

ARKANSAS TAXATION REPORT



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Corporate Income Tax

1% - 4.3% OF NET INCOME

Arkansas corporate income tax is a graduated rate applied to the Arkansas Net Taxable Income (NTI). Taxable income is calculated according to a single-factor formula (sales during the tax period attributed to Arkansas). Brackets apply to both Arkansas-based and foreign corporations.

Beginning Jan. 1, 2024:

<u>NET TAXABLE INCOME</u>	<u>TAX RATE</u>
\$0 - \$3,000	1%
\$3,001 - \$6,000	2%
\$6,001 - \$11,000	3%
\$11,001 (+)	4.3%

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 ten (10) years succeeding the year of such loss or until the net operating loss has been exhausted or absorbed by the taxable income of a succeeding year.

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 creation, tier status, and employee wages.

Depreciation and Expensing of Property for Arkansas Income Tax Liability

Act 1 of the Third Extraordinary Session of the 93rd General Assembly amended the Arkansas Code at §26-51-428(a) to adopt the U.S. federal tax code at Title 26 U.S.C. §179 for calculating Arkansas income tax liability for depreciation of property. This is effective for property purchased in tax years beginning on or after January 1, 2022.

APPORTIONMENT OF BUSINESS INCOME AND THROWBACK RULE

Act 485 of the Regular Session of the 94th General Assembly amended Arkansas Code § 26-5-101 to phase out the state's throwback rule by tax year 2030. From tax year 2024 to tax year 2030, there will be a graduated schedule for income from sales under the Multistate Tax Compact. By sunseting Arkansas' income tax apportionment throwback rule this will continue to create a tax structure more appealing to businesses by encouraging job creation and investment in the state. This also improves the state's economic competitiveness with those states that do not have a throwback rule or an income tax.

<u>TAX YEAR</u>	<u>SALES SOURCED WITHIN ARKANSAS</u>	<u>SALES SOURCED OUTSIDE ARKANSAS</u>
January 1, 2024	85.71%	14.29%
January 1, 2025	71.42%	28.58%
January 1, 2026	57.13%	42.87%
January 1, 2027	42.84%	57.16%
January 1, 2028	28.55%	71.45%
January 1, 2029	14.26%	85.74%
January 1, 2030 and after	N/A	100%

For more information regarding your company's specific tax situation or if you have other questions, please contact

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Personal Income Tax

Act 1 of 2024 decreased income tax rates for corporations and individuals. 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 tax year beginning **January 1, 2024**, every resident, individual, trust, or estate having **net income of less than or equal to eighty-nine thousand six hundred dollars (\$89,600)** shall determine the amount of income tax due in accordance with the table set forth below:

<u>NET TAXABLE INCOME</u>	<u>TAX RATE</u>
\$0 - \$5,299	0.0%
\$5,300 - \$10,599	2.0%
\$10,600 - \$15,099	3.0%
\$15,100 - \$24,999	3.4%
\$25,000 - \$89,600	3.9%

For tax year beginning **January 1, 2024**, every resident, individual, trust, or estate having **net income of greater than eighty-nine thousand six hundred dollars (\$89,600)** shall determine the amount of income tax due in accordance with the table set forth below:

<u>NET TAXABLE INCOME</u>	<u>TAX RATE</u>
\$0 - \$4,500	2.0%
\$4,501 (+)	3.9%

Sales and Use Tax

6.5%

The Arkansas state 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.

Taxable services include sales of gas, water, electricity, solid waste disposal, telephone, and prepaid telecommunications and repair services. Repair and replacement parts for manufacturing machinery are generally taxable. However, as of July 1, 2022, certain sales and use taxes relating to manufacturing repairs and replacement parts are fully exempt from sales and use taxes.

The Arkansas compensating use tax of 6.5% is levied on tangible personal property purchased from outside the state of Arkansas for use, storage, or consumption within the state of Arkansas.

EXEMPTIONS FROM SALES AND USE TAXES

- Any interstate or international private communications service and any interstate or international 800 or 900 service.
- Property that becomes a recognizable, integral part of property manufactured, compounded, processed, or assembled for resale.
- Machinery and equipment used directly in manufacturing that are purchased for a new manufacturing facility or to replace existing machinery and equipment. Machinery and equipment required by Arkansas law to be purchased for air or water pollution control or for removal of sulfur pollutants from refined petroleum are also exempt.
- Catalysts, chemicals, reagents, and solutions that are consumed or used in producing, manufacturing, fabricating, processing, or finishing articles of commerce at manufacturing or processing plants or facilities; and/or to prevent or reduce air, water, and other contamination.
- Sewer services.
- Substitute fuels sold to be used in the manufacturing process in producing heat or power by burning. Such fuels include tires, solid waste, used motor oil, used railroad ties and petroleum-based waste.
- Electricity, liquefied petroleum gas and natural gas used (and separately metered) for: qualifying agricultural structures; qualifying aquaculture and horticulture equipment; for commercial grain drying and storage.
- Gas produced from biomass in a facility meeting federal eligibility requirements and sold to an entity for the purpose of generating steam, hot air, or electricity to be sold to the gas producer.
- Dental appliances sold by or to dentists or other professionals.
- Electricity used in the production of aluminum metal by the electrolytic reduction process.

- Electricity used in the chlor-alkali manufacturing process.
- Feedstuffs and medicines used in livestock production, including poultry for commercial production in Arkansas.
- Agricultural chemicals, fertilizer, and limestone used in the commercial production of agricultural products.
- Electricity and natural gas used by qualified steel manufacturers.
- Timber harvesting equipment and machinery.
- New or used farm equipment and machinery. (may include all-terrain vehicles)
- Natural gas used as fuel in the process of manufacturing glass.
- Forms which are consumed or destroyed during the manufacture of the item for which the form was built.
- Repair or maintenance services performed on railroad cars, parts, or equipment brought into the state only to be repaired, refurbished, modified, or converted.
- New aircraft manufactured or substantially completed in Arkansas for use exclusively by the purchaser outside of Arkansas.
- Natural gas and electricity used in the manufacture of new motor vehicle tires.
- Products used for baling, packaging, tying, wrapping, or sealing animal feed products.
- Telephone instruments shipped to Arkansas for repair or refurbishing which are shipped back to the state of origin.
- Parts or other tangible personal property incorporated into or that becomes part of commercial jet aircraft components, or commercial jet aircraft subcomponents, and the services required to incorporate the parts or other tangible personal property part of a commercial jet aircraft component.

SALES TAX REDUCTIONS

Act 915 of 2021 established the sales and use tax rate for energy (electricity, natural gas, and/or coal) used by manufacturers in the manufacturing process at the reduced rate of 0.625%.

LOCAL SALES AND USE TAXES

In addition to the state sales and use tax, local sales and use taxes may be levied by each city or county. These taxes are collected by the state and distributed to the cities and counties each month. However, businesses may apply to the Arkansas Department of Finance and Administration for a refund of qualified local taxes.

Unemployment Insurance Tax

New Businesses

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Taxable wage base = \$7,000 | Rate = 2.025%

A business with no previous employment record in Arkansas is taxed at 1.9% on the first \$7,000 of each employee's earnings until an employment record is established, usually within three years.

Existing Arkansas Businesses

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Rate = 0.225% - 10.125%

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.

Corporate Franchise Tax

0.3% OF CAPITAL STOCK

Listed below are the franchise tax rates for various entities under Arkansas Code § 26-54-104.

<u>FRANCHISE TAX TYPE</u>	<u>CURRENT RATE</u>
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

Capital Gains Tax Reduction

Act 1173 of 2015 allows for an exemption of 50% of net capital gain from state income tax beginning on or after July 1, 2016. The amount of net capital gain in excess of the million dollars (\$10,000,000) from a gain realized on or after January 1, 2014, is exempt from state income tax.

Tax payers having a net capital gain from a venture capital investment: 100% of gain is exempt from state income tax. Eligible investments are qualified technology-based, biotechnology enterprises and technology incubator clients doing business in Arkansas. "Qualified" is defined in Arkansas Code § 26-51-815.

Property Tax

The State of Arkansas does not have a property tax. However, Arkansas cities and counties do collect property tax, which is the principal local source of revenue for funding public schools. Business firms and individuals are subject to annual property tax on all real and personal property. The tax is calculated based on 20% of the total market value of real and personal property and the average annual value of merchants' stocks and/or manufacturers' inventories multiplied by local millage rates.

PAYMENT IN LIEU OF TAXES (PILOT)

Real and personal property financed by revenue bonds and general obligation bonds may be exempt from property taxes during the lease-amortization period in which a local government retains title to a property. Payments by businesses to local governments in lieu of property taxes are generally encouraged and negotiated between the locality and the company.

The negotiated PILOT shall not be less than 35% of the property taxes that would have been paid if the property were on the tax rolls, unless a lesser amount is approved by the Executive Director of the Arkansas Economic Development Commission and the Chief Fiscal Officer of the State of Arkansas.

ARKANSAS FREEPORT LAW

§ 26-26-1102

Arkansas's Freeport Law applies to finished inventories maintained by manufacturers within the state and to goods stored in warehouses in transit to destinations outside the state.

This law provides that all goods manufactured within the state and stored for shipment outside Arkansas shall not be assessed for taxation in the state.

Also covered in this tax exemption are goods that are moving through the state and are stored in a warehouse, dock, etc. in transit to a destination outside of Arkansas.



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