ARKANSAS

2022

Sub-Chapter S
Corporation Income Tax Instructions

Due Date: On or before the 15th day of the 4th month following the close of the tax year, for calendar year filers the due date is April 15th.

Simple Reasons to e-file!

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

Arkansas e-file

Mailing Address:
State of Arkansas
Corporation Income Tax Section
P.O. Box 919
Little Rock, Arkansas 72203-0919

Physical Address:
Corporation Income Tax
1816 W 7th St, Room 2250
Ledbetter Building
Little Rock, AR 72201-1030

TAX HELP AND FORMS

Internet

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

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

You can e-mail questions to:

corporate.income@dfa.arkansas.gov

Phone

General Information..(501) 682-4775

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

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

Other useful phone numbers:

Tax Credits..................................... (501) 682-7106
Withholding Tax .... (501) 682-7290
Collections .... (501) 682-5000
Revenue Legal Counsel .... (501) 682-7030
Individual Income Tax .... (501) 682-1100
Sales and Use Tax.......................... (501) 682-7104
Problem Resolution and .... (501) 682-7751
Tax Information Office (Offers In Compromise)

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

Forms

To obtain a booklet or forms you may:

1. Access our website at:
https://www.dfa.arkansas.gov/income-tax/corporation/corporation-forms/
2. Call: (501) 682-4775

ATAP

Arkansas Taxpayer Access Point (ATAP) allows taxpayers or their representatives to log on to a secure site and manage their account online.

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

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

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

Mail

Corporation Income Tax Section
P. O. Box 919
Little Rock, AR 72203-0919

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

Walk-In

Representatives are available to assist walk-in taxpayers with corporate 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 Corporate Income Tax Office is located at:
1816 W. 7th Street, Room 2250
Ledbetter Building, Litte Rock, Arkansas 72201

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

CONTENTS

Tax Help and Forms 2
What's New for 2022 4
Important Reminders for 2022 5-7
Instructions:
Subchapter S Corporation Election and Instructions 8-9
Filing as a Subchaper S Corporation 9-11
Specific Line Instructions, AR1100S Return 11-19
Financial Institutions 20
Business Incentive Tax Credits 21-28

WHAT'S NEW for 2022

NOTE: The following is a brief description of Acts affecting Arkansas Corporation Income Tax and is not intended to replace a careful reading of each Act in its entirety.

Tax rate and other important changes

Act 822 of 2019 amends Arkansas Code Annotated 26-51-205 to reduce the maximum corporation income tax rate to 6.2% for all taxable income that exceeds $100,000 for tax years beginning on or after January 1, 2021. For tax years beginning on or after January 1, 2022 the maximum tax rate shall be 5.9% for all income exceeding $25,000. The maximum tax rate for tax years beginning before January 1, 2021 is 6.5% for income exceeding $100,000.

Act 822 amends Arkansas Code Annotated 26-51-427 to allow net operating losses occurring in tax years beginning on or after January 1, 2020 to carry forward for 8 tax years and losses occurring in tax years beginning on or after January 1, 2021 to carry forward 10 years. Net operating losses that occur in tax years beginning before January 1, 2020 carry forward 5 tax years.

Acts 1 and 2 of the Third Extraordinary Session of 2021 amended Arkansas Code Annotated 26-51-205 to reduce the maximum corporation income tax rate to 5.3% for all taxable income exceeding $25,000 for tax years beginning on or after January 1, 2023. The maximum income tax rate for corporations will remain 5.9% for all taxable income exceeding $25,000 for tax years beginning on or after January 1, 2022 and beginning before January 1, 2023.

Acts 1 and 2 also amended Arkansas Code Annotated 26-51-428 to adopt Internal Revenue Code Annotated 26-51-428 as in effect on January 1, 2022 for tax years beginning on or after January 1, 2022. The adoption of Internal Code Section 179 will result in the Arkansas Section 179 deduction being raised from $25,000 per year to $1,080,000 for tax years beginning in 2022 and for the dollar-for-dollar phaseout being raised from $200,000 to $2,700,000. The lower limits will remain in place for years beginning prior to 2022, including any carryforward of Section 179 that could not be claimed in earlier years. Please refer to the line item instructions for Depreciation and the instructions for Form AR1100REC for further details.

IMPORTANT REMINDERS for 2022

For tax years beginning on or after January 1, 2016, Arkansas has adopted the due date of April 15th for calendar year filers.

Act 95 of 2020 created Arkansas Code Annotated 26-51-316 and exempts from Arkansas income tax payments made to a taxpayer by the United States Department of Agriculture under the Market Facilitation Program authorized by 15 U.S.C. §714c as it existed on January 1, 2020. Expenses for losses related to the receipt of a payment to a taxpayer under the Market Facilitation Program are not deductible or otherwise permitted to offset any other income from the tax year in which the loss or expenses are incurred. Act 95 of 2020 is effective for tax years beginning on or after January 1, 2020.

Act 248 of 2021 amended Arkansas Code Annotated 26-51-404(b) to add the following exclusions from gross income;

1. Title 15 U.S.C. § 626A(i) as in effect on January 1, 2021 exempts sums received under the Paycheck Protection Program of loan forgiveness as included in § 304(b), 276(a) and 276(b) of the Consolidated Incentive Act of 2021, Public Law 116-260.
2. Section 277 of the Consolidated Appropriations Act concerning the tax treatment of certain emergency financial aid grants to students.
3. Section 278 of the Consolidated Appropriations Act concerning the clarification of the tax treatment of certain loan forgiveness and other business financial assistance. Section 278 includes exemptions for Paycheck Protection Program loan forgiveness under section 1109(d)(2)(d) of the CARES Act, Economic Injury Disaster Loan grants also known as EIDL Grants from the Small Business Administration under section 1110(c) of the Cares Act and section 331 of the Hard-Hit Small Businesses, Nonprofits and Venues Act, Subsidies for certain SBA loan payments described in Section 1112(c) of the Cares Act and Grants for Shuttered Venue Operators under Section 324 of the Hard-Hit Small Businesses, Nonprofits and Venues Act.
4. Payments received under the Coronavirus Food Assistance Program described in 7 C.F.R. Part 9 as it existed on January 19, 2021.

Expenses related to the exclusion of income under Act 248 of 2021 are deductible. Income exempted under Act 248 of 2021 and Act 95 of 2020 must be added back in the calculation of net operating loss as required by Arkansas Code Annotated 26-51-427(2). Act 248 also includes language that any successor programs to the PPP loan forgiveness program will also be exempt and related expenses are also deductible. Therefore, and PPL loan forgiveness under the ARPA Act will also be exempt from Arkansas income tax and related expenses will be allowed as deductions.

There are a number of federal and state financial assistance programs that are not exempt from Arkansas income taxes. Among the assistance programs that are not exempt are several government assistance programs included in the American Rescue Plan Act (ARPA) such as;

1. the Restaurant Revitalization Fund Grants,
2. Rural Health Care and Development Grants,
3. USDA Grants and Loan Subsidies,
4. EIDL Grants under ARPA,
5. Emergency Rental Assistance under ARPA and the Consolidated Appropriations Act,
6. Aviation Manufacturing Job Protection Grants,
7. Airline and Airline Contractor Extended Payroll Support Program,
8. Arkansas Ready for Business Grants and
9. any other federal, state or local financial assistance program not specifically exempted by Arkansas law.

DFA has recently clarified that several federal tax credits created by ARPA are not taxable income and that related expenses are deductible in Arkansas. These include the Employee Retention Credits and the Employer Tax Credits for Paid Sick and Family Leave.

Act 143 of 2021 amends Arkansas Code Annotated 26-51-102 to include a definition for tax practitioner and Arkansas Code Annotated 26-51-806 to require a tax practitioner who files federal income tax returns electronically to also file Arkansas returns electronically and allows DFA to waive the requirement if the requirement would cause an undue hardship on the practitioner.

Act 362 of 2021 creates A new Chapter 65 to Arkansas Code Title 26 and creates the Elective Pass-Through Entity Tax for tax years beginning on or after January 1, 2022. Act 362 allows members holding 50% or more of a pass-through entity to elect to have the pass-through entity pay Arkansas income taxes itself instead of passing the income through to the members to pay income tax on their personal income tax returns or on a composite return. Act 362 also amends Arkansas Code Annotated 26-51-404 to exempt income subject to similar taxes in other states from Arkansas income tax for residents and part-year residents for tax years beginning in 2022 and after.

The Pass-through Entity Tax (PET) election must be made by the extended due date of the income tax return but may be made at any time prior by registering for the tax on combined registration forms or by completing Form AR362, or by registering for the tax in ATAP. Form AR362 for registration, Form AR1100PET, the income tax return and vouchers for estimated payments for the Pass-through Entity Tax are available on the DFA Web site. The election to be taxed at the entity level and the exemption from income tax of income subject to similar taxes in other states is not available for 2021. The tax rate for tax years beginning in 2022 was set at 5.9% on income other than capital gains and 2.95% for the Pass-through Entity Tax. However, Acts 1 and 2 of the Third Extraordinary Session of 2021 amended the tax rate to be equal to the maximum income tax rate for individual income taxes. Therefore, the tax rate for income other than capital gains for tax years beginning in 2022 is 4.9% and the tax rate for capital gains is 2.45%.

Sub-S Corporations that elect the PET tax for 2022 should not file Form AR1100S.

Act 629 of 2021 amends Arkansas Code Annotated 26-51-807(a) to allow taxpayers an extension to file of one month after the extended due date for a federal income tax return for tax years beginning on or after January 1, 2021. The one month extended due date does not apply to returns for which a federal extension is not requested and does not extend the original due date. As a reminder all tax payments are due on the original return due date and interest at 10% per annum and failure to pay penalties at 5% per month will be assessed on all taxes unpaid after the original due date which is April 15 for calendar year filers and the 15th day of the fourth month after the end of a tax year that does not end in December.

Act 48 of 2017 provides that Arkansas corporate income tax returns be filed by April 15th for calendar years beginning on and after January 1, 2016, and the 15th day of the 4th month following the end of the tax year for all fiscal year filers.

The AR1155 Arkansas Request for Extension now contains a Corporation Extension Payment Voucher included on the form to be used only with the Arkansas Extension form.

Act 434 of 2017 amends ACA 26-51-409(b) to require a corporation filing a federal Subchapter S income tax return to file an Arkansas Subchapter S income tax return. ACA 26-51-413(b) is repealed. Effective for tax years beginning on and after January 1, 2018. Arkansas no longer requires a separate election to be considered an S Corporation. Taxpayers will file the federal 1120S return along with the Arkansas AR1100S return and will be considered an S Corporation for Arkansas filing purposes.

Schedule A-Worksheet for Apportionment of Multistate Corporation has been changed. Part B Apportionment Factor, Line 1.c., is now the Total Property line.

The Arkansas K-1 form has been developed for Subchapter S corporations to report each shareholder's share of the corporation's income, deductions, credits, etc. The Arkansas Schedule K-1 (AR K-1) is required to be submitted. Adjustments to convert federal amounts may be necessary for a number of items including but not limited to capital gains, interest income, depreciation, Section 179 deductions, contributions and others. The amount reported for each shareholder should be the total Arkansas amount for an item of income, deduction or credit multiplied by the shareholders ownership percentage.

ATAP – Arkansas Taxpayer Access Point

Arkansas Taxpayer Access Point (ATAP) is available for the filing of most Arkansas Corporation Income Tax returns and tax payments. Federal returns and other required schedules must be attached with the ATAP filing or mailed separately to the Corporation Income Tax Section. They may be provided on CD, in PDF, or in paper form. The secure online filing, managing, and payment options of ATAP are available at www.atap.arkansas.gov. Taxpayers and their authorized representatives will be able to view and manage their Corporation Income Tax activity including other tax activity such as Individual Income Tax, Sales Tax, Withholding Tax, and other taxes administered by DFA.

Accountants and attorneys must obtain permission from their clients to access and view their client's accounts. ATAP is a web-based service that will give taxpayers, or their designated representative, online access to their tax accounts, and offers the following services:

Register a business, file a return online, file a return using XML return upload, change a name, change an address, amend a return, make a payment, store banking information for use during payment submission, view tax period financial information (tax, penalty, interest, credits, balance, etc.), view payment received, view recent account activity, view correspondence from the department.

If you are currently enrolled with our online systems to either make payments or file a return electronically, you will need to sign up in ATAP to take advantage of the enhanced services. To correctly process payments on ATAP, make sure you are choosing the correct type of payment and applying it to the correct tax year.

Subchapter S Corporation Election and Instructions

ACA 26-51-409(b) states that an election made under Subchapter S for federal income tax purposes is deemed to have been made for Arkansas income tax purposes. It also states that a corporation that has elected to be Sub S for federal purposes shall not elect to be treated as a C corporation for Arkansas income tax purposes.

Subchapter S of the Internal Revenue Code, 26 U.S.C. Section 1361 et seq., as in effect on January 1, 2019, has been adopted for the purposes of computing Arkansas income tax liability.

To be Recognized as an Arkansas S-Corporation

The following must be completed:

1. The business must register with the AR Secretary of State. (501) 682-3409 or www.sos.arkansas.gov
2. For tax years beginning before January 1, 2018 the business must file an Election by Small Business Form (Federal Form 2553) with the IRS; apply for a Federal Employer Identification Number (FEIN) (Form SS-4) and submit an Arkansas Election by Small Business Corporation (Form AR1103). You may apply online at IRS.gov or by calling 1-800-829-3676.
3. For tax years beginning on or after January 1, 2018, a Federal Subchapter S corporation must also file as an Arkansas S corporation; taxpayers are no longer allowed to file as a C corporation if filing as a Federal S corporation.

For tax years beginning before January 1, 2018, a corporation may elect to be treated as a "Small Business (S) Corporation" for Arkansas income tax purposes. The election may be made only if the corporation meets all of the following requirements:

1. It is treated as a Small Business Corporation with the Internal Revenue Service (IRS).
2. It has no more than one hundred (100) shareholders. Members of a family (and their estates) can be treated as one shareholder for this requirement. All other persons are treated as separate shareholders.
3. It must be a corporation organized or created under the laws of the United States, a state, or territory, or it is a similar association taxed as a corporation.
4. Its shareholders are individuals, estates and certain trusts described in IRC 1361. A shareholder cannot be a Corporation or Partnership.
5. It has no nonresident alien shareholders.
6. It has only one class of stock.
7. It is not an ineligible corporation as defined in IRC 1361.
8. Banks may elect S Corp status even though the bank stock is owned by an individual's IRA rather than the individual.

To expedite processing of the AR1100S, it is essential that the following items are completed:

A. Tax Year Beginning and ending date
B. Corporation name, address, city, state, zip code
C. Date of Incorporation
D. FEIN (Federal Identification Number)
E. NAICS Code (same as on Federal return)
F. Date began business in Arkansas
G. Filing Status (check only one box)
H. Type of corporation (check only one box)

Filing Declaration of Estimated Income Tax

Every taxpayer who can reasonably expect to owe Arkansas income tax in excess of $1,000 must make an estimate and pay in equal installments tax due thereon. The declaration shall be filed with the Commissioner of Revenue on or before the 15th day of the 4th month of the income year of taxpayer. Taxpayers whose income from farming for the income year can reasonably be expected to amount to at least two-thirds (2/3) of the total gross income from all sources for the income year, may file such declaration and pay the estimated tax on or before the 15th day of the 2nd month after the close of the income year. In lieu of filing any declaration, the taxpayer may file an income tax return and pay the tax on or before the 15th day of the 4th month after the close of the income year.

NOTE: *Estimate payments made on composite returns (AR1000CR) should be made to the* ***Individual Income Tax Section on the AR1000CRES Voucher.***

For proper processing please verify you are choosing the correct payment type and applying it to the correct tax year with the correct voucher.

If the corporation is the Parent of one or more Qualified Subchapter S Subsidiaries (QSSS), the Parent must file the AR1100S return and include schedules for the Q Subs in the Parents return. Attach a schedule to the Parent's Arkansas S return, Form AR1100S, listing all QSSS entities included in the Arkansas S return. The schedule must list the entity by name and the entity's federal employer identification number (FEIN) or if the entity does not have an FEIN, state "NO FEIN". A QSSS may not file an Arkansas Corporation income tax return.

Act 1041 of 2021 repeals the Small Business Entity Tax Pass-Through Act in Arkansas Code Title 4, Chapter 32 and creates the Uniform Limited Liability Company Act in a new Chapter 37 of Arkansas Code Title 4. The Act specifies that a Limited Liability is classified and taxed in the same manner for Arkansas purposes as it is for Federal income tax purposes unless it elects to be taxed under the Elective Pass-Through Entity Tax Act, Act 362 of 2021.

Act 362 of 2021 creates A new Chapter 65 to Arkansas Code Title 26 and creates the Elective Pass-Through Entity Tax for tax years beginning on or after January 1, 2022. Act 362 allows members holding 50% or more of a pass-through entity to elect to have the pass-through entity pay Arkansas income taxes itself instead of passing the income through to the members to pay income tax on their personal income tax returns or on a composite return. Act 362 also amends Arkansas Code Annotated 26-51-404 to exempt income subject to similar taxes in other states from Arkansas income tax for residents and part-year residents for tax years beginning in 2022 and after. The pass-through entity tax election must be made by the extended due date of the income tax return, but may be made at any time prior by registering for the tax on combined registration forms or by completing Form AR362. Form AR362 and vouchers for estimated payments for the Pass-through Entity Tax are available on the DFA website. The election to be taxed at the entity level and the exemption from income tax of income subject to similar taxes in other states is not available for 2021

The Arkansas Business Corporation Act amended **(ACA 4-26-101)**, the Small Business Entity Tax Pass Through Act **(ACA 4-32-101)** concerning Limited Liability Companies (LLCs), and enacts the Uniform Partnership Act and the Revised Limited Partnership Act to allow any business entity to convert or merge with any other business entity. The franchise tax provisions are amended to apply to LLCs.

Failure to report and remit on the part of any non resident shareholder shall be grounds upon which the Director may revoke the Corporation's Subchapter S election and collect the tax from the Corporation by any manner authorized by the Arkansas Income Tax Act of 1929 as amended (ACA 26-51-409(c)(2).

General Information on Filing As A Subchapter S Corporation

ACA 26-51-409(B)(3) requires a Subchapter S corporation to attach a copy of its Federal income tax return.

Who Must File

Every corporation organized or registered under the laws of this state, or having income from Arkansas Code Section 26-51-201 (with the exception of those corporations exempted by Arkansas code Section 26-51-303 must file an income tax return). Corporations must file Form AR1100S if:

They are considered to be a Subchapter S corporation with the IRS and the election remains in effect. Corporations filing a Composite Return must file on an AR1000CR and file it with the Individual Income Tax Section. If you have questions regarding Composite returns, you can reach the Individual Tax Section at (501) 682-1100 or **https://www.dfa.arkansas.gov/income-tax/composite-filing/ (ACA 26-51-919)**

Pass-Through Entities Required To Withhold Income Tax

Pass-through entities are required to withhold income tax on the applicable distributions to non resident individuals that are attributable to income from other souces within the state. A pass-though entity is a business entity (corporation treated as a Subchapter S corporation, a general partnership, limited liability company, or a trust) **that is not taxed as a corporation for federal or Arkansas income tax purposes.**

ACT 760 of 2017 amends ACA 26-51-919(a)(2),(b)(I), (A)(i), (c)(5)(A), and (d) for the income tax withholding requirements for members or owners of a pass-through entity to require withholding on corporate partners and to allow corporate partners to participate in composite returns. Effective for tax years beginning on and after January 1, 2018.

The pass-through entity is required to file an annual return that shows the total amount of income distributed or credited to its nonresident members and the amount of tax withheld and remit the tax on behalf of the nonresident member no later than the 15th day of the 4th month following the end of the tax year.

A pass-through entity is not required to withhold tax for a nonresident if:

1. The member's share of income is less than $1,000;
2. The member's income is not subject to withholding;
3. The member elects to have the tax paid as part of a composite return filed by the pass-through entity as allowed by the act;
4. The entity is a publicly traded partnership as defined by IRC 7704(b) that is treated as a partnership for federal tax purposes and has agreed to file an annual information return reporting the name, address, and taxpayer identification number of each member with Arkansas income greater than $500;
5. The entity has filed the member's signed agreement to file and pay Arkansas nonresident income tax; or
6. The member's income is exempt from Arkansas income tax pursuant to ACA 26-51-202(e).

Time for Filing

Form AR1100S is due on or before the 15th day of the 4th month following the close of the Corporation's tax year.

Extension of Time for Filing

If you have received an automatic Federal extension (Form 7004), the time for filing your Arkansas Corporation Income Tax Return shall be extended until the due date of your Federal Return for a US domestic corporation. When filing the Arkansas AR1100S, check the box at the top indicating that the Federal Extension Form 7004 **and/or** Arkansas Extension Form AR1155 has been filed and file the Arkansas return on or before the Federal due date. It is no longer necessary to include a copy of the Federal Form 7004. To request an initial Arkansas extension of 180 days from the original Arkansas return due date **or** an Arkansas extension of 60 days beyond the Automatic Federal extension due date, complete and mail Arkansas Form AR1155 Request for Extension of Time for Filing Income Tax Returns by the due date or, if applicable, the extended due date of the Arkansas return to the Corporation Income Tax Section.

Arkansas extension(s) must be attached to the Arkansas income tax return. Interest at 10% per annum is due on all returns (including those with extensions) if the tax is not paid by the original return due date. Interest will be computed on a daily rate of .00027397. To avoid interest and/or penalty, any tax due payment must be made on or before the 15th day of the 4th month following the close of the Corporation's tax year. Attach your check to the Extension Voucher attached to Form AR1155 if requesting an Arkansas extension.

The annual income tax return of a Subchapter S Corporation is to be submitted on Form AR1100S. Generally, a "Subchapter S" election permits the taxable income of the Subchapter S Corporation to be taxed to the shareholders rather than to the corporation. All resident and nonresident shareholders of S Corporations doing business in Arkansas must file a properly executed Arkansas Income Tax Return with the Department of Finance and Administration. Arkansas income tax must be paid on the shareholders' taxable income on an Arkansas AR1000, an AR1000NR for non resident filers or AR1000CR if filing on a Composite return with Arkansas Individual Income tax.

Period Covered/Accounting Method

A corporation must calculate its Arkansas Taxable Income using the same income year and accounting method for Arkansas tax purposes as used for Federal income tax purposes. For tax years beginning after 1986, all S Corporations are required to have a permitted tax year. A permitted tax year is a tax year ending December 31st or any other tax year for which the S Corporation established a business purpose.

The corporation must provide to the Commissioner a copy of any certification or approval from the Internal Revenue Service authorizing the corporation to change its accounting method or income year.

Signatures and Verification

ACA 26-51-804 (b) provides, the President, Vice-President, Treasurer, or other principal officer shall certify the return. Such agent may certify the return of a foreign corporation having an agent in the state. If receiver, trustee in bankruptcy, or assignee are operating the property or business of the corporation, such receiver, trustee, or assignees shall execute the return for such corporation under certification.

Change in Federal Taxable Income

Revenue Agent Reports (RARs) must be reported to this state within 180 days after the receipt of the RAR or supplemental report reflecting correct net income of taxpayer. Amended returns must be filed with payment of any additional tax due. **ACA 26-18-306(b)(3)(B)** states that a refund shall not be paid if the amended return is filed on or after the 181st day following receipt of the notice from the IRS. Any additional tax and interest must be paid with the amended return or a refund must be requested on an amended return if applicable. Statute of Limitations will remain open for three (3) years for assessment of tax if the taxpayer fails to disclose Federal Revenue Agent Reports.

Penalties and Interest

The following penalties shall be imposed:

- Failure to file timely - 5% per month not to exceed 35%.
- Failure to make timely remittance - 5% per month not to exceed 35%.
- Underestimate penalty - 10% of the amount of the underestimate.
- Failure to file return - $50.00.
- Failure to make required EFT payment - 5% of the tax due.
- Incomplete electronic payment -10% of the amount of the draft or $20.00, whichever is greater.
- Failure to Comply - $50.00.

Liability for Filing Returns

Every corporation organized or registered under the laws of this State, or having income from Arkansas sources as defined in **ACA 26-51-205,** must file an income tax return.

Balance Sheet

The balance sheet submitted with the return should be prepared from the books and should agree therewith, or any difference should be reconciled. All corporations engaged in an interstate trade or business, and reporting to the Surface Transportation Board and to any national, state, municipal, or other public office, may submit copies of their balance sheets prescribed by said Board, or state and municipal authorities, as of the beginning and end of the taxable year. If the balance sheet as of the beginning of the current taxable year does not agree in every respect with the balance sheet which was submitted as of the end of the previous taxable year, a reconciliation schedule should be submitted with the return. Balance sheets as of the beginning and close of the year and a reconciliation of surplus must be attached to the return.

General Instructions

Specific Line Instructions for Page 1 of AR1100S Return

Type Return

Whether the S Corporation is filing an Initial Return (first time filing), an Amended Return (making changes to an original return), a Final Return (going out of business), or filing as a Cooperative Association, clearly mark the AR1100S by checking the applicable box at the top of the form.

Income

CAUTION: *Report only trade or business activity income or loss on Lines 7 through 12. Do not report rental activity or portfolio income or loss on these lines. Report the Arkansas portion of rental income and expenses and portfolio income and expenses distributable to each shareholder on the Schedule AR K-1.*

Line 7 - Gross Sales

If engaged in trading or manufacturing, enter on page 1 of return, the gross receipts, less goods returned and any allowances or discounts from the sale price.

Line 8 - Cost of Goods Sold

Enter the cost of goods sold. Attach schedule and explain fully the method used.

If the production, purchase, or sale of merchandise is an income producing factor in the trade or business, inventories of merchandise on hand should be taken at the beginning and end of the taxable year, which may be valued at the lower of cost or market. Explain fully the method used. In case the inventories reported on the return do not agree with those shown on the balance sheet, attach a statement explaining how the difference occurred.

Line 9 - Gross Profits

Enter the gross profit which is obtained by deducting Line 8, the cost of goods sold as extended from Line 7, the gross sales.

Line 10 - Net Gain or (Loss) From Form 4797

Enter gains or losses from the sale, exchange, or involuntary conversion of assets used in trade or business activity. If the corporation is also a partner in a partnership, include the partner's share of gains (losses) from sales or exchanges, involuntary or compulsory (other than casualties or thefts), of the partnership's trade or business assets. Do not include any recapture of expense deduction for recovery property (Federal Code Section 179).

Line 11 - Other Income

Enter any other taxable trade or business income not listed above and explain its nature on an attached schedule.

Line 12 - Total Income (Loss)

Enter the Total Income (Loss); add lines 9 through 11.

Deductions

CAUTION: *Report only trade or business activity related expenses on lines 13 through 25. Do not report rental activity expenses or expenses related to any portfolio income on these lines. Report the Arkansas rental activity income and expenses and portfolio income and expenses distributable to each shareholder on the Arkansas Schedule AR K-1.*

Line 13 - Compensation of Officers

Enter the compensation of officers in whatever form paid.

Line 14 - Salaries and Wages

Enter the amount of salaries and wages (other than wages and salaries deducted elsewhere on your return) paid or incurred for the tax year. Do not reduce this figure by Federal jobs credit.

Line 15 - Repairs

Enter the cost of incidental repairs related to any trade or business activity.

Line 16 - Bad Debts

Enter the amount of bad debt incurred during the year. The S Corporation can only use the specific charge-off method for figuring its bad debt deduction.

Line 17 - Rent

Enter rent paid for trade or business property in which the S Corporation has no equity.

Line 18 - Taxes

Enter taxes paid or accrued during the taxable year. Do not include Arkansas income taxes, Federal income taxes, or taxes assessed against local benefits tending to increase the value of the property.

Line 19 - Deductible Interest

Enter interest incurred in the trade or business activity of the corporation that is not reported elsewhere on the return. Do not include interest expense related to rental activity, portfolio, or investment income.

Line 20 - Depreciation

Depreciation expense claimed. ACA 26-51-428 does not adopt the bonus depreciation provisions contained in Internal Revenue Code 168(k). For Arkansas income tax purposes, Internal Revenue Code Sections 167 and 168 (a) – (j) as in effect on January 1, 2019 is adopted for tax years beginning on or after January 1, 2019.

Internal Revenue Code Section 179 as in effect on January 1, 2022 is adopted for tax years beginning on or after January 1, 2022. For tax years beginning on or after January 1, 2022, the Arkansas Section 179 deduction limit will be $1,080,000 and the dollar-for-dollar phaseout will begin at $2,700,000. For tax years beginning on or after January 1, 2011 and beginning before January 1, 2022, the Arkansas Section 179 deduction limit is $25,000 and the phaseout begins at $200,000. Form AR1100REC will need to be completed for any taxpayer filing a corporation income tax return or pass-through entity tax return and claiming a Section 179 deduction. Carryforward of Section 179 deductions from prior years may be used towards the Arkansas Section 179 deduction limitation but may only be claimed if Arkansas depreciation deductions were not claimed in those prior years. If the Arkansas Section 179 deduction is different from the federal Section 179 deduction, a Form 4562 depreciation schedule will need to be completed showing the calculation of the Arkansas depreciation deduction.

Line 21 - Depletion

Enter depletion expense claimed. Arkansas allows federal depletion allowances as in effect January 1, 2019. In computing depletion allowance deduction for oil and gas wells, the depletion deduction shall be controlled by the provisions of IRS section 613A as in effect January 1, 2019.

Line 22 - Advertising

Enter any advertising for the business.

Line 23 - Pension, Profit-Sharing Plans, etc

Enter the amount of pension or profit sharing plans.

Line 24 - Employee Benefit Programs

Enter employee benefit programs for the business.

Line 25 - Other Deductions

Enter any other authorized deductions related to any trade or business activity for which there is no line on page 1 of this form.

Line 26 - Total Deductions

Enter the Total Deductions (add Lines 13 through 25).

Line 27 - Net Income (Loss) From Trade or Business Activity

Enter the net income or loss from trade or business activity (Subtract Line 26 from Line 12).

Line 28 - Excess Net Passive Income Tax

Enter the amount of excess net passive income tax due. If the corporation has always been a Subchapter S Corporation, then line 28 tax does not apply to the corporation. If the corporation has "C" corporation earnings and profits at the close of the tax year, has passive investment income that is in excess of 25% of gross receipts, and has taxable income at year end, the corporation must pay a tax on the excess passive income. Complete Lines 1 through 3 and Line 9 of the worksheet on this page to make this determination. If Line 2 is greater than Line 3 and the corporation has taxable income, it must pay the tax. Complete a separate schedule using the format of Lines 1 through 11 of the worksheet on this page to figure the tax. The tax rate for 2022 is 5.9%

Excess Net Passive Income Tax Worksheet

1. Enter Arkansas gross receipts tax for the tax year (See IRC Section 1362 (d)(3)(B) for gross receipts from the sale of capital assets.)* .... ____________
2. Enter Arkansas passive investment income as defined in IRC* Section 1362 (d)(3)(C)... ____________
3. Enter 25% of Line 1 (If Line 2 is less than Line 3, stop here. You are not liable for this tax.) .... ____________
4. Excess Arkansas passive investment income (Subtract Line 3 from Line 2.) .... ____________
5. Arkansas expenses directly connected with the production of income on Line 2 [See IRC* Section 1375(b)(2)] .... ____________
6. Net passive income (Subtract Line 5 from Line 2.) .... ____________
7. Divide amount on Line 4 by amount on Line 2. .... ____________
8. Excess net passive income (Multiply Line 6 by Line 7.) .... ____________
9. Enter taxable income (See instructions for taxable income below.) .... ____________
10. Enter the smaller of Line 8 or 9 .... ____________
11. Excess net passive income tax – Enter 5.9% of Line 10. Enter here and on Line 28, page 1, Form AR1100S. .... ____________

*Income and expenses on Lines 1, 2, and 5 are from total Arkansas operations for the tax year. This includes applicable income and expenses from page 1, Form AR1100S as well as those that are reported separately on Federal Schedule K. See IRC Section 1375(b)(4) for exceptions regarding Lines 2 and 5.

Line 29 - Income Tax on Capital Gains/Built in gains

Enter the amount from Schedule D, page 2, A7+B6.

Line 30 - Total Tax

Add Lines 28 and 29, if Amended Return checked, Enter Amended Total Tax.

Line 31 - Payments

Enter payments you made on a 2021 Declaration of Estimated Income Tax voucher, and amount applied from 2020 return.

Line 32 - Withholding Payment

Attach AR1100-WH. Only enter an amount on this line if withholding is to be applied to the Sub S return and not to shareholders.

Line 33 - Amended Return Only

Enter Net Tax paid (or refunded) on previous returns for this tax year.

Line 34 - Tax Due

If Line 31 plus Line 32 is less than Line 30, enter the amount due.

Line 35 - Overpayment

If Line 31 plus Line 32 is greater than Line 30, enter the difference.

Line 36 - Refund Estimated Tax Credit

Amount of refund to be credited to 2022 estimated tax.

Line 37 - Refund

Line 35 less Line 36.

Taxable Income (Line 9 of the Excess Net Passive Income Tax Worksheet)

Line 9, taxable income, is defined in IRC Section 1374(d). Figure this income by completing Lines 9 through 27 of page 1, or Schedule A, page 2 of **Form AR1100CT,** Arkansas Corporation Income Tax Return. Include the Form AR1100CT computation with the worksheet computation you attached to Form AR1100S. You do not have to attach the schedules etc. called for on Form AR1100CT. However you may want to complete certain schedules such as Schedule D, Form AR1100S.

Schedule D (Form AR1100S)

Enter on Line 29 the tax from Schedule D, Form AR1100S, page 2. If net capital gain for Arkansas is $25,000 or less, the corporation is not liable for capital gains tax. If the net capital gain is more than $25,000 you must determine if the corporation owes the tax in part A, or part B of Schedule D, Form AR1100S. The tax rate for 2022 is 5.9%

Part A – Capital gains tax computation

If the corporation made its election to be an S Corporation before 1987, IRC Section 1374 (as in effect before the enactment of the Tax Reform Act of 1986) continues to impose a tax on certain gains of the S Corporation. Consult the IRS instructions to determine if you are liable for this tax. If so, complete Part A, Schedule D, Form AR1100S. If multistate, under Schedule D, part A, Line 3, multiply by apportionment factor from Part B, Line 5 of Schedule A.

Part B – Built-in gains tax computation

If the corporation made its election to be an S Corporation after December 31,1986, IRC Section 1374 provides for a tax on built-in gains that applies to certain S corporations. Consult the IRS instructions to determine if you are liable for this tax. If so, complete Part B, Schedule D, Form AR1100S. If multistate, under Schedule D, Part B, Line 2, multiply apportionment factor from Part B, Line 5 of Schedule A.

Worksheet for Apportionment of Multistate Corporations

For corporations with income from sources within and without the State:

In general, taxpayers with income derived from activities both within and outside the State are required to allocate and apportion the net income under the following:
Business and non-business income defined – Article IV 1 (A) defines "Business Income" as income arising from transactions and activities in the regular course of taxpayer's trade or business, and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's trade or business operation. In essence, all income which arises from the conduct of trade or business operations of a taxpayer is business income. Income of any type or class, and from any source, is business income if it arises from transactions and activities occurring in the regular course of a trade or business. In general, all transactions and activities of the taxpayer which are dependent upon or contribute to the operations of the taxpayer's economic enterprise as a whole constitute the taxpayer's trade or business and will be considered "Business Income" unless otherwise excluded by statute.

For tax years beginning on or after January 1, 2021, all multistate corporations should use the single sales factor only unless they are required to use a three factor apportionment formula under the special industry apportionment regulations. If a special industry three-factor apportionment rule applies, the business income is to be apportioned to this state by multiplying the income by a fraction; the numerator of which is the property factor, plus the payroll factor plus two (2) times the sales factor, and the denominator of which is four (4).

The sales factor is a fraction; the numerator of which is the total sales of the taxpayer in this state during the tax period and the denominator of which is the total sales of the taxpayer everywhere during the tax period.

Sales of tangible personal property are in this state if:
(a) the property is delivered or shipped to a purchaser, other than the United States Government, within this State regardless of the f.o.b. point or other conditions of the sale **or:** (b) the property is shipped from an office, store, warehouse, factory, **or** other place of storage in this State and: (1) the purchaser is the United States Government **or:** (2) the taxpayer is not taxed in the State of the purchaser.

Sales, other than sales of tangible personal property, are in this State if the income producing activity is performed both within and without the State, in which event the income allocable to this State shall be the percentage that is used in the formula for apportioning business income to this State.

Prior written approval is required before deviation from the allocation and apportionment method.

Apportionment Formula

Construction companies, pipelines, and railroads must utilize the double weighted sales factor, apportionment method with factor modifications. Requirements for apportionment formulas of the businesses listed in this paragraph are contained in the Arkansas Corporation Income Tax Regulations which may be obtained from **www.dfa.arkansas.gov.**

The following items of income to the extent that they do not constitute business income are to be allocated to this state:

1. Net rents and royalties from real property located in the state.

2. Net rents and royalties from tangible personal property: (a) if and to the extent that the property is used in this state **or**
(b) in their entirety if the commercial domicile is in the state and the taxpayer is not organized under the laws of or taxed in the state in which the property is utilized.

The extent of utilization of tangible personal property in a state is determined by multiplying the rents and royalties by a fraction; the numerator of which is the number of days of physical location of the property in the state during the rental or royalty period in the taxable year, and the denominator of which is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable year. If the physical location of the property during the rental or royalty period is unknown or unascertainable by the taxpayer, tangible personal property is utilized in the state in which the property was located at the time the taxpayer obtained possession.

3. Gains and losses from sales of assets:

a. Sales of real property located in the state.

b. Sales of tangible personal property.

(1) The property had a situs in this state at the time of sale, **or**
(2) The taxpayer's commercial domicile is in this state, **or**
(3) The property has been included in depreciation which has been allocated to this state, in which event gains or losses on sales shall be allocated on the percentage that is used in the formula for allocating income to the state.

c. Sales of intangible personal property if the taxpayer's commercial domicile is in this state.

4. Interest and dividends if the taxpayer's commercial domicile is in the state.

5. Patent and copyright royalties: If and to the extent that the patent or copyright is utilized by the taxpayer in this State, or if and to the extent that the patent or copyright is utilized by the taxpayer in a state in which the taxpayer is not taxed and the taxpayer's commercial domicile is in this State. A copyright is utilized in a state to the extent that printing or other publication originates in the state. If the basis of receipts from copyright royalties does not permit allocation to the states or if the accounting procedures do not reflect states of utilization, the copyright is utilized in the state in which the taxpayer's commercial domicile is located.

If the allocation and apportionment provisions as set out above do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for, or the Director of Revenue, Department of Finance and Administration may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

1. Separate accounting
2. The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state, **or**
3. The employment of any other method to effect an equitable allocation and apportionment of the taxpayer's income. To "petition for" and approved by DFA shall mean a formal written request submitted and approved prior to the filing of a return.

Schedule A-Apportionment of Income for Multistate Corporation

Enter the FEIN in the box provided.

Part A - Income To Apportion

Line 1: Enter net income (amount from page 1, Line 27, Total Column)

Line 2: Add Adjustments (Attach Schedule)

Line 3: Deduct Adjustments (Attach Schedule)

Line 4: Enter Arkansas Total Apportionable Income. (Line 1 + Total Amount from Line 2 - Total Amount from Line3 = Line 4 Total Arkansas Apportionable Income)

Note: Lines 2 and 3 are for reporting any adjustments to taxable income that result in differences between Federal and Arkansas tax laws.

Part B - Apportionment Factor

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

Property Factor: The property factor is only to be used if the taxpayer is subject to a special industry regulation that requires a modified three factor apportionment method. The property factor is a fraction, the numerator is the average value of the taxpayer's real and tangible personal property owned or rented and used in this State during the tax period, and the denominator is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the tax period. **Please refer to the special industry apportionment regulations for any modifications required.**

Line 1: Enter Property Used in Business

Line a: Tangible Assets Used in Business and Inventories.

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

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

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

(a4) Enter Average of Tangible Assets: *(Line a3 divided by 2) in both Columns.*

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

Line c: Enter Total Property in both Columns: (Add Lines a4 and b).

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

Payroll Factor: The payroll factor is only to be used if the taxpayer is subject to a special industry regulation that requires a modified three factor apportionment method. The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the taxpayer for compensation and the denominator of which is the total compensation paid everywhere during the tax period. The payroll factor shall include only that compensation which is included in the computation of the apportionable income tax base for the taxable year. **(ACA 26-51-713 and ACA 26-51-1405)**

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

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

Sales/Receipts Factor: The receipts factor is a fraction, the numerator of which is the total sales of the taxpayer in this State during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period. The method of calculating receipts for purposes of the denominator is the same as the method used in determining receipts for purposes of the numerator. The receipts factor shall include only those receipts which constitute business income and are included in the computation of the apportionable income base for the taxable year. Arkansas requires receipts to be gross receipts instead of net receipts.

Line 3: Sales/Receipt

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

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

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

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

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

Gross receipts from transactions other than sales of tangible personal property are attributed to Arkansas if:

1) The income producing activity is performed entirely within Arkansas or,

2) If the income producing activity is performed both inside and outside of Arkansas, the income reportable to Arkansas is determined by calculating the property, payroll, and sales factor excluding sales from transactions other than the sale of tangible personal

property and applying the resulting percentage to the Arkansas sales factor numerator for gross receipts from transactions other than sales of tangible personal property.

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

(g) Enter Double Weighted: Applies only to corporations reporting under the three factor special industry regulations. Corporations using a single sales factor apportionment or a single factor apportionment method for special industries do not double weight sales.

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

Line 5: Enter Percentage Attributable to Arkansas: Line 4 divided by the Double Weighted Factor. For Part B, Line 5, divide Line 4 by number of entries other than zero which you make on Part B, Column B, Lines (1c), (2a), and (3f). Also, if Double Weighted Factor applies, any entry other than zero in Part B, Column B, Line (3f), counts as two (2) entries. **For corporations using the sales factor only or a single factor apportionment method under the special industry regulations, enter the percentage on Line 3 F, Column C.**

Part C - Arkansas Taxable Income

Line 1: Enter Income Apportioned to Arkansas. (Part A, Line 4) x (Part B, Line 5, Column C).
Line 2: Enter Direct Income Allocated to Arkansas: Include non-business income and partnership income/ loss that are sourced to Arkansas. **Arkansas Regulation 1.26-51-802(b)** requires corporations to directly allocate partnership Arkansas income or loss to Arkansas rather than including partnership income and apportionment factors in the corporation's apportionment formula. Multistate corporations with partnership income should deduct all partnership income on Part A, Line 3 (Deduct Adjustments). Partnership losses should be added on Part A, Line 2 (Add Adjustments). The corporation's Arkansas partnership income or loss should then be entered on Part C, Line 2 Add: Direct Income Allocated to Arkansas line. Attach Forms AR K-1 and if claiming withholding, attach Forms AR1099PT.

Line 3: Enter Total Income Taxable to Arkansas: (Enter amount on C3, and on page 1, Line 27, Arkansas Column)

Special Industry Apportionment Rules

Arkansas Regulations require taxpayers primarily engaged in certain industries to apportion income using a special industry apportionment method. See below for a brief description of each special industry apportionment method. For a complete description of industries that are required to modify their apportionment factors, see the Corporation Income Tax Regulations at **www.dfa.arkansas.gov.**

Construction Contractors

Arkansas Regulation 1.26-51-718(d) modifies the property factor to include the average value of construction in progress. It also modifies the payroll factor to include compensation paid for particular construction projects and compensation "thrown back" to Arkansas if not reported to another state. The sales factor is modified for the percentage of completion method.

Television and Radio Broadcasting

Arkansas Regulation 2.26-51-718(d) modifies the numerator of the sales factor shall include all gross receipts of the taxpayer from sources within Arkansas plus a ratable part of film or radio programming revenue including advertising revenue determined by an audience factor. The audience factor is determined based on the ratio that the taxpayer's Arkansas viewing or listening audience bears to its total viewing or listening audience. Television and radio broadcasters should not use a property or payroll factor for tax years beginning in 2021 and after.

Publishing

Arkansas Regulation 3.26-51-718(d) modifies the sales factor for taxpayers in the business of publishing, selling, licensing or distribution of books, newspapers, magazines, periodicals, trade journals, or other printed materials that have income from sources both inside and outside of Arkansas. The sales factor is modified to include a "circulation factor". Publishers should not use a property or payroll factor for years beginning in 2021 or after.

Airlines

Arkansas Regulation 4.26-51-718(d) requires airlines to determine Arkansas net taxable income by taking that portion of total operating revenue that the total passenger and freight receipts in Arkansas bears to total receipts from both inside and outside of Arkansas. The Arkansas and Total Passenger & Freight Receipts should be included on line 3.f. of Schedule A of Form AR1100CT with a notation that this represents Passenger & Freight Receipts.

Bus Lines and Trucking Companies

Arkansas Regulation 5.26-51-718(d) requires a company whose primary business is bus lines or trucking to determine its net income subject to Arkansas income tax by an apportionment formula which is the number of miles operated within Arkansas divided by the total system miles. The Arkansas and Total miles operated should be included on Line 3.f of Schedule A of Form AR1100CT with a notation that this represents mileage.

Pipelines

Arkansas Regulation 6.26-51-718(d) establishes special rules for taxpayers operating a pipeline for the transportation of oil or gas both inside and outside of Arkansas. The payroll factor includes compensation paid both inside and outside of Arkansas plus a ratable part for services performed both in and outside the State based on the total number of barrel or unit miles in Arkansas divided by the total barrel or unit miles system-wide. The sales factor includes any gas sales and storage sales within Arkansas plus a proportionate part of system revenue earned in Arkansas determined on the basis of total barrel or unit miles within Arkansas to the total barrel or unit miles in the system.

Railroads

Arkansas Regulation 1.26-51-204 modifies the property, payroll, and sales factor to include a mobile component that is calculated based on miles operated in Arkansas divided by total system miles.

Private Railcar Operators

Arkansas Regulation 2.26-51-204 requires taxpayers, other than a railroad, engaged in the business of operating railcars or in the business of furnishing or leasing railcars for the transportation of freight or property whether or not owned by such taxpayer, over any railway lines partly within and partly without the State to determine Arkansas net taxable income by taking that portion of total net operating income that the total miles operating in the State bears to total system miles operated.

Public Utilities

Arkansas Regulation 3.26-51-204 requires telephone, electric power, and gas distribution companies operating both inside and outside of Arkansas shall allocate and apportion their net income provided under **ACA 26-51-701**, et seq. ACA 26-51-709 requires income to be apportioned using a single sales factor.

Allocated Income

Partnership Income

Act 482 of 2017 amends **ACA 26-51-802(c)** to require partnership income from activites within and without this State that is reflected on a partnership return shall be apportioned to Arkansas under the uniform Division of Income for Tax Purposes Act **(ACA 26-51-701 et seq)**. Corporations that are partners in a partnership must allocate their share of partnership income as shown on form AR K-1 from the partnership. Partnership Income subject to Arkansas Pass-Through Entity Tax (PET) should be excluded from the Arkansas Individual return.

Non-Business Income

The following items of income to the extent that they do not constitute business income are to be allocated to this State.

1. Rents & Royalties:

A) Net rents and royalties from real property located in this State.

B) Net rents and royalties from tangible personal property

1) If and to the extent that the property is used in this State,

or

2) In their entirety, if the commercial domicile is in this State and the taxpayer is not organized under the laws of or taxable in the state in which the property is utilized.

The extent of utilization of tangible personal property in a state is determined by multiplying the rents and royalties by a fraction, the numerator of which is the number of days of physical location of the property in the State during the rental or royalty period in the taxable year; and the denominator of which is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable year.

If the physical location of the property during the rental or royalty period is unknown or unascertainable by the taxpayer, tangible personal property is utilized in the state in which the property is located at the time the rental or royalty payer obtained possession.

2. Gain and Losses:

Gains and losses from sales of assets:

A) Sales of real property located in this State.

B) Sales of tangible personal property.
   1) The property had a situs in this State at the time of sale,
   or
   2) The taxpayer's commercial domicile is in this State,
   or
   3) The property has been included in depreciation which has been allocated to this State; in which event gains or losses on such sales shall be allocated on the percentage that is used in the formula for allocating income to this State.

3. Interest and Dividends:

Interest and dividends if the taxpayer's commercial domicile is in this State.

4. Patent and Copyright Royalties:

A) If and to the extent that the patent or copyright is utilized by the taxpayer in this State,
or
B) If and to the extent that the patent or copyright is utilized by the taxpayer in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in this State.

A copyright is utilized in a state to the extent that printing or other publications originate in the state. If the basis of receipts from copyright royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the copyright is utilized in the state in which the taxpayer's commercial domicile is located.

Schedule D - Capital Gains Tax

Part A - Tax Imposed on Certain Capital Gain:

Line 1: Enter Taxable Income: (See Instructions; Attach computation schedule)

Line 2: Enter tax amount on Line 1: (See Instructions for computation of tax)

Line 3: Net long-term capital gain reduced by net short-term capital loss: (If Multistate, multiply by apportionment factor, Part B, Line 5 above)

Line 4: Enter the Statutory minimum:

Line 5: Subtract Line 4 from Line 3

Line 6: Tax: (Enter 5.9% of Line 5)

Line 7: Compare Line 2 and Line 6: (Enter the smaller amount here and on Line 29, page 1, Form AR1100S)

Part B - Tax Imposed on Certain Built-In Gains:

Line 1: Taxable Income: (See Instrucions; Attach computation schedule)

Line 2: Recognized built-in gain: (If Multistate, multiply by apportionment factor, Part B, Line 5 above)

Line 3: Enter smaller of Line 1 or 2

Line 4: Section 1374(b)(2) deduction

Line 5: Subtract Line 4 from Line 3: (If zero or less, enter zero here and on Line 6 below)

Line 6: Enter 5.9% of Line 5: (Enter here and on Line 29, page 1, Form AR1100S)

Payment of Taxes

The tax due should be paid by attaching to the return a check or money order payable to "Department of Finance and Administration". Write the corporation's FEIN on the check. Payments with returns may not be made by EFT. Tax due on returns may be made through ATAP. Refer to **www.atap.arkansas.gov** for instructions. To avoid interest and/or penalty, tax due payment must be made on or before the 15th day of the 4th month following the close of the corporations tax year, regardless of having an extension to file.

Financial Institutions

Generally, the receipts factor is a fraction; the numerator is the financial institution's gross receipts in Arkansas during the taxable year, and the denominator is all gross receipts that the financial institution derives from transactions and activities in the regular course of its trade or business.Interest from loans secured by real property is attributed to Arkansas if the property is located in Arkansas. Interest from loans not secured by real property is attributed to Arkansas if the borrower is located in Arkansas. Interest from credit cards receivables and fees charged to card holders are attributable to Arkansas if the billing address of the card holder is in Arkansas. Net gains from the sale of loans and loan servicing fees are sourced in the same manner as the loan interest. Net gains from the sale of credit card receivables are sourced in the same manner as the interest on credit card receivables. Interest, dividends, and net gains from investment and trading assets and activities are attributed to Arkansas if such receipts are property assigned to a regular place of business of the taxpayer within Arkansas.

In general, all state and national banks, savings and loan, building and loan associations, or any other entity operating as financial institutions are to be taxed under existing law. For a complete definition of "financial institution", refer to **ACA 26-51-1402.**

Who Must File

1) A financial institution having its principal office in this State shall be taxed as a business corporation organized and existing under the laws of this State, **or**

2) A financial institution having its principal office outside this State but doing business in this State shall be taxed as a foreign business corporation doing business in this State.

This is not intended to recognize the right of a foreign financial institution to conduct any business in this State except to the extent and under the conditions permitted by any acts or any other now existing applicable laws of this State.

ACA 26-51-702 requires any taxpayer having income from business activity which is taxable both within and without this state, other than activity as a public utility or the rendering of purely personal services by an individual, shall allocate and apportion their net income.

ACA 26-51-426 adopted Internal Revenue Code Sections 582, 585, and 593 as in effect January 1, 1999 regarding bad debts of financial institutions.

Act 822 of 2019 amends ACA 26-5-101, Article IV, 26-51-709 through 26-51-1405 to provide for a single sales factor to apportion income from within and without Arkansas for tax years beginning on or after 01/01/2021.

ACA 26-51-1401 requires that a financial institution whose business activity is taxable both within and without this State to allocate and apportion its net income to this State. All business income which is includable in the apportionable income tax base shall be apportioned to this State by multiplying such income by the taxpayer's receipts factor as described in ACA 26-51-1403.

Business Incentive Tax Credits

1. Purchase of Waste Reduction, Reuse, or Recycling Machinery or Equipment

ACA 26-51-506 provides an income tax credit equal to 30% of the cost of approved waste reduction, reuse, or recycling machinery and equipment including the cost of installation. No other credit or deductions except normal depreciation may be claimed on that equipment. Any unused credit may be carried forward for the next three (3) succeeding tax years or until exhausted, whichever occurs first. **Act 1476 of 2013** also extends the waste reduction, reuse, or recycling equipment tax credit to carry forward for a period of fourteen (14) consecutive tax years following the taxable year in which the credit originated for the Big River Steel Mill project. Income tax credits that would otherwise expire during that period shall be claimed first.

2. Consolidated Incentive Act 182 of 2003

Advantage Arkansas Income Tax Credit

ACA 15-4-2705 provides an income tax credit for creating new jobs after the company signs a financial incentive agreement with the Arkansas Economic Development Commission. The annual payroll of the new employees must meet the payroll threshold for the county in which the business is located. The income tax credit earned is a percentage of the annual payroll of the new full-time permanent employees for a period of five (5) tax years. Unused credits may be carried forward for nine (9) tax years. The Advantage Arkansas job creation credit cannot offset more than 50% of a business's income tax liability.

Act 327 of 2019 provides that to qualify for Advantage Arkansas credits beginning on or after July 24, 2019, the business must pay average hourly wages at least equal to the greater of the average hourly wage of the county in which the facility is located, or $12.50 per hour. A qualified business may receive an additional tax credit of 1% of qualifying wages if the average hourly wage is at least equal to 125% of the lesser of the average hourly wage for the county or state in which the business locates or expands.

ArkPlus Income Tax Credit

ACA 15-4-2706(b) allows the AEDC to provide a 10% income tax credit to eligible businesses based on the total investment in a new location or expansion project after signing a financial incentive agreement with AEDC. The minimum investment and payroll requirements depend on the county in which the business is located. Any unused credits may be carried forward for nine (9) tax years. The ArkPlus tax credits taken during any tax year shall not exceed fifty percent (50%) of the business's income tax liability resulting from the project or facility.

The ArkPlus incentive may be awarded by AEDC as an optional income tax credit or sales tax credit to technology based businesses that create a new payroll of at least $250,000 and pays wages at least 175% of the state or county average hourly wage. The credit is between 2% and 8% of the total investment based on the total amount invested. Depending on the average hourly wage, the credits earned may be used to offset 50%, 75%, or 100% of the tax liability. Any unused credits may be carried forward for nine (9) tax years.

Act 327 of 2019 provides for projects approved after July 24, 2019, that average hourly wages must exceed 150% of the lesser of state or county average hourly wage to qualify for the credit. The credit may offset 50% of the income tax or sales tax liability if wages exceed 150% of the lesser of state or county average hourly wage. The credit may offset 75% of the income tax or sales tax liability if wages exceed 175% of the lesser of state or county average hourly wage. The credit may offset 100% of the income tax or sales tax liability if wages exceed 200% of the lesser of state or county average hourly wage.

Act 911 of 2021 amends ACA 15-4-2703 and 15-4-2706 to allow project costs to be incurred within 6 years from the date the incentive agreement was approved instead of the current 4 years. Credits earned because of costs incurred more than 4 years after the incentive agreement is approved may not be claimed until on or after 07/01/2023, and the maximum credits for each qualified applicant may not exceed $750,000 per fiscal year.

Research & Development with Universities Tax Credit

ACA 15-4-2708(a) authorizes a business that contracts with Arkansas colleges or universities in performing research to qualify for an income tax credit as authorized by **ACA 26-51-1102(b)** equal to 33% of qualified expenses. A business must submit an application to AEDC and the Arkansas Science and Technology Authority must also approve the plan. The credit may offset 100% of the tax liability and unused credits may carry forward nine (9) tax years.

ACA 26-51-1101 (2)(C) allows an income tax equal to 33% of a cash donation that is used by a qualified educational institution in Arkansas to purchase new machinery and equipment in connection with a qualified education or research program. Taxpayers must submit an application to the Arkansas Economic Development Commission on forms prescribed by the Commission and if approved have itemized receipts documenting the amount of the cash donation and the purchase costs of the new machinery and equipment. The credit may offset 100% of the tax remaining after all other credits and any unused credits may be carried forward for nine tax years.

In-House Research Income Tax Credit

ACA 15-4-2708(b) authorizes an income tax credit to businesses that conduct "in-house" research. The credit allowed for approved in-house research is 10% of qualified expenditures. However, the maximum credit that can be earned by each business is $10,000 per tax year and is equal to 20% of qualified expenses. The income tax credit may offset 100% of the income tax liability. Unused credits may be carried forward for nine (9) tax years.

In-House Research by Targeted Business income Tax Credit

ACA 15-4-2708(c) provides income tax credits for businesses deemed by the AEDC to fit within the six (6) business sectors classified as "targeted businesses". An eligible business may be approved for an income tax credit each year equal to 33% of the qualified research and development expenditures incurred each year for the first five (5) tax years of the financial incentive agreement. The income tax credit for research and development earned by targeted businesses may be sold. The business must make application to AEDC within one year of issuance and the credits may only be sold one time. Any unused credits may be carried forward for nine (9) years.

In-House Research in Area of Strategic Value Tax Credit

ACA 15-4-2708(d) authorizes an income tax credit equal to 33% of qualified research expenditures for an Arkansas taxpayer that invests in:(A) In-house research in an area of strategic value; or (B) A project under the research and development programs approved by the state of Arkansas Science and Technology Authority. The taxpayer must apply to AEDC in order to qualify for the income tax credit. The tax credit may be earned for the first five (5) tax years following the signing of a financial incentive agreement. The maximum tax credit that may be claimed by a taxpayer under this program is $50,000 per tax year. Any unused credits may be carried forward nine (9) tax years.

Targeted Business Payroll Income Tax Credit

ACA 15-4-2709 provides income tax credits to "targeted businesses" approved by AEDC. Companies must pay wages that are in excess of 150% of the state or county average wage and meet requisite payroll and investment thresholds. The credits may be sold upon approval by the AEDC.

The buyer of the tax credit shall be allowed the remaining carryforward of the tax credit. Any unused credits may be carried forward for a maximum of nine (9) tax years. The tax credit is equal to 10% of its annual payroll, with a cap of $100,000 per year. The incentive may be offered for a period not to exceed five (5) tax years.

To claim the credits authorized under the Consolidated Incentive Act, attach to the tax return a copy of the Certificate of Tax Credit issued by Tax Credits/ Special Refunds Section. For information regarding application to any of the incentives under this Act contact Arkansas Economic Development at (501) 682-1121 or their website at http://arkansasedc.com.

3. Equity Investment Incentive Credit

Act 164 of 2015 amends **ACA 15-4-3305** to provide tax credits for entities investing in eligible businesses and purchases the qualified business in calendar years 2007-2028. The credit shall not exceed 33.33% of the actual purchase price paid for the equity interest and shall not exceed 50% of the state income or premium tax liability. The total amount of credits available to all purchasers of equity interest in a qualified business shall not exceed $6,250,000. Any unused credit may be carried forward for a period of nine (9) tax years and in no event be carried past December 31, 2037. The application must be filed with AEDC.

Act 537 of 2019 amends Arkansas Code Annotated 15-4-3305(g) to clarify that an equity investment incentive credit may be sold only 1 time at any time before the credit is exhausted or expires.

4. Child Care Facility

ACA 26-51-507 provides an income tax credit of 3.9% of the annual salary of employees employed exclusively in providing child care services if the revenue to the business does not exceed the direct operating costs of the facility. Certification of eligible childcare facilities must be made by the Division of Childcare and Early Childhood Education.

ACA 26-51-508 provides that a business which qualifies for the refund of the Gross Receipts Tax or Compensating Use Tax under **ACA 26-51-516** or **ACA 26-53-132** shall be allowed an income tax credit of 3.9% of the annual salary of its employees employed exclusively in providing child care service, or a $5000 income tax credit for the first tax year the business provides its employees with a child care facility. This credit is for a business which operates a child care facility for its employees only. Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

5. Water Resource Conservation

All water resource conservation credits must be approved by the Arkansas Natural Resource Commission.

Act 1073 of 2019 provides that Water Resource Conservation credits may be transferred for tax years beginning on or after January 1, 2020. The transferor must provide documentation of the transfer to the Department of Finance and Administration within 30 days of the transfer. The transferor of a credit is liable for the repayment of the credit if the transferor fails to complete and maintain the project as required under Arkansas Code Ann. 26-51-1011.

Act 563 of 2021 amends ACA 26-51-1101(c)(1) to allow water conservation projects receiving certificates of tax credit approval on or after 01/01/2017 five years to complete a project instead of the previous three year requirement.

Act 875 of 2021 amends ACA 26-51-1013 to state that when the total amount of tax credits used under this subchapter exceeds $20,000,000 in any calendar year, the tax credits established under the subchapter shall expire on December 31 of the following calendar year.

(a) Water Impoundment outside and within critical areas:

Act 1125 of 2017 amends **ACA 26-51-1005** to provide an income tax credit equal to 50% of the cost of construction and installation or restoration of water impoundments or water control structures of twenty (20) acre-feet or more designed for the purpose of storing water to be used for agricultural, commercial or industrial purposes. The credit shall not exceed the lesser of 50% of the project cost incurred or $90,000.

The amount of tax credit allowed to each approved applicant per project shall not exceed the lesser of the amount of individual or corporate income tax otherwise due or $9,000. Any unused credit may be carried forward for the next fifteen (15) succeeding tax years or until exhausted, whichever occurs first. After March 12, 2001, projects used for commercial purposes can qualify for this credit.

Act 875 of 2021 amends **ACA 26-51-1005** for tax years beginning on or after 01/01/2021 to provide that the income tax credit is equal to the lesser of 50% of the project cost incurred or $120,000. The amount of tax credit shall not exceed the lesser of the amount of individual or corporate income tax otherwise due or $18,000.

b) Surface Water Conversion:

1. Outside Critical Areas - **ACA 26-51-1007** provides an income tax credit that shall not exceed the lesser of 10% of the project cost incurred or $27,000 for the reduction of ground water use by substitution of surface water for water used for industrial, commercial, agricultural or recreational purposes. The credit shall not exceed the lesser of individual or corporate income tax otherwise due or $9,000 per project and any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted whichever occurs first.

   Act 875 of 2021 amends **ACA 26-51-1007** for tax years beginning on or after 01/01/2021 to provide that the income tax credit is equal to the lesser of 25% of the project cost incurred or $35,000. The amount of tax credit shall not exceed the lesser of the individual or corporate income tax otherwise due or $18,000. Any unused credits may be carried over for a maximum of 15 consecutive tax years or until exhausted, whichever occurs first.

2. Within Critical Areas - **ACA 26-51-1008** provides an income tax credit not to exceed the lesser of 50% of the cost incurred or $27,000 for the reduction of groundwater use by substitution of surface water for water used for agricultural or recreational purposes. The credit shall not exceed the lesser of income tax otherwise due or $9,000 for projects using water for agricultural or recreational purposes. For industrial or commercial projects, there shall be allowed a tax credit to each approved applicant not to exceed the lesser of 50% of the project cost incurred or $1,000,000. The amount of tax credit allowed is the amount of individual or corporate income tax otherwise due or $200,000 If the approved applicant is a pass-through entity the amount of tax credit that may be used for a taxable year shall not exceed the lesser of the aggregate amount of individual or corporate income tax due by all members or $9,000."Critical areas"means those areas so designated by the Arkansas Natural Resources Commission.

   For projects approved on or after August 1,1997 and using water for industrial or commercial purposes any unused credit may be carried forward for the next four (4) succeeding tax years or until exhausted, whichever occurs first.

Act 875 of 2021 amends **ACA 26-51-1008** for tax years beginning on or after 01/01/2021 to change the definition of within critical groundwater areas to include counties contiguous to counties with areas designated as critical groundwater areas. It also provides that the income tax credit for an agricultural or recreational project is equal to the lesser of 50% of the project cost incurred or $35,000. The amount of tax credit shall not exceed the lesser of the amount of individual or corporate income tax due or $18,000. Any unused credits may be carried over for a maximum of 15 consecutive tax years or until exhausted, whichever occurs first.

(c) Land Leveling for Water Conservation:

ACA 26-51-1009 provides an income tax credit equal to 10% of the project cost incurred or $27,000 for agricultural land leveling to conserve irrigation water. The credit shall not exceed the lesser of the amount of individual or corporate income tax otherwise due or $9,000 per project. Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

Act 875 of 2021 amends **ACA 26-51-1009** for tax years beginning on or after 01/01/2021 to provide that the tax credit shall not exceed the lesser of 25% of the project cost incurred or $35,000. The amount of tax credit shall not exceed the lesser of the amount of individual or corporate income tax otherwise due or $18,000. Any unused credits may be carried over for a maximum of 15 consecutive tax years or until exhausted, whichever occurs first.

(d) Wetland and Riparian Zone Creation and Restoration and Conservation Tax Credits Act:

ACA 26-51-1505 allows the Wetland and Riparian Zone Creation and Restoration Tax Credit amount not to exceed $50,000 and shall equal 50% of the fair market value of the qualified property interest donation, calculated to exclude any short term capital gain under 26 U.S.C. 170(e)(1)(A) as in effect on January 1, 2009. The amount of credit shall be equal to the project costs not to exceed the lesser of income tax due or $5,000. An eligible donor may earn only one Wetland and Riparian Zone Conservation Tax Credit per income tax year. The availability of the tax credits shall expire on December 31st of the calendar year following the calendar year the tax credits used exceed $500,000. Any unused credit may be carried forward for a maximum of nine (9) consecutive taxable years.

6. Equipment Donation, Sale Below Cost or Qualified Research Expenditure & Research Park Authority

ACA 26-51-1102 provides an income tax credit for a taxpayer who donates or sells below cost new machinery or equipment to a qualified educational institution, or a taxpayer who has qualified research expenditures under a qualified research program. This credit is equal to 33% of the cost of the donation, sale below cost, or qualified expenditure, and the credit may offset 100% of the net income tax liability. Any unused credit may be carried forward for the next nine (9) succeeding tax years or until exhausted, whichever occurs first.

Act 203 of 2019 provides for an income tax credit equal to 33% of cash donations made to a qualified educational institution for the purpose of purchasing machinery and equipment. The Act is effective July 24, 2019. To qualify for the credit for cash donations, an application must be filed with and approved by the Arkansas Economic Development Commission. The taxpayer must obtain documentation from the qualified educational institution showing the amount of the donation and document the amounts spent purchasing machinery and equipment.

ACA 14-144-311 authorizes the creation and operation of research park authorities for the purpose of economic development, exempting the property of each research park authority from all state, county and municipal taxes including income tax, inheritance tax and estate tax. The act allows contributions to research park authorities to qualify for the credit provided by **ACA 26-51-1102**.

7. Workforce Training Credit

ACA 6-50-702 permits an income tax credit based on a portion of the cost of workforce training. If the training is in an Arkansas state supported educational institution, the credit allowed is the lesser of one-half (1/2) of the amount paid by the company or the hourly training cost up to $80 per instructional hour for tax years prior to 2014 to increase to $100 per hour for tax years beginning on or after January 1, 2014. If training is by company employees or company paid consultants, the tax credit cannot be more than $25 per hour. There is no carryforward period for this credit. Applications for this credit are available from the AEDC at (501) 682-7675.

8. Tourism Development Credit

ACA 15-11-509 provides an income tax credit equal to 4% of the payroll of the new full-time permanent employees working at a tourism attraction project. To be counted as a new full-time permanent employee for the purpose of qualifying for the tax credit, the employee in the position must have been an Arkansas taxpayer during the year in which the credit was earned. For projects receiving approval after March 1,1999, the credit may be applied against the approved company's income tax liability for the succeeding nine (9) tax years or until exhausted, whichever occurs first.

9. Apprenticeship Program

Act 1042 of 2017 amends **ACA 26-51-509** to provide an income tax credit of $2,000, or 10%, of the wages earned by a youth apprentice (whichever is less) to a business participating in the United States Department of Labor apprenticeship program. The credit may not exceed the income tax otherwise due and shall not exceed $10,000 per year for each corporation. Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first. Arkansas Code Title 26, Chapter 51, Subchapter 16 is repealed.

10. Tuition Reimbursement Credit

ACA 26-51-1902 permits an income tax credit equal to 30% of the cost of tuition reimbursed by the employer to a full-time permanent employee on or after July 30, 1999. The credit cannot exceed 25% of the business' income tax liability in any one tax year and has no carryforward provision. The employee must attend a qualified Arkansas institution. Form AR1036 must be attached to the Arkansas return in addition to Form AR1100BIC to claim this credit.

11. Family Savings Initiative Credit

ACA 20-86-109 creates the Family Savings Initiative Act, which provides a tax credit to those taxpayers who make contributions to a designated fiduciary organization created pursuant to this act. The fiduciary will notify the Department of Human Services of the deposits which will issue a certificate to be attached to the tax return for the first year the credit is taken. The credit allowed is the lesser of the income tax due or $25,000 per taxpayer. The total tax credit allowed for all taxpayers is $100,000 per year. Any unused credit may be carried forward for the next three (3) succeeding tax years or until exhausted, whichever occurs first.

12. Public Road Improvement

ACA 15-4-2306 provides a tax credit for those taxpayers who contribute to the "Public Roads Incentive Fund" for the improvement of public roads. The credit is limited to 33% of the total contributions made to the fund and in any tax year is limited to 50% of the net Arkansas tax liability after all other credits have been taken. Any unused credit can be carried forward for the next three (3) succeeding tax years or until the credit is exhausted, whichever occurs first. This program is administered by the AEDC.

Act 628 of 2021 amends **ACA 15-4-2306(b)** to allow the credit to offset 100% of the tax liability for tax years beginning on or after 01/01/2020.

13. Low Income Housing Credit

ACA 26-51-1702 provides an income or premium tax credit for a taxpayer owning an interest in a qualified low income building which is approved through the Arkansas Development Finance Authority. The tax credit is computed by multiplying the Federal Low Income Housing Tax Credit for the qualified project by 20%. The credit may not exceed $250,000, or the income or annual premium tax otherwise due. Any unused credit may be carried forward for the next five (5) succeeding tax years or until exhausted, whichever occurs first.

14. Purchase of Equity in a Capital Development Company

ACA 15-4-1026 allows the original purchaser of an equity interest in a Capital Development Company in calendar years 2003-2015 to be entitled to an income or annual premium tax credit equal to 33.33% of the actual purchase price, limited to 50% of the net Arkansas income or premium tax liability in any one tax year. No capital development company shall enter into an agreement or commitment for the purchase by any person of equity interests in the capital development company on or after July 1, 2007. Any unused credit may be carried forward for the next succeeding tax year and annually thereafter for a total of eight (8) years succeeding the year in which the equity interest was purchased or until exhausted, whichever occurs first. In no event may the credit be allowed for any tax year ending after December 31, 2021.

15. Affordable Neighborhood Housing Tax Credit

ACA 15-5-1301 et seq. provides an income or annual premium tax credit for any business firm engaged in providing affordable housing which is approved through the Arkansas Development Finance Authority. The tax credit is limited to 30% of the total amount invested in affordable housing assistance activites. The credit may not exceed $750,000, or the income or premium tax otherwise due in any taxable year. Any unused credit may be carried forward for the next five (5) succeeding tax years or untiol exhausted, whichever occurs first.

16. Coal Mining Tax Credit

ACA 26-51-511 provides an income or annual premium tax credit of $2.00 per ton of coal mined, produced, or extracted on each ton of coal mined in Arkansas in a tax year. An additional credit of $3.00 per ton will be allowed for each ton of coal mined in Arkansas in excess of 50,000 tons in a tax year. The credit can only be earned if the coal is sold to an electric generation plant for less than $40.00 per ton excluding freight charges. The credit expires five (5) tax years following the tax year in which the credit was earned.

17. Venture Capital Investment Credit

ACA 15-5-1401 et seq. provides an income tax credit up to $10 million per fiscal year as recommended by the Arkansas Development Finance Authority and approved by the State Board of Finance. The credit may not exceed the income tax otherwise due and is non-refundable. Any unused credit may be carried forward for five (5) succeeding tax years after the tax year in which the credit was first earned.

18. Rice Straw Tax Credit

ACA 26-51-512 allows an income tax credit in the amount of $15.00 for each ton of rice straw over 500 tons that is purchased by an Arkansas taxpayer who is the end user of the straw (person processing, manufacturing, generating energy or producing ethanol). The amount of the credit is limited to 50% of the income tax due for the tax year. Any unused credit may be carried forward for ten (10) consecutive tax years following the tax year the credit was earned and is effective for tax years beginning on or after January 1, 2006.

19. Delta Geotourism Incentive Act

The Delta Geotourism Incentive Act of 2007 as amended allows an income tax credit equal to 25% of an investment of up to $250,000 in a geotourism supporting business, a tourism attraction, or tourism supporting business project that attracts out of state visitors in an economically distressed area of the Lower Mississippi River Delta in Arkansas. Applications' must be made to the Tax Credits Section of the Department of Finance and Administration and must also be approved by the Arkansas Department of Parks and Tourism. The credit may be transferred to another tourism related business in Arkansas upon approval by DFA and Parks and Tourism. The minimum investment to qualify for the credit is $25,000 and a transferee of a credit must invest a minimum of $100,000 in a tourism related business project in Arkansas. Unused tax credits may be carried forward five (5) taxable years after the year the credit is earned or until exhausted, whichever occurs first. The credit expires and no credit may be established for a tax year ending after December 31, 2021. The amount of credit that may be used by a taxpayer for any taxable year shall not exceed twenty-five thousand dollars ($25,000). The credit expires and no credit may be established for a tax year ending after December 31, 2021. The amount of credit that may be used by a taxpayer for any taxable year shall not exceed twenty-five thousand dollars (25,000.00).

20. Arkansas Historic Rehabilitation Income Tax Credit

ACA 26-51-2201 creates a credit for income taxes or premium taxes for qualified historic rehabilitation expenses in an amount equal to 25% of the total cost incurred by a person, firm or corporation subject to state income tax or an insurance company paying annual premium tax to complete a certified rehabilitation project up to the first $500,000 of expenses on income producing property or $100,000 on nonincome producing property. The minimum investment to obtain the credit is $25,000. Historic rehabilitation credits are approved by the Department of Arkansas Heritage. The maximum tax credits that may be approved in one year is $4,000,000. The credit may offset 100% of income or annual premium tax due. Any unused credit may be carried forward for five (5) tax years or until exhausted.

The Arkansas Historic Rehabilitation tax credit program expires for tax years ending on or before December 31, 2027. The holder of rehabilitation tax credits may sell or assign all or a portion of unused credits by notifying the Department of Arkansas Heritage and the Department of Finance & Administration if the credit is an income tax credit.

Act 393 of 2017 increases the maximum costs eligible for the historic rehabilitation credit to $1,600,000 for projects starting on or after July 1, 2017. Act 470 of 2019 reduces the minimum investment necessary for non-income producing properties to $5,000 for tax years beginning on or after January 1, 2019.

Act 855 of 2019 provides for a Major Historic Rehabilitation Credit equal to 25% of qualified rehabilitation incurred by the owner to complete a certified rehabilitation approved by the Department of Arkansas Heritage. The minimum investment for the credit is $1,500,000. The Department of Arkansas Heritage may charge an application fee of up to 1% of the amount of the credit and may charge a fee of 0.75% of the amount of any credit transferred. Applications for the credit must be made between July 1, 2020 and June 30, 2025.

Act 840 of 2021 amends ACA 26-51-2204 to increase the maximum tax credits that may be approved in one year from $4 million to $8 million per fiscal year beginning with fiscal year 2022.

21. Arkansas Central Business Improvement District Rehabilitation and Development Investment Tax Credit

ACA 26-51-2407 amends Arkansas Code 26, Chapter 51 to add Subchapter 24 to establish an investment tax credit equal to 25% for a qualified rehabilitation or development expenditure incurred for a qualified project up to the first $500,000 on income producing property or $200,000 on non-income producing property with a minimum investment of $30,000. The total credit will be issued for up to $1,000,000 in any one fiscal year on a first come, first serve basis. The credit may be transferred, sold, or assigned only one (1) time and will offset up to 100% of the state income tax due. Any unused tax credit may carryforward for five (5) consecutive taxable years or until exhausted, whichever occurs first. This act will take effect only if the Chief Fiscal Officer of the State certifies that sufficient funds are available. The credit will not be funded for tax year 2018. If it is determined that funding is available, the act will be effective for tax years beginning on or after January 1 of the year following the certification and continue for a period of two (2) years.

22. Delta Music Trail Credit

Act 1066 of 2019 provides for an income tax credit equal to the lesser of 100% of the cost or $25,000 for an art project that promotes awareness and encourages enjoyment of the stories, biographies, and points of interest in blues, rock and roll, country and country music throughout the Arkansas Delta. Taxpayers must apply for the credit with the Arkansas Delta Music Commission and the commission may not approve more than $250,000 of expenses in any one calendar year. The credit may offset 100% of the tax due and unused credits may be carried forward up to five tax years.

23. Arkansas Wood Energy Products and Forest Maintenance Credit

Act 594 of 2021 provides for an income tax credit equal to 30% of the cost of qualifying equipment with a minimum investment in excess of $50 million required in a project approved by the Arkansas Economic Development Commission with a signed economic incentive agreement. Each project must create at least 100 new full-time jobs with an average salary of $60,000 per year. Up to $5 million of the credit may be claimed each year, and the State of Arkansas may purchase the tax credits at 80% of face value. Unused credits may be carried forward in perpetuity until fully claimed. Act 594 is effective for tax years beginning on or after 01/01/2021.

24. Motion Picture Credit

Act 797 of 2021 provides for a rebate or tax credit for approved film projects. The income tax credit or rebate is equal to 20% of all qualified production and post-production costs for an approved project that spends at least $200,000 in a six month period. An additional 10% of payroll costs for full-time Arkansas residents, or veterans, or veteran owned small businesses is allowed. The credit is limited to the first $500,000 of a highly compensated individual's salary. The Arkansas Economic Development Commission shall not approve more than $4 million in motion picture tax credits in any fiscal year. Unused credits may be carried forward for 5 tax years, and unused credits may be transferred.

25. Steel Specialty Products Manufacturing Credit

Act 895 of 2021 amends ACA 26-51-506 to provide a tax credit equal to 30% of the cost of equipment including installation costs for an approved project that invests in excess of $200 million and employs at least 150 employees with an average salary of at least $75,000 per year. The maximum credit that may be claimed is $4 million if the total investment is $200 million to $275 million, $5 million if the total investment is $275 million to $350 million, and $6.5 million if the investment is at least $350 million. The State of Arkansas has the option to purchase the credits for 80% of face value. If the State fails to purchase credits the taxpayer or a transferee may carry forward unused credits for 3 tax years. The act is effective for tax years beginning on or after 01/01/2021.

26. Philanthropic Investment in Arkansas Kids Scholarship Program Credit

Act 904 of 2021 provides for a tax credit equal to 100% of the eligible contributions to a scholarship granting organization. Total tax credits awarded shall not exceed $2 million per calendar year, and unused credits may be carried forward for 3 tax years. Tax credit applications must be submitted to and approved by the Tax Credits and Special Refunds Section of the Department of Finance & Administration. The act is effective for tax years beginning on or after 01/01/2022.

27. Railroad Modernization Tax Credit

Act 967 of 2021 provides a tax credit for Class II and Class III railroad track maintenance. The credit is equal to 50% of railroad track maintenance expenditures up to $5,000 per track mile. The credit claimed may not exceed the tax liability, and unused credits may be carried forward up to 5 tax years and may be transferred. Maintenance projects must be approved by the Department of Commerce before expenditures are incurred. Certification of the tax credits is issued by the Department of Finance & Administration. The act is effective for tax year beginning on or after 01/01/2021.

The Business and Incentive Tax Credit forms and instructions may be obtained from:

Department of Finance and
Administration Tax Credit/Special
Refunds Section
P O Box 1272
Little Rock, AR 72203-1272
or call (501) 682-7106
website: www.dfa.arkansas.gov

NOTE: On any credit issued to a taxpayer that is sold/ transferred to another taxpayer, the owner of the credit must contact the issuing agency and request a Transfer Document. The issuing agency will send a copy of the approved transfer documents to the Tax Credit Section upon completion of the sale/transfer. For verification purposes, the taxpayer claiming the credit should attach a copy of the approved transfer document to the return claiming credit.