will be assessed if any tax due is not paid by April 15, 2007.

Failure To Pay Penalty will be due on any unpaid balance if at least ninety percent (90%) of the tax due is not paid by April 15, 2007

D. PENALTIES & INTEREST

1. If you owe additional tax, you must mail your tax return by April 15, 2007. Any return not postmarked by April 15, 2007 (unless you have a valid extension) will be considered delinquent. A penalty of one percent (1%) per month for failure to pay and five percent (5%) per month for failure to file, with a maximum of thirty-five percent (35%), will be assessed on the amount of tax due. Interest of ten percent (10%) per year will also be assessed on any additional tax due, calculated from the original due date to the date you paid the tax due.

   An extension to file is not an extension to pay. If you have not paid the amount due by the original due date you will be subject to a failure to pay penalty of 1% per month of the unpaid balance.

2. In addition to any other penalties assessed, a penalty of $500 will be assessed, if any taxpayer files what purports to be a return, but the return does not contain information on which the correctness of the return may be judged, and such conduct is due to a position which is frivolous or an effort to delay or impede the administration of any State law.

3. If you owe additional tax in excess of $1,000, penalty for failure to make a declaration of Estimated Tax and pay on any quarterly due date the equivalent of ninety (90%) of the amount actually due, or an amount equal to or greater than the tax liability of the preceding income tax year, a penalty of ten percent (10%) will be assessed.

   Use the Arkansas Underpayment of Estimated Tax Form AR2210 to compute the underpayment penalty **or to claim an exception** for failure to file a declaration of estimated tax for the income year. If you claim any exception, you must complete Part III of the AR2210 **and** write the exception number in the box on Line 55A of the AR1000/AR1000NR. **Attach the AR2210 to your return.**

E. DEATH OF TAXPAYER OR DEPENDENT

An Arkansas return should be filed for a taxpayer for the year in which the death occurred, regardless of the date of death. Write the word "DECEASED" after the decedent's name and the date of death.

A surviving spouse may file on the same return with the deceased spouse for the year of death if the survivor does not remarry before the end of that year.

If the decedent qualified as your dependent for the part of the year before death, you may claim the full amount of tax credit for the dependent on your tax return, regardless of when death occurred during the year.

In each of the above circumstances you do not have to attach a copy of the death certificate to the return.

F. CREDIT FOR TAXES PAID TO ANOTHER STATE

Arkansas residents are required to report and pay taxes on all of their taxable income. This includes the taxable portion of foreign income as well as income from other states. If you are required to report a part of your income to another state, you may take credit for the income tax portion of your out-of-state tax liability on Line 38 of AR1000. **Nonresidents are not entitled to this credit.**

Part-year residents will not be allowed this credit unless they continue to have taxable income from another state and the other state income is included as taxable income in Column C of the AR1000NR.

G. DEVELOPMENTALLY DISABLED INDIVIDUAL

To claim a credit for a developmentally disabled individual you must file a AR1000RC5 every five (5) years. If credit was received on a prior year's return, do not file another AR1000RC5 until the Individual Income Tax Section notifies you.

If tax year 2006 is the first year you claim the Developmentally Disabled Individual Credit, you must attach the AR1000RC5 to your 2006 return.

H. DEFINITIONS

1. DOMICILE

This is the place you intend to have as your permanent home and the place you intend to return to whenever you are away. You can have only one domicile. Your domicile does not change until you move to a new location which you intend to make your permanent home. If you move to a new location but intend to stay there only for a limited time (no matter how long), your domicile does not change. **This also applies if you are working in a foreign country.**

2. FULL YEAR RESIDENT

You are a full year resident if you lived in Arkansas all of tax year 2006, or if you have maintained a domicile or Home of Record in Arkansas during the tax year.

3. NONRESIDENT

You are a nonresident if you did not make your domicile (home) in Arkansas. A nonresident receiving income from Arkansas sources must file an Arkansas Tax Return AR1000NR regardless of income amount.

4. PART-YEAR RESIDENT

Any person who established a domicile (home) in Arkansas or moved out of the State during the calendar year of 2006 is considered to be a part-year resident.

NONRESIDENTS OR PART-YEAR RESIDENTS MUST FILE FORM AR1000NR AND ATTACH A COPY OF THEIR FEDERAL RETURN.

5. MILITARY PERSONNEL

If Arkansas is your Home of Record (HOR) and you are stationed outside the State of Arkansas, you are still required to file an AR1000 reporting all of your income, including U.S. Military Compensation.

If you are stationed in Arkansas and your Home of Record is another state, Arkansas does not tax your U.S. Military Compensation.

U.S. Military Compensation includes wages received from the Army, Navy, Air Force, Marine Corps, Coast Guard, National Guard, Reserve Units, and the U.S. Public Health Service.

Arkansas **does** tax income from Arkansas sources received by you or your spouse while you are stationed in Arkansas, including pay from non-appropriated funds; (i.e., exchange, clubs, commissary, etc). This Arkansas income must be listed in Column C of Form AR1000NR and taxed based upon your Arkansas percentage of your total tax liability.

6. DEPENDENT

You may claim as a dependent any person who received over half of his or her support from you, **and** earned less than $3,300 in gross income, **and** was your:

Child	Stepchild	Mother
Father	Grandparent	Brother
Sister	Grandchild	Stepbrother
Stepsister	Stepmother	Stepfather
Mother-In-Law	Father-In-Law	Brother-In-Law
Sister-In-Law	Son-In-Law	Daughter-In-Law

Or, if related by blood: Uncle, Aunt, Nephew, Niece

Or, an individual (other than your spouse) who, for the taxable year of the taxpayer, had the same principal place of abode as the taxpayer and was a member of the taxpayer's household.

The term "dependent" includes a foster child **if** the child had as his principle place of abode the home of the taxpayer and was a member of the taxpayer's household for the taxpayer's entire tax year.

The term "dependent" does not apply to anyone who is a citizen or subject of a foreign country UNLESS that person is a resident of Mexico or Canada.

If your child/stepchild was under age 19 at the end of the year, the $3,300 gross income limitation does not apply. Your child/stepchild may have earned any amount of income and still be your dependent if the other dependency requirements in this section were met.

If your child/stepchild was a student under age 24 at the end of the calendar year, the $3,300 gross income limitation does not apply. The other requirements in this section still must be met.

To qualify as a student, your child/stepchild must have been a full-time student for five (5) months during the calendar year at a qualified school, as defined by the Internal Revenue Service.

For death of a dependent during the tax year, refer to Section E for instructions.

Arkansas has adopted Internal Revenue Code §151(c)(6) regarding the tax treatment of kidnapped children.

I. GROSS INCOME

Gross income is any and all income (before deductions) that you received, **except** the kinds of income specifically described below.

1. Money you received from a life insurance policy because of the death of the person who was insured is exempt from tax.

NOTE: *You must include as taxable income any interest payments made to you from the insurer (the insurance company that issued the policy).*

2. Money you received from life insurance, an endowment, or a private annuity contract for which you paid the premiums is allowed cost recovery pursuant to Internal Revenue Code §72.

3. Amounts you received as child support payments are exempt.

4. Gifts, inheritances, bequests, or devises are exempt from tax.

5. Scholarships, grants, and fellowships are taxed pursuant to Internal Revenue Code §117. Stipends are taxed in their entirety. For additional information on scholarships, fellowships, and stipends see instructions for Line 22.

6. Interest you received from direct United States obligations, its possessions, the State of Arkansas, or any political subdivision of the State of Arkansas is exempt from tax. Obligations include bonds and other evidence of debt issued pursuant to a government unit's borrowing power. (Interest received on tax refunds is not exempt income, because it did not result from a debt issued by the United States, the State of Arkansas, or any political subdivision of the State of Arkansas.) Interest from government securities paid to individuals through a mutual fund is exempt from tax.

7. Social Security benefits, VA benefits, Workers' Compensation, Unemployment Compensation, Railroad Retirement benefits and related supplemental benefits are exempt from tax.

8. The rental value of a home or the housing allowance paid to a duly ordained or licensed minister of a recognized church is exempt to the extent that it was used to rent or provide a home. The rental value of a home furnished to a minister includes utilities furnished to the minister as part of compensation. The housing allowance paid to a minister includes an allowance for utilities paid to the minister as part of compensation to the extent it is to be used to furnish utilities in the home.

9. Disability Income **may be** exempt from tax pursuant to Internal Revenue Code §104.

J. INCOME EXEMPT FROM TAX

NOTE: ***List exempt income on AR4, Part III and include the total on AR1000, Line 56.***

1. **The first $9,000 of U.S. Military Enlisted Compensation is exempt from tax. The first $6,000 of U.S. Military Officer's Compensation is exempt from tax.**

2. If you received income from an employer sponsored retirement plan, including disability retirement, that is not exempt under IRC §104, the first $6,000 is exempt from tax. **For tax years 2003 and later**, if you contributed after-tax dollars to your plan, you are allowed to recover your cost (investment) in your retirement plan in accordance with Internal Revenue Code §72, then the first $6,000 of the balance is exempt from tax. If you received income from military retirement, you may adjust your figures if the payment includes Survivor's Benefit Payments. The amount of adjustment must be listed on the income statement, and supporting documentation must be submitted with the return.

3. If you received an IRA distribution after reaching the age of fifty-nine and one-half (59 1/2), the first $6,000 is exempt from tax. Your IRA distribution may be adjusted for nondeductible IRA contributions, if any, by completing Federal Form 8606 and attaching it to your Arkansas return. Premature distributions made on account of the participant's death or disability also qualify for the exemption. All other premature distributions or early withdrawals including, but not limited to, those taken for medical expenses, higher education expenses or a first-time home purchase **do not** qualify for the exemption.

A surviving spouse qualifies for the exemption; however he/she is limited to a single $6,000 exemption.

NOTE: *The total exemptions from all plans described under 2 and 3 cannot exceed $6,000 per taxpayer, not including recovery of cost.*

K. HOW TO COMPLETE YOUR ARKANSAS RETURN

Residents of Arkansas must complete Form AR1000. Nonresidents and Part-Year Residents must complete Form AR1000NR. The following instructions will apply to both returns unless a specific designation is made.

STAPLE all required W-2s, 1099s, schedules, and explanations to your return. **Use only BLUE or BLACK INK or TYPE.**

If you received this booklet in the mail and there is a colored peel off label inside, place the colored label in the identification block of the tax return only if it is correct. If it is not correct or you do not have a label, enter name, address and Social Security Number(s) for you and your spouse. **You MUST enter your Social Security Number(s) on your return in the space provided, or your return cannot be processed and will be returned to you.**

NOTE: *If you are married, filing on the same form, and using different last names, separate the last names by using a slash.*

EXAMPLE:
John Q. and Mary M. Doe/Smith, or
Mary M. and John Q. Smith/Doe

Be sure the placement of the last name matches placement of the first name. (You must be legally married to file in this manner.)

FILING STATUS

DETERMINE YOUR FILING STATUS

BOX 1. Filing Status 1 (Single)

Check this box if you are SINGLE or UNMARRIED and DO NOT qualify as HEAD OF HOUSEHOLD. (Read the instructions for BOX 3 to determine if you qualify for HEAD OF HOUSEHOLD.) **Check the boxes on LINE 7A that describe you.**

BOX 2. Filing Status 2 (Married Filing Joint)

Check this box if you were MARRIED and are filing jointly. IF YOU ARE FILING A JOINT RETURN, YOU MUST ADD BOTH SPOUSES' INCOME TOGETHER. Enter the total amount in column A on Lines 8 through 23 under "Your/Joint Income". **Check the boxes on Line 7A that describe you and your spouse.**

MARRIED COUPLES READING THIS MAY SAVE MONEY.

If you and your spouse had separate incomes, you might save money by figuring your tax separately using one of the following two methods. Use the method that suits you best.

METHOD A. List your income separately under Column A ("Your Income"). List your spouse's income separately under Column B ("Spouse's Income"). Figure your tax separately and then add your taxes together. See instructions for Married Filing Separately on the Same Return, Box 4.

If you use Method A, your result will be either a COMBINED REFUND or a COMBINED TAX DUE.

METHOD B. File separate individual tax returns. See instructions for Married Filing Separately on Different Returns, Box 5.

If you use Method B, one of you may owe tax and the other may get a refund. The tax due must be paid with the proper tax return and the refund will be due on the other return. YOU MAY NOT OFFSET ONE AGAINST THE OTHER.

BOX 3. Filing Status 3 (Head of Household)

To file as Head of Household you must have been unmarried or legally separated on December 31, 2006 and meet either 1 or 2 below. The term "Unmarried" includes certain married persons who live apart, as discussed at the end of this section.

1. You paid over half the cost of keeping a home for the entire year that was the main home of your parent whom you can claim as a dependent. Your parent did not have to live with you in your home.

   OR

2. You paid over half the cost of keeping a home in which you lived, and in which one of the following also lived, for more than six (6) months of the year (temporary absences, such as vacation or school, are counted as time lived in the home):

   a. Your unmarried child, grandchild, great-grandchild, adopted child or stepchild. This child did not have to be your dependent, but your foster child had to be your dependent.

   b. Your married child, grandchild, adopted child or stepchild. This child had to be your dependent.

   c. Any other relative whom you could claim as a dependent.

Check the box on Line 3 and the two (2) or more boxes on Line 7A that describe you.

MARRIED PERSONS WHO LIVED APART

Even if you were not divorced or legally separated in 2006, you may be considered unmarried and file as Head of Household. See Internal Revenue Service instructions for Head of Household to determine if you qualify.

BOX 4. Filing Status 4 (Married Filing Separately on the Same Return)

Check this box if you were Married and are filing SEPARATELY ON THE SAME TAX RETURN. This method of tax computation may reduce your tax liability if both spouses had income. The result will be either a combined refund or a combined tax due. **Check the boxes on Line 7A that describe you and your spouse.**

IF ONE SPOUSE HAD A TOTAL NEGATIVE INCOME, YOU MUST FILE, MARRIED FILING JOINTLY.

BOX 5. Filing Status 5 (Married Filing Separately on Different Returns)

Check this box if you were married and are filing separate tax returns. **Check the box or boxes that describe only you on Line 7A.**

BOX 6. Filing Status 6 [Qualifying Widow(er)]

Check this box if you are a QUALIFYING WIDOW(ER). **Check the box or boxes that describe you on Line 7A.**

You are eligible to file as a QUALIFYING WIDOW(ER) if your spouse died in 2004 or 2005 and you meet each of the following tests:

1. You were entitled to file MARRIED FILING JOINTLY or MARRIED FILING SEPARATELY ON THE SAME RETURN with your spouse for the year your spouse died. It does not matter whether you actually filed a joint return.

2. You did not remarry before the end of the tax year.

3. You had a child, stepchild, adopted child, or foster child who qualified as your dependent for the year.

4. You paid more than half the cost of keeping a home, which was the main home of that child for the entire year except for temporary absences.

PERSONAL TAX CREDITS

THE PERSONAL TAX CREDITS HAVE INCREASED FROM $21 to $22 FOR TAX YEARS BEGINNING JANUARY 1, 2006.

LINE 7A. You can claim additional Personal Tax Credits if you can answer "Yes" to any of these questions:

On January 1, 2007, were you age 65 or over?
On December 31, 2006, were you deaf?
On December 31, 2006, were you blind?

Check the box or boxes that apply to you and/or your spouse. You CANNOT claim any of these credits for your children or dependents.

Blindness is defined as being unable to tell light from darkness, having eyesight in the better eye not exceeding 20/200 with corrective lens, or having a field of vision limited to an angle of 20 degrees. You can claim the Deaf Credit only if the average loss in speech frequencies (500 to 2000 Hertz) in the better ear is 86 decibels, I.S.O., or worse.

Any taxpayer age 65 and over not claiming a retirement income exemption on Line 19 is eligible for an additional **$22** (per taxpayer) tax credit. Check the box(es) marked "65 Special".

Add the number of boxes you checked on Line 7A. Write the total in the box provided. Multiply the number by **$22** and write amount in space provided.

LINE 7B. List the name(s) of your dependent(s) in the space provided. DO NOT INCLUDE YOURSELF AND/OR YOUR SPOUSE. The individual(s) you can claim as dependent(s) are described in Section H, Number 6, of these instructions.

Add the number of boxes you checked on Line 7B. Write the total in the box provided. Multiply the number by **$22** and write that amount in the space provided.

LINE 7C. If one or more of your dependents were developmentally disabled individuals, enter how many in the box on Line 7C and multiply by $500. Enter the total in the space provided. (See Section G of the instructions for additional information.)

LINE 7D. Total the tax credits from Lines 7A, 7B, and 7C. Enter the total on this line and on Line 36.

THE FOLLOWING LINE-BY-LINE INSTRUCTIONS REFER TO BOTH THE AR1000 FULL YEAR RESIDENT FORM AND THE AR1000NR NONRESIDENT/PART-YEAR RESIDENT FORM.

If your filing status is Married Filing Separately on the Same Return, both Column (A) and Column (B) will be used. Write your income in Column (A) and your Spouse's income in Column (B). For all other filing statuses, write your income in Column (A) only.

NONRESIDENTS AND PART-YEAR RESIDENTS MUST USE THE AR1000NR. **ATTACH A COPY OF YOUR FEDERAL RETURN, OR YOUR ARKANSAS RETURN WILL NOT BE PROCESSED.**

Complete Column (A) and Column (B) of the AR1000NR the same as full year residents listed above. You must list all of your income as if you were a full year resident. List all of your income from all sources for the entire year in these two columns.

List in Column (C) the total combined income for both spouses earned while Arkansas residents and/or income derived from Arkansas sources.

Use all three columns to calculate the amount of Arkansas tax liability. The total tax must be computed on the income totals in Columns (A) and (B). After all allowable tax credits have been subtracted from the total tax, prorate the remaining balance. See instructions for Lines 44A, 44B, 44C, and 44D.

INCOME

Round all amounts to the nearest dollar. (For example, if your W-2 Form shows $10,897.50, round to $10,898. If your W-2 Form shows $10,897.49, round to $10,897.)

Staple the state copy of each of your W-2(s) and 1099-R(s) to the front left margin of the return.

LINE 8. Add the wages, salaries, tips, etc. reported on your W-2(s). Enter the total on this line. **Attach W-2(s).**

Enter U. S. Military Compensation on Line 9 or Line 10. **Enter U.S. Military Retirement on Line 19.**

LINE 9A. If you had U.S. Military **Officer's Compensation**, enter gross income in space provided. You are **entitled to a $6,000 exemption** from your gross income. The balance is taxable. **Attach W-2(s)**.

Filing Status 2 (Married Filing Joint): If you and your spouse both had U.S. Military Compensation, enter your gross income in the appropriate space provided on Line 9A. You and your spouse are each entitled to an exemption from your respective gross incomes depending on whether the income is Officer's pay or Enlisted pay. The balance is taxable.

LINE 9B. (Filing Status 4 Only) If your spouse had U.S. Military **Officer's Compensation**, enter gross income in the space provided. Your spouse is **entitled to a $6,000 exemption** from his/her gross income. The balance is taxable. **Attach W-2(s).**

LINE 10A. If you had U.S. Military **Enlisted Compensation**, enter gross income in the space provided. You are **entitled to a $9,000 exemption** from your gross income. The balance is taxable. **Attach W-2(s)**.

Filing Status 2 (Married Filing Joint): If you and your spouse both had U.S. Military Compensation, enter your gross income in the appropriate space provided on Line 10A. You and your spouse are each entitled to an exemption from your respective gross incomes depending on whether the income is Officer's pay or Enlisted pay. The balance is taxable.

LINE 10B. (Filing Status 4 Only) If your spouse had U.S. Military **Enlisted Compensation**, enter gross income in the space provided. Your spouse is **entitled to a $9,000 exemption** from his/her gross income. The balance is taxable. **Attach W-2(s).**

If you received enlisted pay and officer's pay in the same year, prorate each exemption by the number of days you received each type of pay divided by total days of the year you received military pay.

FOR MILITARY PERSONNEL STATIONED IN ARKANSAS WITH HOME OF RECORD OTHER THAN ARKANSAS: DO NOT INCLUDE YOUR MILITARY WAGES. Your income is reported to your state of residency only and not used in the calculation of your Arkansas tax liability. Your non-military wages, if any, must be included on Line 8.

LINE 11. If you are a duly ordained or licensed minister, you received a housing allowance from your church, and you do not file a Federal Schedule C or C-EZ, enter your gross compensation from the ministry less rental value of your home. The balance is subject to tax. **Attach W-2(s) if not using Federal Schedule C or C-EZ.**

LINE 12. If you received interest from bank deposits, notes, mortgages, corporation bonds, savings and loan association deposits, and credit union deposits, enter all interest received or credited to your account during the year. **If the total is over $1,500, complete and attach Form AR4.**

LINE 13. If you received dividends and other distributions, enter amounts received as dividends from stocks in any corporation. **If the total is over $1,500, complete and attach Form AR4.**

LINE 14. Enter alimony or separate maintenance received as the result of a court order.

LINE 15. If you had business or professional income and filed a Federal Schedule C or C-EZ, enter the total dollar amount(s) of net income (or loss) from your Federal Schedule C or C-EZ. If you did not file a Federal Schedule C or C-EZ, submit a similar schedule and enter the net income (or loss). **Business income may not be split between you and your spouse unless a partnership is legally established.** Report Partnership Income on Form AR1050 and attach K-1(s) for each partner. **If you filed a Federal Schedule C or C-EZ, attach it to your return.**

Include on Line 22, Other Income, any depreciation adjustment resulting from Arkansas's not adopting the bonus depreciation and higher Section 179 expense provisions of the Internal Revenue Code.

LINE 16. If you had gains or losses from the sale of real estate, stocks or bonds, or gains or losses from capital assets from Partnerships, S Corporations, or Fiduciaries, enter your taxable share. **Adjust the amount of gain or loss for any federal/state depreciation differences.**

If, after the netting process, you had a capital gain or loss reported on the Federal Schedule D or on Form 1040/1040A, use Arkansas Form AR1000D to determine the taxable amount to enter on AR1000/AR1000NR, Line 16. **Attach Federal Schedule D and Form AR1000D to your return.**

The amount of capital loss that can be deducted after offsetting capital gains is limited to $3,000. If your capital loss was more than the yearly limit on capital loss deductions, you can carry over the unused part to later years until used up.

The gain on the sale of your personal residence is exempt up to $250,000 per taxpayer ($500,000 for married couples filing on the same return). The property must, during the 5 year period ending on the day of sale, be owned and used by the taxpayer(s) as the principal residence for periods aggregating 2 years or more.

LINE 17. Enter the ordinary gain or (loss) from Part II of Federal Form 4797. **Adjust for any basis difference due to differences in Arkansas and federal depreciation.** The $3,000 capital loss limit does not apply.

LINE 18. Use this line to report taxable lump-sum distributions, annuities, and regular IRA distributions. Include early withdrawal of IRA distributions on this line. List only the amount of withdrawal and attach the Federal Schedule 5329 showing the tax on premature distribution. Also, enter ten percent (10%) of the tax from the Federal Schedule 5329, Part I and Part II, on Line 34. If you received a distribution which does not qualify for the Lump-Sum Distribution Averaging Schedule (AR1000TD), list the total distribution received in 2006. (See AR1000TD to determine if you qualify to use the averaging method.) **Attach 1099-R(s)**.

Premature distributions are amounts you withdrew from your IRA, deferred compensation, or thrift savings plans before you were either age 59 ½ or disabled. Rollovers of premature distributions are tax exempt.

McFadden Claimants Only: If a claim was filed on your behalf under McFadden v. Weiss, your Arkansas basis (cost of contributions) in your retirement plan has changed. If you had zero (0) basis in your retirement after your McFadden Adjustment, then for Arkansas tax purposes your taxable amount will be the same as your gross distribution regardless of what your 1099R reports. Deduct the $6,000 exemption from your gross distribution and include this amount on line 19A or 19B. **Refer to the worksheet on page 21 to calculate the Arkansas basis in your retirement plan.**

LINE 19A. If you had income from an employment-related pension plan or a qualified IRA distribution, enter the gross amount(s) from Box 1 of your 1099-R(s) in the space provided. Enter the federal taxable amount from Box 2a of your 1099-R(s) in the space provided. If Box 2a is blank, use the Simplified Method Worksheet in the Federal 1040 Instruction Booklet to calculate the taxable amount of your distribution. You are entitled to a $6,000 exemption from the taxable amount; the balance is taxable to Arkansas. Enter the balance on Line 19A, Column A. **Attach 1099-R(s).**

FILING STATUS 2 (Married Filing Joint) ONLY: If you and your spouse both had income from a retirement plan and/or qualified IRA distribution, enter the combined gross income amount from Box 1 of your 1099-R(s). Enter the combined federal taxable amount from Box 2a of your 1099-R(s). If Box 2a is blank, use the Simplified Method Worksheet in the Federal 1040 Instruction Booklet to calculate the taxable amount of your distribution. Both you and your spouse are entitled to a

$6,000 exemption from your respective taxable retirement plan income; the balance is taxable to Arkansas. Enter the balance on Line 19A. **Attach 1099-R(s).**

LINE 19B. FILING STATUS 4 (Married Filing Separately on the Same Return) ONLY: If your spouse had income from an employment related pension plan or a qualified IRA distribution, enter the gross income from Box 1 of his or her 1099-R(s). Enter the federal taxable amount from Box 2a of his or her 1099-R(s). If Box 2a is blank, use the Simplified Method Worksheet in the Federal 1040 Instruction Booklet to calculate the taxable amount of his or her distribution. Your spouse is entitled to a $6,000 exemption from the taxable amount; the balance is taxable to Arkansas. Enter the balance on Line 19B. **Attach 1099-R(s).**

You are eligible for the $6,000 exemption for retirement or disability benefits provided the distribution was from public or private employment-related retirement systems, plans, or programs. **(The recipient need not be retired.)** The method of funding is irrelevant. The exemption may be from either lump-sum or installment payments. The early withdrawal penalty may be applicable even though the exemption is granted.

If you received an IRA distribution after reaching the age of fifty-nine and one-half (59 1/2), the first $6,000 is exempt from tax. Premature distributions made on account of the participant's death or disability also qualify for the exemption. All other premature distributions or early withdrawals including, but not limited to, those taken for medical expenses, higher education expenses, or a first-time home purchase **do not** qualify for the exemption.

Note: If you made nondeductible contributions to your IRA, enter taxable amount from Federal Form 8606 in the space provided. **Attach Federal Form 8606 to your return.**

LINE 20. If you had income from rents, royalties, estates or trusts, profits (whether received or not) from partnerships, fiduciaries, small business corporations, etc., enter the amounts as reported on your Federal Schedule E. If you are filing a return for a taxable year that is not the same as the annual accounting period of your partnership or trust, report your distributive share(s) of net profits in the accounting period that ends in your taxable year.

Nonresident beneficiaries pay tax only on Arkansas income.

LINE 21. If you had farm income, enter the amount reported on your Federal Schedule F. **Farm income may not be split between you and your spouse unless a partnership is legally established.** Partnership income must be reported on Form AR1050, with K-1(s) for each partner.

LINE 22. Enter all taxable income for which no other place is provided on the return. Attach a statement explaining the source and amount of the income. Examples are: prizes, awards, TV and radio contest winnings (cash or merchandise), and gambling winnings. You must report reimbursement of medical expenses from a previous year, if you itemized deductions in that year and it reduced your tax.

Include amounts you recovered on bad debts that you deducted in an earlier year.

Include any depreciation adjustment that arises from Arkansas not adopting the bonus depreciation and higher Section 179 expense provisions of the Internal Revenue Code.

If you had a net operating loss (NOL) in an earlier year to carry forward to 2006, enter it as a negative amount on this line. **Attach a statement showing how you calculated the amount of loss and the year the loss occurred.** A net operating loss may be carried forward for five (5) years.

Scholarships, fellowships, and stipends:

A scholarship or fellowship is exempt from tax only if:

1) You are a **candidate for a degree** at an **educational institution**, **and**
2) The grant is a **qualified scholarship or fellowship.**

A qualified scholarship or fellowship is any amount you received as a scholarship or fellowship grant that was used under the terms of the grant for:

1) Tuition and fees required for enrollment, **or**
2) Fees, books, supplies and equipment required for the course(s) at the educational institution. (These items must be required of all students in that course.)

Foreign students who are exempt from federal taxes because of a tax treaty must file and pay tax on all income including non qualified scholarship or fellowship income.

Stipends are taxable.

LINE 23. Add Lines 8 through 22 and enter total in the appropriate columns on this line. This is your **Total Income**.

ADJUSTMENTS

LINE 24. To claim the Texarkana exemption, you must file a return and report **all** Arkansas income you received during the year. Enter the exempt income on Line 24.

For W-2 income you must attach Form AR-TX **supplied by your employer**.

The Form AR-TX is not required for non wage income such as interest, dividends, Schedule C (sole proprietor), Schedule F (farm), Schedule E (rents, royalties, partnerships, etc.) or retirement. Additional information may be required for verification if an adjustment for these types of income is allowed.

NOTE: *Taxpayers who claim this exemption must file using their street address in Texarkana, Arkansas or Texarkana, Texas.* ***If you use a Post Office Box, this exemption will not be allowed.***

If you lived within the city limits of Texarkana, Arkansas, you are allowed a full exemption from Arkansas income taxation. Part-year Texarkana residents claim the exemption only on income earned while a resident of Texarkana, Arkansas.

If you lived within the city limits of Texarkana, Texas, you are allowed to deduct the income you earned in the city limits of Texarkana, Arkansas. All other Arkansas income is taxable to you.

LINE 25. If you have other allowable adjustments, use Form AR1000ADJ and include the total on this line. **Attach Form AR1000ADJ.**

LINE 26. Add Lines 24 and 25 and enter total on this line. This is your **Total Adjustments**.

LINE 27. Subtract the total on Line 26, **Total Adjustments**, from the total on Line 23, **Total Income**. Enter balance on this line. This is your **Adjusted Gross Income (AGI)**.

TAX COMPUTATION

LINE 28. Enter the amounts from Lines 27(A) and (B), page AR1/NR1 (Adjusted Gross Income) on this line.

LINE 29. SELECT THE PROPER TAX TABLE and check the appropriate box. You will be in one of the following categories:

1) You qualify for the Low Income Table, or
2) You must use the Regular Tax Table

YOU QUALIFY FOR THE LOW INCOME TABLE IF you meet the requirements below and your Adjusted Gross Income falls within the following limits:

$0 - $11,400	Filing Status 1 - (Single)
$0 - $16,200	Filing Status 2 – (Married Filing Joint) or Filing Status 6 – (Qualifying Widow(er) with dependent child)
$0 - $16,200	Filing Status 3 – (Head of Household)

NOTE: Taxpayers filing Status 4 or 5 MAY NOT use the Low Income Tax Table.

Part-year residents and nonresidents qualify to use the Low Income Tax Table if their income from all sources meets the Low Income Tax Table income requirements.

If you use an exclusion for military compensation, employer sponsored pension income, or a qualified IRA distribution, you do not qualify for the Low Income Tax Table. You may elect NOT TO USE the exclusion(s) to which you are entitled and use the Low Income Tax Table if you fall within the income limits.

Caution: If you qualify to use the Low Income Tax Table, enter zero (0) on Line 29A. (The Standard Deduction is already built into the table.)

YOU MUST USE THE REGULAR TABLE IF you do not qualify for the Low Income Tax Table. Enter the larger of your itemized deductions or your Standard Deduction on Line 29.

Itemized Deductions:

To compute your itemized deductions, complete Form AR3. Make sure that your total itemized deductions exceed the Standard Deduction.

NOTE: *If you are filing Status 4 or 5 and one spouse itemizes, then both spouses must itemize.*

Standard Deduction.

To determine your Standard Deduction, find your filing status below:

Status 1: (Single)	**$2,000**, or amount of AGI on Line 28 if less than $2,000.
Status 2: (Married Filing Joint)	**$4,000**, or amount of AGI on Line 28 if less than $4,000.
Status 3: (Head of Household)	**$2,000**, or amount of AGI on Line 28 if less than $2,000.
Status 4: (Married Filing Separately on Same Return)	**$2,000 each** or amount of AGI on Line 28A and 28B if less than $2,000.
Status 5: (Married Filing Separately on Different Returns)	**$2,000**, or amount of AGI on Line 28 if less than $2,000.
Status 6: Qualifying Widow(er)	**$2,000**, or amount of AGI on Line 28 if less than $2,000.

NOTE: *The $2,000 Standard Deduction does not apply to taxpayer's dependent(s).*

LINE 30. Subtract Line 29 from Line 28. This is your **Net Taxable Income**.

LINE 31. IF YOU QUALIFY FOR THE LOW INCOME TAX TABLE, find the amount of your income on the Low Income Tax Table. Locate the tax on your income under the column that describes your filing status. Enter the tax on Line 31, page AR2/NR2.

IF YOU DO NOT QUALIFY FOR THE LOW INCOME TAX TABLE, find the amount of your taxable income on the Regular Tax Table. Enter the tax on Line 31(A) if Filing Status 1, 2, 3, 5 or 6. Use Lines 31(A) and 31(B) if Filing Status 4, Married Filing Separately on the Same Return.

LINE 32. Add Lines 31(A) and 31(B) and enter the total.

LINE 33. If you received a lump-sum (total) distribution from a qualified retirement plan during 2006, you may be eligible to use the averaging method to figure some of your tax at a lower rate. Read the instructions on the back of Form AR1000TD to determine if you are eligible to use this method. If so, complete Form AR1000TD and enter amount on Line 33, Form AR1000. **Attach Form AR1000TD.**

LINE 34. Taxpayers subject to IRA or employer qualified retirement plan penalties and tax on their federal return are subject to penalties and tax on their state return. Enter ten percent (10%) of the federal penalty amount from Part I of Federal Form 5329. Be sure to enter total distribution(s) from Part I, Form 5329, on Line 18 or 19, page AR1/NR1.

If you are subject to a penalty on a distribution from a Coverdell Education Savings Account, include ten percent (10%) of the federal penalty amount from Part II of Federal Form 5329 on this line. Be sure to include the taxable amount of the Coverdell Education Savings Account distribution on Line 22, page AR1/NR1 (Other Income).

LINE 35. Add Lines 32 through 34 and enter the total.

TAX CREDITS

LINE 36. Enter the total personal tax credits from Line 7D.

LINE 37. Enter the amount of allowable State Political Contributions Credit(s) on this line. The allowable credit(s) cannot exceed $50 for an individual filing Status 1, 3, 5 or 6 or $100 for spouses filing Status 2 or 4. Attach Form AR1800 (or your own schedule) and include the candidate(s) name, office(s) sought, amount(s) of the contribution(s), and total of all political contributions.

LINE 38. If you are an Arkansas resident and included income on your Arkansas Return that was also taxed by another state, you may claim a credit for the income tax portion of taxes paid to the other state on that income.

The income tax withheld from your wages by another state is NOT the amount of tax you owed the other state. For that reason, YOU MUST ATTACH A **SIGNED** COPY OF THE TAX RETURN(S) YOU FILED WITH THE OTHER STATE(S) to your Arkansas Return. Enter the amount of net income tax liability to the other state(s).

NOTE: *This credit cannot exceed the Arkansas Income Tax on the same income and cannot exceed the total tax you owe Arkansas.* ***Nonresidents cannot claim this credit on their Arkansas Return.*** *If you were a part-year resident see additional instructions on Page 12.*

A tax credit is allowed for a resident shareholder's pro rata share of any net income tax paid by a Sub S Corporation to a state that does not recognize Sub S Corporation status.

The State of Mississippi enacted a special tax that applies exclusively to gambling winnings. This tax is separate and distinct from Mississippi's income tax. As such, an Arkansas taxpayer cannot claim a credit against his/her Arkansas income tax liability for payment of the gambling winnings tax to the State of Mississippi.

LINE 39. The Child Care Credit allowed is twenty percent (20%) of the amount allowed on your federal return. A copy of the "Credit for Child and Dependent Care Expenses," Federal Form 2441, **or** a copy of your 1040A, Schedule 2, must be attached to your Arkansas return. **(If this credit is for Approved Early Childhood Credit, see instructions for Line 48.)**

LINE 40. The Adoption Expense Credit allowed is twenty percent (20%) of the amount allowed on your federal return. A copy of Federal Form 8839 must be attached to your Arkansas return.

LINE 41. Enter the allowable Phenylketonuria Disorder Credit. Attach Form AR1113.

LINE 42. From the Business and Incentives Tax Credits Summary Schedule (AR1020BIC), enter the total allowable credits. Credits available are listed below:

Affordable Neighborhood Housing
Biotechnology Development
Capital Development Corporation
County & Regional Industrial Development
Economic Development
Emerging Energy Technology
Employer-Provided Early Childhood Program
Enterprise Zone Program
Equipment Donation or Sale Below Cost
Family Savings Initiative
Investment Income
Job Creation
Manufacturing Investment
Low Income Housing
Payroll Income
Private Wetland & Riparian Zone
Public Roads Improvement
Tourism Project Development
Tuition Reimbursement
Venture Capital Investment
Waste Reduction & Recycling Equipment
Water Resource Conservation
Workforce Training
Youth Apprenticeship
Rice Straw

NOTE: *For details on tax credits, refer to the Business and Incentive Tax Credit Pkg. which contains forms for each credit. Business Tax Credit forms may be obtained from the Department of Finance and Administration, Tax Credits, Box 1272, Little Rock, AR 72203, (501) 682-7106.*

LINE 43. Add Lines 36 through 42 and enter the total on Line 43.

LINE 44. Subtract Line 43 from Line 35. This is your **Net Tax**. If Line 43 is greater than Line 35, enter zero (0).

IF FILING A FULL YEAR RESIDENT RETURN, go to instructions for Line 45.

NONRESIDENTS AND PART-YEAR RESIDENTS ONLY, read the following instructions to determine your correct Arkansas Tax Liability. **Attach a complete copy of your federal return.**

The instructions for Line 44A through Line 44D apply only to nonresidents and part-year residents.

LINE 44A. Enter total income from Line 27, Column (C).

LINE 44B. Add the total of Columns (A) and (B) from Line 27.

LINE 44C. Divide the amount on Line 44A by the amount on Line 44B to arrive at your Arkansas percentage of income. **Unless your percentage is less than 1%, enter your percentage as a whole number, rounding the percentage to the nearest whole percent.**

If your percentage is less than 1%: Do not round to one (1) or zero (0). Carry the number out to six places to the right of the decimal.
Example: $2,500/$525,000 = .00476190476
(Enter as 00.476190)

LINE 44D. Multiply amount on Line 44 by percentage on Line 44C for AR apportioned tax liability.

PAYMENTS

LINE 45. Enter Arkansas Tax withheld on your W-2(s). You have already paid this amount of tax during the year. If you have MORE THAN ONE W-2, be sure to combine the Arkansas Income Tax withheld on all W-2(s). Enter the total withheld.

IF YOU AND YOUR SPOUSE ARE FILING ON THE SAME RETURN, add the Arkansas State Income Tax withheld on all your W-2(s). Enter the combined total withheld.

If you did not receive (or lost) your W-2(s) and Arkansas tax was withheld from your income, **ask your employer(s)** for copies of your W-2(s).

If you have made a reasonable effort to get your W-2(s) and still do not have one, complete a Federal Form 4852. On the Federal Form 4852, report the amount of Arkansas State Income Tax withheld. Attach a copy of a check stub or other documentation to support your amounts.

CAUTION: *You WILL NOT receive credit for tax withheld or receive a tax refund, unless you attach CORRECT AND LEGIBLE W-2(s) or other documentation to your tax return.*

DO NOT include FICA, Federal Income Tax, or tax paid to another state on Line 45.

DO NOT correct a W-2 yourself. Your employer must issue you a corrected W-2.

LINE 46. If you made an Estimated Declaration and paid estimated tax payments on 2006 income OTHER THAN wages, salaries, tips, etc., write the amounts paid in this space. The only amounts to enter here are payments you made on a 2006 Declaration of Estimated Income Tax (includes January 15, 2007 installment and/or credit brought forward from 2005 tax return).

DO NOT include PENALTIES OR INTEREST as part of the amount paid.

If you and your spouse filed a JOINT declaration and you and your spouse choose to file your annual returns on separate forms this year, payments made under the joint declaration of estimate will be credited to the primary filer.

NOTE: ***If you are filing prior year tax returns past the due date of the tax return, the refund/overpayment from those tax returns cannot be carried forward as estimated tax.*** *These amounts will be refunded to you. If you were due a refund from a prior year return and did not receive it, do not list that amount on the estimated carry forward line of your current year tax return. (Contact the Individual Income Tax Section concerning the status of the prior year refund.)*

LINE 47. If you filed an extension request with the state and paid tax with your request, enter the amount paid.

LINE 48. Enter the **APPROVED** early childhood credit (twenty percent (20%) of the Federal Child Care Credit) for individuals with a dependent child placed in an **APPROVED** Child Care Facility while the parent or guardian worked or pursued gainful employment. (An approved child care facility is a facility approved by the Arkansas Department of Education as having an appropriate Early Childhood Program as defined by Arkansas law.) Enter the certification number and attach Federal Form 2441 **or** 1040A, Schedule 2 **and** Certification Form AR1000EC. **Contact your child care facility for Form AR1000EC.**

LINE 49. Add the amounts on Lines 45, 46, 47 and 48. This is your **TOTAL TAX PAID.**

FIGURE YOUR TAX DUE OR TAX REFUND

LINE 50. If Line 49 is more than Line 44 on the AR1000 or Line 44D on the AR1000NR, you overpaid your tax. Write the difference on Line 50. If you want a refund only, skip Lines 51 and 52 and enter the amount of your refund on Line 53.

If you itemized on your 2005 federal income tax return and you received a refund for state taxes paid in 2005, you may be required to claim all or part of the refund as income on your 2006 federal income tax return. Consult federal income tax instructions for further information.

LINE 51. You can apply part or all of the tax you OVERPAID in 2006 to your tax in 2007. Enter the amount you want carried forward. The overpayment will be applied directly to your 2007 Estimated Account. If you wish to apply only part of Line 50 to pay 2007 tax, you will be issued a refund for the balance of your overpayment.

NOTE: *The amount you carry over to pay 2007 taxes will* ***only be credited to the primary filer.*** *It cannot be divided between the primary filer and spouse.*

LINE 52. If you wish to contribute a portion or all of your overpayment to the Arkansas Disaster Relief Program, the U.S. Olympic Committee Program, the Arkansas Schools for the Blind and Deaf, the Baby Sharon's Children's Catastrophic Illness Program, the Organ Donor's Awareness Education Program, the Area Agencies on Aging Program, or the Military Family Relief Program, complete Schedule AR1000-CO and enter total amount of your donation(s). **Attach Schedule AR1000-CO after the AR2/NR2.**

LINE 53. Subtract Lines 51 and 52 from Line 50. This is the amount of your **Refund**. If your refund is less than $1.00, you must write a letter requesting the refund.

The Director is allowed 90 days from the return due date or the date the return was filed, whichever occurs later, to refund an overpayment of tax without interest (Act 262 of 2005).

SET OFF REFUNDS

If you, your spouse, or former spouse owes a debt to the Department of Finance and Administration, state supported colleges, universities, and technical institutes, Office of Child Support Enforcement, the Department of Human Services, the Department of Higher Education, Arkansas circuit, county, district, or city courts, the Employee Benefits Division of the Department of Finance and Administration, any housing authority, or the Office of Personnel Management of the Department of Finance and Administration and you have filed an Arkansas State Income Tax return, your refund is subject to being withheld to satisfy the debt. You may have all or part of your income tax refund withheld.

If your refund has been applied to a debt of one of these agencies, you will receive a letter advising which agency has claimed all or part of your refund. If the debt has already been satisfied, **it is the agency's responsibility to refund any set off amount paid to the agency in error.** Contact the agency at the telephone number furnished to you on your "Adjustment Letter" to resolve any questions or differences.

If you owe a debt for Arkansas income tax, your federal refund may be captured to satisfy your state income tax debt.

NOTICE TO MARRIED TAXPAYERS:
If only one of the married taxpayers owes the debt, the taxpayer who is not liable can avoid having his/her refund applied to the debt if both taxpayers file Status 5, married filing separately on different returns.

LINE 54. If Line 44 of the AR1000 or Line 44D of the AR1000NR is more than Line 49, you have additional tax to pay. Subtract Line 49 from Line 44 of the AR1000 or Line 44D of the AR1000NR. Write the amount on Line 54. This is the **TAX YOU OWE**.

You may have to pay a penalty if the tax you owe is more than $1,000, and you did not file a Declaration of Estimated Tax, or you did not pay adequate installments on your estimated tax.

LINE 55A. Enter the exception number from Part 3, or the computed penalty from Line 18 of AR2210 in the appropriate box.

NOTE: *Form AR2210 must be attached **and** the exception number entered in the box on Line 55A to claim any exclusion from the Underestimate Penalty.*

LINE 55B. Enter amount of penalty from Line 18, Form AR2210.

LINE 55C. Add Lines 54 and 55B. Enter total on this line.

Attach a check or money order to your return. Write your Social Security Number on the check or money order, and make your check payable to the Department of Finance and Administration. Mail on or before April 15, 2007. Taxpayers may pay their tax due by credit card. Credit card payments may be made by telephone, by calling **1-800-2PAY-TAX**SM *(1-800-272-9829)*, or over the Internet by visiting **www.officialpayments.com** and clicking on the "Payment Center" link.

Both options will be processed by Official Payments Corporation, a private credit card payment services provider. A convenience fee will be charged to your credit card for the use of this service. The State of Arkansas does not receive this fee. You will be informed of the exact amount of the fee before you complete your transaction. After you complete your transaction you will be given a confirmation number to keep with your records.

If the tax you owe is less than $1.00, no remittance is required.

NOTE: *Do not send currency or coin by mail.*

LINE 56. Enter the total amount from Form AR4, Part III in the space provided.

Your tax return will not be legal and cannot be processed unless you SIGN IT. Write in the DATE. If you and your spouse are filing a joint tax return or filing separately on the same return, both of you must sign it.

If someone else prepares your return, that person must sign and complete the Preparer Information section on page AR2/NR2. If you prepare your own return, **DO NOT** use this section.

INSTRUCTIONS FOR ITEMIZED DEDUCTIONS (FORM AR3)

MEDICAL AND DENTAL EXPENSES

List only amounts you paid and for which you were not reimbursed.

LINE 1. Enter total medical and dental expenses, less reimbursements from insurance or other sources. Include amounts you paid for doctors, dentists, nurses, hospitals, prescription medicine, and insulin. Also include the amount you paid for insurance premiums for medical and dental care, amounts paid for transportation and lodging, and other expenses such as hearing aids, dentures, eyeglasses and contact lenses.

LINE 2. Enter total amount from Form AR1000/AR1000NR, Line 28(A) and 28(B).

LINE 3. Multiply Line 2 by 7.5% (.075).

LINE 4. Subtract Line 3 from Line 1.

TAXES

LINE 5. You may deduct taxes you paid on property you own that was not used for business. Do not include any special assessment or levy taxes.

You cannot deduct Arkansas income taxes, sales tax, federal income taxes, estate taxes, improvement taxes, federal Social Security taxes, hunting and fishing licenses, dog licenses, cigarette and beverage taxes, or car tags.

LINE 6. You may deduct personal property taxes, taxes paid to a foreign country on income taxed on this return, and/or city income tax.

LINE 7. Add the amounts on Lines 5 and 6.

INTEREST EXPENSE

LINE 8. You may deduct the home mortgage interest paid to a bank or other financial institution.

The deduction is generally limited to interest attributable to a debt for not more than the cost of the principal, and/or second residence, plus improvements.

LINE 9. Deduct home mortgage interest paid to an individual on this line, and list that person's name and address.

LINE 10. Enter the amount of deductible points on this line. Deductible points are those that:

1. Are incurred in the purchase or improvement of the taxpayer's principal residence;
2. Reflect an established business practice of charging points in the geographical area where the loan is made; **and**
3. Do not exceed the number of points generally charged for the type of transaction. (Points paid in refinancing a mortgage must be amortized over the life of the loan.)

NOTE: *In order to deduct the full amount of the points paid, payment of the points must be made from separate funds brought to the loan closing.*

LINE 11. Enter deductible investment interest. The deduction is limited to the amount of investment income. Interest that is disallowed because of the limitation can be carried forward to the next year and deducted to the extent of the limitation in the carryover year. Attach Federal Form 4952.

LINE 12. Add Lines 8, 9, 10 and 11.

CONTRIBUTIONS

LINE 13. Enter the total contributions you made by cash or check. If you gave $3,000 or more to any one organization, list the donee and amount given. If you have non-cash contributions of $500 or more, attach Federal Form 8283.

LINE 14. In addition to other contributions, a deduction is allowed for the donated value of artistic, literary, and musical creations. The following qualifications must be met in order for the deduction to be allowed:

1. The taxpayer making the donation must have derived at least fifty percent (50%) of his/her current or prior year income from an art related profession.
2. The fair market value of the art work must exceed $1,000 and be verified by an approved independent appraiser.
3. The taxpayer must attach the donation receipt with estimated value or appraisal document.
4. The donation must have been made to a museum, art gallery, or non profit charitable organization located in Arkansas and qualified under Section 501(C)(3) of the Internal Revenue Code.
5. The donated art work cannot exceed fifteen percent (15%) of taxpayer's gross income for calendar year of donation.

LINE 15. Deduct any check-off contributions made on your 2005 Arkansas return to the Arkansas Disaster Relief Program, the U.S. Olympic Committee Program, the Arkansas Schools for the Blind and Deaf, the Baby Sharon's Children's Catastrophic Illness Program, Organ Donor Awareness Education Program, Area Agencies on Aging Program, or Military Family Relief Program.

LINE 16. List other deductible contributions:

1. Unreimbursed amounts spent to maintain an elementary or high school student (other than a dependent or relative) in a taxpayer's home under a program sponsored by a charitable organization.
2. A gift of property to a non-profit organization. Attach a description of the property, date of gift, and method of valuation. For each gift in excess of $500, list any conditions attached to the gift, manner of acquisition, and cost or basis if owned by you for less than five (5) years. Attach a signed copy of appraisal.

NOTE: *Payments to private academies or other schools for the education of dependents are not deductible as contributions.*

LINE 17. If you made contributions in excess of fifty percent (50%) of your adjusted gross income, you may carry the excess deduction over for a period of five (5) years.

If you are deducting an excess contribution from a previous year, enter the amount and year of the original contribution.

LINE 18. Add lines 13, 14, 15, 16 and 17.

CASUALTY AND THEFT LOSSES

LINE 19. The method of computing casualty or theft losses is the same as Federal method (with the $100 exclusion). Attach Federal Form 4684 and supporting documents. The amount of each loss must exceed ten percent (10%) of your adjusted gross income.

If you have a Disaster Loss in 2007 on property located in an area designated by the President of the United States as a disaster area, you may elect to deduct the loss as an itemized deduction in 2006. Attach a Federal schedule listing the disaster loss. If you elect to report the loss on your 2006 return, you cannot report the loss on your 2007 return.

A disaster loss is the only loss which may be carried back. You may amend your 2005 return to report a disaster loss incurred in 2006. If you elect to amend your 2005 return, you cannot report the loss on your 2006 return.

LINE 20. List your Post-Secondary Education Tuition Deduction and attach Form AR1075(s).

MISCELLANEOUS DEDUCTIONS SUBJECT TO THE 2% AGI LIMITATIONS

LINE 21. List unreimbursed employee business expenses. Attach Federal Form 2106. Arkansas recognizes the federal mileage allowance for computing business travel expenses.

LINE 22. Other deductions, include (a) union or professional dues, (b) tax return preparation fees, (c) expenses for safety equipment, (d) expenses of entertaining customers (e) tools and supplies, and (f) fees paid to employment agencies. Attach supporting schedule or statements.

LINE 23. Add Lines 21 and 22.

LINE 24. Enter combined amount from Form AR1000/AR1000NR, Lines 28(A) and 28(B).

LINE 25. Multiply Line 24 by 2%.(.02).

LINE 26. Subtract Line 25 from Line 23. This amount is your total allowable miscellaneous deductions.

OTHER MISCELLANEOUS DEDUCTIONS

LINE 27. Enter on this line the amount of miscellaneous deductions not subject to the 2% AGI limit. Attach detailed schedule of each deduction.

LINE 28. Add Lines 4,7,12,18,19,20,26 and 27. If the amount(s) on AR1000/AR1000NR Line 28(A) and 28(B) are greater than $150,500 ($75,250 if married filing separately on separate returns), then complete the itemized deduction worksheet to calculate the amount you may deduct.

PRORATED ITEMIZED DEDUCTIONS

LINE 29. If you are filing separately, Status 4 or 5, you must prorate your itemized deductions between spouses. Enter your AGI from Line 28, Column (A) and your spouse's AGI from Line 28, Column (B) of the AR1000/AR1000NR.

LINE 30. Add Lines 29(A) and 29(B).

LINE 31. Divide Line 29(A) by Line 30 and enter the percentage here. Round to the nearest whole percent.

LINE 32. Multiply the total itemized deductions reported on Line 28 by your percentage in Line 31. Enter result here and on AR1000/AR1000NR, Line 29, Column (A).

LINE 33. Subtract Line 32 from Line 28. Enter result here and on AR1000/AR1000NR, Line 29, Column (B). If you and your spouse are using Filing Status 5, this is the amount of the total itemized deductions your spouse is allowed to claim on his/her tax return.

WORKSHEET FOR TOTAL ITEMIZED DEDUCTIONS

(Keep for your records)

Page AR3, Line 28

Taxpayers with higher incomes may not be able to deduct all of their itemized deductions. If the combined AGI amount on Form AR1000/ AR1000NR, Lines 27(A) and 27(B), is more than $150,500 ($75,250 if filing status 5), use the worksheet below to figure the amount you may deduct.

1. Add the amounts on page AR3, Lines 4, 7, 12, 18, 19, 20, 26, and 27, and enter the total .... 1. ______________

2. Add the amounts on page AR3, Lines 4, 11, and 19, plus any gambling losses included on Line 27 and enter the total .... 2. ______________

3. Is the amount on Line 2 less than the amount on Line 1?

   ☐ **NO.** Your deduction is not limited. Enter the amount from Line 1 above on Form AR3, Line 28.

   ☐ **YES.** Subtract Line 2 from Line 1 .... 3. ______________

4. Multiply the amount on Line 3 above by 80% (.80) and *enter the result* .... 4. ______________

5. Enter the amount from Columns (A) and (B) of AR1000/AR1000NR, Line 27. *(Enter total of columns A and B if filing Status 4)* .... 5. ______________

6. Enter $150,500 if filing status is 1, 2, 3, 4 or 6 *($75,250 if filing status is 5)* .... 6. ______________

7. Is the amount on Line 6 less than the amount on Line 5?

   ☐ **NO.** Your deduction is not limited. Enter the amount from Line 1 above on Form AR3, Line 28.

   ☐ **YES.** Subtract Line 6 from Line 5 .... 7. ______________

8. Multiply the amount on Line 7 above by 3% (.03) and enter the result .... 8. ______________

9. Enter the **SMALLER** of Line 4 or Line 8 .... 9. ______________

10. **Total Itemized Deductions**. Subtract Line 9 from Line 1. *Enter the result here and on page AR3, Line 28. See* ***Note*** *below.* .... 10. ______________

NOTE: Also enter on Form AR1000/AR1000NR, Line 29, the larger of the amount you entered on page AR3, Line 28, or your standard deduction.

SELF-EMPLOYED HEALTH INSURANCE DEDUCTION

(Keep for your records)

1. Enter the amount paid in 2006 for health insurance for you, your spouse, and your dependents. .... 1 ______________

2. Enter your net profit and any other income* from the business under which the insurance plan is established, less any deductions you will claim on **Form AR1000ADJ, Line 8**. .... 2 ______________

3. Enter the smaller of Line 1 or Line 2 here and on **Form AR1000ADJ, Line 7**. (Do not include this amount in figuring your medical expense deduction on the Itemized Deduction Schedule.) ... 3 ______________

**Earned income includes net earnings and gains from the sale, transfer, or licensing of property you created. It does not include capital gain income. If you were more than a 2% shareholder in an S Corporation, earned income is your wages from that corporation.*

STUDENT LOAN INTEREST WORKSHEET

1. Enter the total interest you paid in 2006 on qualified student loans .... 1 ___________
2. Enter the smaller of Line 1 above or $2,500. .... 2 ___________
3. Enter the amount(s) from AR1000/AR1000NR, Line(s) 23A and 23B .... 3 ___________
4. Enter AGI amount without regard to the Deduction for Interest Paid on Student Loans, Line 4, AR1000ADJ .... 4 ___________
5. Modified AGI. Subtract Line 4 from Line 3 .... 5 ___________
   Note: If line 5 is $65,000 or more and you are filing Status 1, 3, or 6 **or** $135,000 or more and you are filing Status 2 or 4, **STOP HERE,** you **cannot** take the deduction.
6. Enter: $50,000 if filing Status 1, 3, or 6; $105,000 if filing Status 2 or 4 .... 6 ___________
7. Subtract Line 6 from Line 5.
   If zero or less, enter -0- here and on Line 9, skip Line 8, and go to Line 10.......................... 7 ___________
8. Divide Line 7 by $15,000 ($30,000 if filing status 2 or 4.)
   Enter result as a decimal (rounded to at least three places) .... 8 ___________
9. Multiply Line 2 by Line 8 .... 9 ___________
10. Allowable Deduction: Subtract Line 9 from Line 2.
    Enter result here and on Form AR1000ADJ, Line 4. .... 10 ___________

IRA PHASE OUT CHART

IF YOUR FILING STATUS IS:	YOUR ALLOWABLE IRA DEDUCTION	
	Phases Out When AGI Exceeds:	Will Be Zero When AGI Is:
Single, Head of Household	$50,000	$60,000
Married Filing on Same Return (Status 2 or 4), or Qualifying Widow(er)	$75,000	$85,000
Married Filing on Separate Returns	$0	$10,000
Nonactive Spouse (Income Computed Jointly)	$150,000	$160,000

MILEAGE AND DEPLETION ALLOWANCES

Mileage Allowance

Business ....44.5 cents per mile
Charitable ....14 cents per mile
Mail Carrier (rural): ....Reimbursement received
Medical and Moving....................18 cents per mile

Depletion Allowance

Depletion (gas and oil)................Same as Federal
(15% for most gas and oil production)

McFADDEN vs. WEISS LAWSUIT INFORMATION

The court ordered the state to make refunds to retirees who had any unrecovered cost of contribution as of January 1, 1999.

The costs of contributions to be recovered were from after tax contributions to your retirement plan. The court ordered that the recovery be paid using “front end loaded” payments.

This means that any cost remaining unrecovered on January 1, 1999, was to be recovered in full by offsetting the front end loaded recovery figure against previously reported annuity amounts.

Therefore, the recovery shown on the letter you received is not an amount that is shown on any federal or state income tax return you have filed, or will file.

Federal rules for recovery of cost were used to calculate your unrecovered cost of contribution as of January 1, 1999.

The information used to calculate refunds was supplied by the McFadden Retiree Claim Form you submitted.

For retirees receiving benefits from federal retirement system paid through OPM, your refund was calculated using data supplied by OPM.

MCFADDEN CLAIMANT WORKSHEET

1. Enter your total cost of contributions to your retirement plan ....1 _________
2. Enter amount of federal cost recovery used prior to 1999 tax year (Commencement date through December 31, 1998)......2 _________
3. Enter amount of allowable adjustments under McFadden v. Weiss..........................3 _________
4. Subtract Lines 2 and 3 from Line 1 (If zero or less, enter -0-)..4 _________

   Note: If Line 4 is -0-, you do not have any Arkansas basis in your plan.
5. Enter total of cost recovery claimed on your 2003 through 2005 Arkansas returns....5 _________
6. Subtract Line 5 from Line 4 (If zero or less, enter -0-)..6 _________

   Note: If Line 6 is -0-, you do not have any Arkansas basis in your plan.
7. Enter amount of cost recovery for 2006 from your 1099R or by using the Simplified Method................7 _________
8. Enter the lesser of Line 6 or Line 7 ....8 _________

   Note: This is your allowable cost recovery deduction for 2006. Subtract this amount from your gross distribution to determine your taxable amount before your $6,000 exemption.
9. Subtract Line 8 from Line 6 (If zero or less, enter -0-)..9 _________

   Note: This is your cost of contribution carryover. If Line 9 is -0-, you do not have a carryover.

MAPLES vs. WEISS LAWSUIT INFORMATION

BEFORE YOU MAIL YOUR RETURN

This checklist is to help you make sure that your form is filled out correctly. Errors may delay your refund.

- ☐ 1. Is your name and address correct on the preprinted label? If not, did you enter the name(s) and address for you and your spouse in the space provided?
- ☐ 2. Did you enter the Social Security Number(s) for you and your spouse in the space(s) provided?
- ☐ 3. Did you use the correct filing status column and the correct taxable income to find your tax from the tax table?
- ☐ 4. Did you attach all W-2(s) and 1099 Forms?
- ☐ 5. Did you add and subtract correctly when calculating your refund or amount you owe?
- ☐ 6. Did you sign and date your return?
- ☐ 7. If you are filing Form AR1000NR, did you attach a copy of your federal return?
- ☐ 8. Did you keep a complete copy of your return for your records?
- ☐ 9. Have you mailed your return by APRIL 15, 2007?

IN CASE THE IRS AUDITS YOU

If the Internal Revenue Service examines your return for any tax year and changes your net taxable income, you must report the changes to the Arkansas Department of Finance and Administration within thirty (30) days from the receipt of the notice and demand for payment by the Internal Revenue Service.

File Arkansas Form AR1000A/AR1000ANR Amended Individual Income Tax Return, for the year(s) involved reporting the changes to your state return. Attach a copy of the federal changes.

If you fail to notify this Department within thirty (30) days and do not file the required amended return, the Statue of Limitations will remain open for eight (8) years on the year(s) in question. Additional interest will be figured on any tax you owe the State of Arkansas.