

Taxes

Local Sales Tax Rates: The City of Osceola – 1%
Mississippi County – 2.5%
State of Arkansas – 6.5%

Property Tax Rates (Real, Personal) and Methods of Assessment: Property taxes are calculated by multiplying the taxable value (20% of the appraisal value) times the millage rate. Millage rate is 62.9 mils.

For a \$10,000,000 property, the property taxes would be:
 $0.20 \times \$10,000,000 = \$2,000,000$
 $\$2,000,000 \times .007 = \$14,000$

State Taxation Summary: See Arkansas Economic Development Commission's taxation summary (2021) behind tab T-1.





Good company.

as of February 2021

State of Arkansas Taxation Summary

Corporate Income Tax

Beginning with the 2021 tax year, taxable income is apportioned according to a single-sales factor formula. If a business activity is derived from activity inside and outside the state of Arkansas, it is apportioned for taxation according to the percentage of sales attributable to Arkansas pursuant to the multi-state compact.

Beginning with the 2021 tax year, a corporation doing business in Arkansas and sustaining a net operating loss may carry forward the loss to the next succeeding taxable year and annually thereafter for a total period of ten years succeeding the year of such loss and deduct it from Arkansas taxable income.

Qualified biofuels manufacturers investing at least \$20 million and creating at least 100 new jobs may receive income tax exemptions for up to 20 years. Qualified windmill blade or component manufacturers classified under NAICS Code 333611 may receive income tax exemptions for up to 25 years based upon the investment, job created, tier status and employee wages.

Net Income	Tax Rate
First \$3,000	1%
Next \$3,000	2%
Next \$5,000	3%
Next \$14,000	5%
Next \$75,000	6%
Over \$100,000	6.2%

Personal Income Tax

Resident and non-resident individuals, estates and trusts deriving income from within the state are subject to a tax on their net income at the following rates:

For Incomes less than \$22,200 per year

Taxable Income	Tax Rate
\$0 - \$4,499	0.0%
\$4,500 - \$8,899	2.0%
\$8,900 - \$13,399	3.0%
\$13,400 - \$22,199	3.4%

For incomes between \$22,200 and \$79,300

Taxable Income	Tax Rate
\$0 - \$4,499	0.75%
\$4,500 - \$8,899	2.5%
\$8,900 - \$13,399	3.5%
\$13,400 - \$22,199	4.5%
\$22,200 - \$37,199	5.0%
\$37,200 - \$79,300	6.0%

For incomes more than \$79,300

Taxable Income	Tax Rate
\$0 - \$4,000	2%
\$4,001 - \$8,000	4%
\$8,001 and above	6.6%

Incomes between \$79,300 and \$84,600 shall reduce the amount of income tax due by deducting bracket adjustment as set forth below

Taxable Income	Tax Rate
\$79,301 - \$80,300	\$440
\$80,301 - \$81,300	\$340
\$81,301 - \$82,500	\$240
\$82,501 - \$83,600	\$140
\$83,601 - \$84,600	\$ 40
\$84,601 and above	\$ 0

Federal Insurance Contributions Act (FICA)

The Federal Insurance Contributions Act (FICA) tax includes two separate taxes. One is social security tax and the other is Medicare tax. Different rates apply for each of these taxes.

The current tax rate for social security is 6.2% for the employer and 6.2% for the employee, or 12.4% total. The current rate for Medicare is 1.45% for the employer and 1.45% for the employee, or 2.9% total.

Only the social security tax has a wage base limit. The wage base limit is the maximum wage that is subject to the tax for that year. For earnings in 2019, this base is \$132,900. There is no wage base limit for Medicare tax. All covered wages are subject to Medicare tax.

Additional Medicare Tax are applied to an individual's Medicare wages that exceed a threshold amount based on the taxpayer's filing status. Employers are responsible for withholding the 0.9% Additional Medicare Tax on an individual's wages paid in excess of \$200,000 in a calendar year, without regard to filing status. An employer is required to begin withholding Additional Medicare Tax in the pay period in which it pays wages in excess of \$200,000 to an employee and continue to withhold it each pay period until the end of the calendar year. There is no employer match for Additional Medicare Tax.

Corporate Franchise Tax

The chart below lists the franchise tax rates for various entities under Arkansas Code 26-54-104.

Franchise Tax Type	Current Rate
Corporation/Bank with Stock	0.3% of the outstanding capital stock; \$150 minimum
Corporation/Bank without Stock	\$300
Limited Liability Company	\$150
Insurance Corporation Legal Reserve Mutual, Assets Less Than \$100 million	\$300
Insurance Corporation Legal Reserve Mutual, Assets Greater Than \$100 million	\$400
Insurance Company Outstanding Capital Stock Less Than \$500,000	\$300
Insurance Company Outstanding Capital Stock Greater Than \$500,000	\$400
Mortgage Loan Corporation	0.3% of the outstanding capital stock; \$300 minimum
Mutual Assessment Insurance Corporation	\$300

Sales Tax

The Arkansas sales tax is 6.5% of the gross receipts from the sales of tangible personal property and certain selected services. "Sale" includes the lease or rental of tangible personal property. In addition to the state sales and use tax, local sales and use taxes may be levied by each city or county. However, businesses may apply to the Arkansas Department of Finance and Administration for a refund of local taxes. "Single transaction" means any sale of tangible personal property or taxable service reflected in a single invoice, receipt or statement for which an aggregate sales or use tax amount has been reported or remitted to the state for a single, local taxing jurisdiction. These taxes are collected by the state and distributed to the cities and counties each month.

Effective July 1, 2019, the legislation imposes sales and use tax collection and remittance requirements on a remote seller or marketplace facilitator (as defined in the legislation) that sells or facilitates the sale of tangible personal property, taxable services, a digital code, specified digital products for delivery into the state if, in the previous or current calendar year, such seller or facilitator had aggregate sales of such items that are subject to the sales and use tax in excess of \$100,000 or 200 transactions.

Sales Tax Exemptions – Sales Tax Savings

Exemptions from sales and use taxes for manufacturers are as follows:

- Property which becomes a recognizable, integral part of property manufactured, compounded, processed, or assembled for resale.
- Machinery and equipment used directly in manufacturing which are purchased for a new or expanding manufacturing facility or to replace existing machinery or equipment
- Machinery and equipment required by Arkansas law to be purchased for air or water pollution control

The value of this statutory exemption depends on the amount of eligible expenditures as determined by the Arkansas Department of Finance and Administration.

Sales and Use Tax Reduction on Electricity and Natural Gas

The State of Arkansas has a reduced rate of 0.625% on electricity and natural gas used directly in the manufacturing process. For purposes of determining what utility usage is subject to this reduced rate, the manufacturing process includes processes beginning at the point where raw materials are first moved from raw material storage to the beginning of manufacturing or processing of those raw materials into items of tangible personal property and ends when the finished manufactured goods are packaged and ready for shipment or storage.

Sales and Use Tax Refund – Replacement and Repair

Effective July 1, 2014, state sales and use taxes relating to the partial replacement and repair of machinery and equipment used directly in manufacturing process may be refunded. Act 772 of 2019 Sales and Use Tax Refund for Machinery and Equipment used to Modify, Replace, or Repair Molds and

Dies Used in Manufacturing. Amended the Arkansas code §26-52-447(a) related to sales tax refund related to the partial replacement and repair of certain machinery and equipment to include machinery and equipment purchased to modify, replace, or repair, either in whole or in part, existing molds and dies used directly in producing, manufacturing, fabricating, assembling, processing, finishing or packaging articles of commerce at a manufacturing or processing facility. Effective date: July 1, 2019. Manufacturers may utilize one of two of the options presented on the next page:

Option One:

- Provides a refund of one percent (1%) of the total sales and use taxes (5.875* percent) levied for the purchase and installation of machinery and equipment to modify, replace or repair, either in whole or part, existing machinery or equipment used directly in the manufacturing process.

Effective Date	Option 1 Percentage
July 1, 2014	1%
July 1, 2018	2%
July 1, 2019	3%
July 1, 2020	4%
July 1, 2021	5%
July 1, 2022	Full exemption of state sales and use taxes

Option Two:

- Provides for an increased refund of the total sales and use taxes (5.875* percent) levied. It is discretionary and may be offered by the Executive Director of AEDC to those manufacturers who have a major maintenance and improvement project totaling at least \$3 million to purchase and install machinery or equipment used directly in the manufacturing process. The project is subject to approval and the Company must enter into a financial incentive agreement with AEDC for the project prior to incurring project expenditures.

*The excise tax of one-eighth of one percent (1/8 of 1%) levied in Arkansas Constitution, Amendment 75, and the temporary excise tax of one-half percent (0.5%) levied in Arkansas Constitution Amendment 91, are not subject to refund under this section.

Unemployment Insurance Tax

New Businesses

A business with no previous employment record in Arkansas is taxed at 3.1% on the first \$7,000 of each employee's earnings until an employment record is established, usually within three years.

Existing Arkansas Businesses

2020 Experience-Based Rate range between 0.1% - 14.0% and average 1.54%. Each business' employment record is determined primarily by its taxable payroll and history of employee voluntary termination. The tax is determined by past experience and the amount of the reserve-ratio. The reserve-ratio is the excess of contributions paid over benefits charged as related to payroll. The higher the reserve-ratio, the lower the tax rate. Currently, the maximum weekly benefit in Arkansas is \$451.

Federal Unemployment Tax (FUTA)

Aside from state unemployment insurance taxes, employers pay a federal unemployment or FUTA tax. The FUTA tax rate is 6.0% with a taxable wage base of \$7,000. However, if states operate their unemployment insurance programs in compliance with federal law then the FUTA tax is reduced (credit) by 5.4% to 0.6%.

Property Tax

The State of Arkansas does not have a property tax; however, Arkansas cities and counties do collect a property tax, which is the principal source of revenue for funding local public schools.

The tax is calculated based on 20 percent of the true market value of real and to the usual selling price of personal property (vehicles, boats, etc.) and the average annual value of merchants' stocks and/or manufacturers' inventories based on millage rates in individual school districts. Business firms and individuals are subject to annual property tax on all real and personal property.

Local county tax assessors and collectors calculate and collect all personal and real property taxes. Revenue derived from personal property taxes supports your local government agencies. Personal property must be assessed each year before May 31. Any personal property taxes assessed after the deadline will include a monetary penalty determined by the respective county. These taxes are due on or before October 15 of the following year.

Real Property Option (Using Arkansas Average Millage Rate as an Example):

Total Market Value	x	Assessment Level	=	Assessed Value
\$4,000,000	x	20%	=	\$800,000

Assessed Value x Millage Rate = Annual Property Tax Due

\$800,000 x .04748 = \$37,984

Please note: Corporate personal property taxes (equipment, office furniture, etc.) follow a depreciation schedule for each type of property. The schedule below (with exceptions dependent on the area) is issued by each County Assessor's Office in Arkansas.

**COMMERCIAL PERSONAL PROPERTY
Depreciation Schedule**

Remaining Life Percent

Schedule Age	3	5	6	8	10	12	16	20	25	30	Schedule Age
1	.55	.73	.78	.87	.89	.91	.93	.94	.96	.96	1
2	.30	.53	.60	.71	.82	.85	.88	.88	.91	.93	2
3	.10	.39	.48	.59	.75	.79	.84	.85	.87	.89	3
4		.24	.35	.50	.68	.73	.79	.81	.84	.87	4
5		.10	.23	.42	.61	.67	.75	.78	.81	.84	5
6			.10	.33	.53	.61	.70	.74	.79	.82	6
7				.24	.46	.55	.66	.71	.76	.80	7
8				.15	.39	.49	.61	.67	.73	.77	8
9					.32	.43	.57	.64	.70	.75	9
10					.25	.37	.52	.60	.67	.73	10
11						.31	.48	.57	.64	.70	11
12						.25	.43	.53	.62	.68	12
13							.39	.50	.59	.65	13
14							.34	.46	.56	.63	14
15							.30	.43	.53	.61	15
16							.25	.39	.50	.58	16
17								.36	.48	.56	17
18								.32	.45	.53	18
19								.29	.42	.51	19
20								.25	.39	.49	20
21									.36	.46	21
22									.33	.44	22
23									.31	.42	23
24									.28	.39	24
25									.25	.37	25
26										.34	26
27										.32	27
28										.30	28
29										.27	29
30										.25	30

Industrial revenue bond financing is available to a company in Arkansas for land acquisition, building acquisition, construction and equipment. Bonds can be issued as either taxable or tax exempt, depending on certain IRS qualifications and restrictions.

The Arkansas Economic Development Commission Bond Guaranty Program was created to provide long-term, tax exempt and taxable financing for businesses expanding or locating in Arkansas. Although the city or county may issue the revenue bond, the company is still responsible for paying the principal and interest.

Under this program, the Commission can guarantee timely payment of principal and interest, up to \$5,000,000 principal per bond issue, to the bondholders. This guaranty gives the bonds a better rating, thereby making the bond more attractive to investors and reducing the company's cost to borrow money.

An additional benefit of bond financing is:

Cities and counties are authorized to enter into a Payment in Lieu of Tax (PILOT) Agreement with industrial projects resulting in a reduction of property taxes that would otherwise be due. Industrial Revenue Bonds are issued by the city or county on behalf of the project. Under PILOT agreements, title to the property is held in name only by the public issuer for the term of the bond issue. At the end of the bond term, title will transfer to the company. The amount of the payment in lieu of taxes must not be less than 35% of what normal taxes would have been. The PILOT Agreement may not last longer than the term of the bond.

Inventory Tax

All real estate and tangible personal property (inventory) shall be assessed for taxation in the taxing district in which the property is located and kept in use.

If destination of a company's tangible personal property (inventory) is within the state, taxes will be assessed at its prior year's value only in the county/city of its destination.

Freeport Law

If destination of a company's tangible personal property (inventory) is out of state, the following statement applies:

Arkansas' Freeport Law exempts from property tax those finished goods and raw materials in transit or awaiting shipment to out-of-state customers.

Workers' Compensation Rate for the Manufacturing Sector

2018

Type of Rate	Rate per \$100 payroll
Assigned Risk	\$2.04
Advisory Loss Cost	\$1.02

Source: NCCI July 2019 Arkansas Manufacturing Rates

The assigned risk rate is based on the inability for companies to obtain their own insurance, while the loss cost is for companies which are self-insured.