



Instructions for 2025 Form AR-KREC

Purpose of Form

Form AR-KREC, Arkansas Pass-Through Entity Members Reconciliation of Income, Deductions, Credits, and Other Items, is a new form for the 2025 tax year. It is designed to be completed by pass-through entities to reconcile the distributive share of items from the federal return to the amounts allowable under Arkansas law.

This form was developed to provide clarity and a straightforward method for reconciling federal to state amounts, particularly for entities domiciled in Arkansas. It allows for a clear calculation of adjustments and Arkansas-sourced income before those amounts are reported on the entity's income tax return.

Who Must File

Entities operating only in Arkansas must complete and attach Form AR-KREC with Form AR1100PET or AR1050 to reconcile Schedule K 'Amount Under Arkansas Law' and 'Arkansas Source Amount.' Multistate (apportioning) entities are not required to file AR-KREC; but may use it as needed for additional clarification to reconcile adjustments.

How AR-KREC is organized

The form has the same lines and headings as Arkansas Schedule K:

- Part I - Distributive Share Items (lines 1–12): Ordinary business income, rental, interest, dividends, royalties, capital gains/losses, §1231, "other income," §179, charitable contributions, and other deductions.
- Part II - Other Information (lines 13–18): Guaranteed payments, credits, items affecting partner/member basis, tax-exempt income, nondeductible expenses, distributions, investment income/expenses, and other items (attach statement).

Each line has four columns:

1. Federal Amount - the total from your federal Schedule K (Form 1065 or 1120-S), by line.
2. Adjustment - Arkansas-specific additions or subtractions needed to conform federal to Arkansas law.
3. Amount Under Arkansas Law - Column 1 \pm Column 2.
4. Arkansas Source Amount (see instructions) - the Arkansas-sourced share of Column 3 (via apportionment or allocation, described below).

Tip on computations on AR1100PET/AR1050: The net income (loss) computation on each return's Schedule K uses only lines 1–10 and subtracts lines 11–12c; lines 13–18 are informational/basis items. See the "Analysis of Net Income (Loss)" section on AR1100PET P2 and AR1050 P3.

Column-by-column instructions

Column 1 - Federal Amount

Enter the total entity-level amount reported on the federal Schedule K for the same line. Use losses as negative amounts. If a federal line requires a statement (for example, "Other income" or "Other deductions"), include an Arkansas statement as well.

Examples of federal cross-references appearing on Arkansas Schedule K pages:

- Net rental real estate income (attach federal Form 8825).
- §1231 gain/loss (attach federal Form 4797).
- §179 deduction (attach federal Form 4562).

These attachment references also appear on the Arkansas Schedule K pages of AR1100PET and AR1050 and apply to the return package.

Column 2 - Adjustment

Enter the net Arkansas modification needed to convert the federal amount to Arkansas law. Use positive numbers for additions and negative numbers for subtractions. Attach a statement if you need more detail to break out several Arkansas modifications.

Note: The apportionment of income schedules on AR1100PET and AR1050 reference AR1100ADJ for add-backs/subtractions at the return level. Such adjustments are for calculating income apportionable to Arkansas. As a result, multistate entities are not required to complete the AR-KREC. The **AR1100ADJ is required** for multistate - apportionment entities.

Column 3 - Amount Under Arkansas Law

Compute Column 1 \pm Column 2. This is the Arkansas-law total for the line item before sourcing for apportionment/allocation. Multistate entity filers will use the Amounts under Arkansas Law column as a baseline to compute the apportioned/allocated amounts.

Column 4 - Arkansas Source Amount

Determine the Arkansas-sourced portion of Column 3 using the same sourcing method indicated on your return:

Entity Operating Only in Arkansas: The Arkansas source amount generally will equal the amounts reported under column - Amount Under Arkansas Law. If further adjustments are made outside the scope of column 2 - Adjustment, please attach a schedule. Note: Arkansas Source Amount column is required to be completed even if no changes in amounts were made from column 3 - Amount Under Arkansas Law.

Multistate-Apportionment: Apply the single-sales-factor apportionment percentage shown on your return (AR1100PET P3, Part B, line 5; AR1050 Schedule A, Part II, line 5). Use this factor for apportionable business income and related deductions; directly allocate any items Arkansas law treats as specifically sourced (attach an allocation schedule).

Alternative/Direct methods: If you are approved for Direct Accounting or must use Special Industry/Alternative Apportionment (AR-718), compute Column 4 using that method and keep the supporting schedule with the return (the apportionment pages on AR1100PET/AR1050 reference these options and where to place the percentage).

Documentation: Keep your apportionment/allocation computations by line (especially for "Other income," "Other deductions," and "Other items"), and attach a statement.



Instructions for 2025 Form AR-KREC (Cont.)

Specific Line Instructions

The form is divided into four columns to clearly show the reconciliation from the federal amounts to the final Arkansas source amounts.

The totals from this column for each line item will be used to complete the "Arkansas Source Amount" column on the Schedule K of Form AR1100PET or AR1050.

Part I - Distributive Share Items

1. Ordinary business income (loss). Enter the federal Schedule K amount; adjust for Arkansas differences; source per your apportionment method.
2. Net rental real estate income (loss). (Attach federal Form 8825 with the return.) Adjust and source under Arkansas rules.
3. Other net rental income (loss). Include non-real-estate rentals; attach a schedule if needed.
4. Interest income. Enter total; adjust for any Arkansas modifications; source as required.
5. Ordinary dividends. Enter total; adjust and source as required.
6. Royalties. Enter total; adjust and source as required.
7. Net short-term capital gain (loss). Enter total; adjust and source as required.
8. Net long-term capital gain (loss). Enter total; adjust and source as required.
9. Net §1231 gain (loss). (Attach federal Form 4797 with the return.) Enter total; adjust and source as required.
10. Other income (loss) (See instructions). Describe the type(s) on an attached statement (use federal K codes if helpful). Enter totals; adjust and source each component.
11. Section 179 deduction. (Federal Form 4562 accompanies the return.) Enter federal; show any Arkansas-law differences in Column 2; source consistent with business activity.
- 12a–12b. Charitable contributions (cash and non-cash). Enter federal totals; adjust under Arkansas law; allocate/apportion as appropriate.
- 12c. Other deductions (See instructions). Describe on an attached statement (type and amount). Enter, adjust, and source as applicable.

Part II — Other Information

(Informational/basis items; not part of the net income line on Schedule K's analysis—see note above.)

13. Guaranteed payments. Enter and source under your method; report by member as applicable.
14. Credits. Report total credits distributable to members (attach the specific Arkansas credit form(s) with the return where required).
15. Items affecting partner/member basis. Enter items that increase/decrease basis but aren't captured above.
- 16a–16b. Tax-exempt interest income / Other tax-exempt income. Report totals and Arkansas-source share.
- 16c. Nondeductible expenses. Enter total nondeductible amounts (e.g., expenses related to tax-exempt income).
- 17a–17b. Distributions of cash/marketable securities / other property. Enter totals and the Arkansas-source share if applicable.
- 18a–18b. Investment income / investment expenses. Enter, adjust, and source consistent with your apportionment or allocation method.
- 18c. Other items and amounts (Attach statement). Use this line for any remaining Schedule K-type items; label each clearly and provide sourcing.

Reporting on Tax Forms

Form AR-KREC is required to be completed **once for the entity**. The information calculated on Form AR-KREC is used to complete Schedule K of the income tax return.

- **Form AR1100PET:** Report the amounts from the **Amount Under Arkansas Law** column and the **Arkansas Source Amount** column of Form AR-KREC on the corresponding columns of **Schedule K, Page 2**.
- **Form AR1050:** Report the amounts from the **Amount Under Arkansas Law** column and the **Arkansas Source Amount** column of Form AR-KREC on the corresponding columns of **Schedule K, Page 3**.
- **Entities operating only in Arkansas:** Report the amount under the **Arkansas Law** column on Schedule K. Carry the total under Arkansas Law to the **Arkansas Source Amount** column.