



ARKANSAS

2017

C Corporation Income Tax

Instructions

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Tax Year 2017:

Due to increasing numbers of taxpayers electronically filing their tax returns, to conserve paper and mailing costs, Corporation Income Tax booklets will not be mailed.

To obtain a booklet you may:

Call the Corporation Income Tax office at (501) 682-4775 or
Go to www.dfa.arkansas.gov

The due date for filing Arkansas Corporation Income tax returns is 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.

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

WHAT'S NEW for 2017 C Booklet

NOTE: THE FOLLOWING IS A BRIEF DESCRIPTION OF EACH ACT AND IS NOT INTENDED TO REPLACE A CAREFUL READING OF THE ACT IN ITS ENTIRETY.

Act 48 of 2017 provides that Arkansas corporate income tax returns be filed by April 15 for calendar years beginning on and after January 1, 2016, and the 151st day of the 4th month following the end of the tax year for all fiscal year returns.

Act 155 of 2017 adopts recent changes to the Internal Revenue Code; ACA 6-84-102 and 6-84-103; ACA 6-84-105(b), 6-84-105(c)(I), 6-84-106, 6-84-108(b), 6-84-109(b), 6-84-111, 6-84-113; ACA 26-51-309; ACA 26-51-404(a)(4), 26-51-404(b)(10), 26-51-404(b)(14), Title 26 U.S.C. 104 and 106 as in effect on January 1, 2011, Title 26 U.S.C. as in effect on January 1, 2017; 26-51-404(b) and (19), Title 26 U.S.C. 132 as in effect on January 1, 2017; 26-51-409(a); ACA 26-51-411(h); Title 26 U.S.C. 267 as in effect on January 1, 2017; ACA 26-51-412(d), Title 26 U.S.C. 351, 354-358, 361, 362, 367 and 368 as in effect on January 1, 2017; ACA 26-51-414(a)(I); Title 26 U.S.C. 72, 219, 402-404, 406-416 and 457 as in effect on January 1, 2017; ACA 26-51-415; Title 26 U.S.C. 163 as in effect on January 1, 2017; ACA 26-51-419; Title 26 U.S.C. 170 as in effect on January 1, 2017; ACA 26-51-424(a); ACA 26-51-428(a); Title 26 U.S.C. 167 and 168(a)-(j) as in effect on January 1, 2017 and 26 U.S.C. 179 as in effect on January 1, 2009; Title 26 U.S.C. 851 as in effect on January 1, 2017; ACA 26-51-440(a)(I); ACA 26-51-815(c); Title 26 U.S.C. 1202 as in effect on January 1, 2017. The effective date of the Act will be retroactive for tax years beginning on and after January 1, 2015.

Act 374 of 2017 to make technical corrections to Title 15 of the Arkansas Code concerning Economic Development. Repeals ACA 15-3-101(9) as obsolete; Repeals ACA 15-4-1224 as obsolete; amends ACA 15-4-1704(e); ACA 15-4-2714(a); Arkansas Code Title 15, Chapter 4, Subchapter 29 is repealed as obsolete; Amends ACA 15-5-407(a)(I) and (a)(2); ACA 15-5-703(12) is repealed as obsolete; amends ACA 15-10-801(c); ACA 15-11-604 is repealed as obsolete.

Act 393 of 2017 amends ACA 26-51-2204(b) for the Arkansas Historic Rehabilitation income tax credit by increasing the maximum expenditures eligible for the 25% credit from \$500,000 to \$1,600,000.00. Effective July 1, 2017.

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.

Act 482 of 2017 amends ACA 26-51-802(c) to require that Partnership income be determined for state income

tax purposes by using an apportionment method. Partners will continue to allocate partnership income. Effective for tax years beginning on and after January 1, 2018.

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 corporations to participate in composite returns. Effective for tax years beginning on and after January 1, 2018.

Act 1042 of 2017 amends ACA 26-51-509 and repeals Arkansas Code Title 26, Chapter 51, Subchapter 16 to expand the income tax credit allowed for employing an apprentice in an apprenticeship program or work-based learning program. Effective for tax years beginning on or after January 1, 2018.

Act 1046 of 2017 amends ACA 26-51-506(b) for certain tax incentives, ACA 26-51-506(c) for income tax credit for waste reduction, reuse, or recycling equipment and to clarify the distribution of income tax credits for waste reduction, reuse or recycling equipment and ACA 26-51-506(c)(3)(D)(vi) for financial incentive plans.

Act 1125 of 2017 amends ACA 26-51-1005(b)(3) concerning the Water Resource Conservation and Development Incentives Act and amends the carry forward provision relating to the income tax credit allowed for water impoundments. Effective for tax years beginning on and after January 1, 2017.

Act 1149 makes technical corrections to Title 15 of the Arkansas Code concerning Natural Resources and Economic Development, ACA 15-4-2802(4) and ACA 15-4-2804, ACA 15-4-2805 are repealed, amends ACA 15-4-3605(e), ACA 15-5-1607, ACA 15-5-1805(b)(1)(A)(ii), ACA 15-10-903(a) and 903(d)(4), ACA 15-13-102(12), ACA 15-13-306(f)(2)(C), ACA 15-22-808 is amended to conform the use of the fund of its dual codification in ACA 19-5-1042; ACA 15-55-214 is repealed to remove obsolete language.

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.

AR1100-WH is a new form for 2017 for fiscal year filers, which corresponds with Line 36 on Form AR1100CT for corporations to report withholding tax paid on their behalf by Partnerships and will need to be included with Form AR1100CT. For calendar year filers It will be effective for January 1, 2018.

IMPORTANT REMINDERS FOR 2017

For tax year beginning January 1, 2016, Arkansas adopted the due date of April 15th for calendar year filers. The Extension due date will be October 15th.

For tax years beginning on or after January 1, 2010 the AR1100CTX, Arkansas Amended Return form was removed. An Arkansas Amended Return will be filed on the AR1100CT by checking the appropriate box as filing an Amended Return. Taxpayers should use AR1100CTX for tax years 2009 and prior. A copy of the corporation's Federal Amended Return or IRS audit report or an explanation for filing the Arkansas Amended Return should be attached to the AR1100CT.

To correctly process the Corporation's return it is essential that every applicable line and space on Form AR1100CT and related schedules be typed or printed including tax year, corporation name, address, city, state, zip code, telephone number, FEIN (Federal Employer Identification Number), date of incorporation, federal business code (NAICS business code used on the federal return), date began business in Arkansas, and filing status (check one box only). If consolidated box 4 is checked, you must also indicate number of entities in Arkansas in the space immediately to the right of Filing Status 4 description.

Consolidated filers must complete a Form AR1100CT (with Schedule A if applicable) for each corporate entity and a separate Form AR1100CT for the consolidated group. If Filing Status 4 is checked, do not check any other filing status box. An Arkansas consolidated group with its members having business activity only within Arkansas must check the box for Filing Status 4.

To correctly process Corporate Income Tax payments, use the AR1100ESCT for Estimate payments and AR1100CTV for Corporate income tax payments. For Composite payments use the AR1000CRES for Estimate payments and AR1000CRV for Individual income tax payments.

For faster processing of a refund warrant the taxpayer wants applied to the next year's estimate payment, please do not write VOID on the warrant. Return it to our office with a written request asking that it be applied and to which tax year.

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 on-line, 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 payments received, view recent account activity, view correspondence from the department.

ATAP allows taxpayers to access their following accounts online: Corporation Income Tax, Sales and Use Tax, Withholding Tax, Motor Fuels Tax, Natural Gas, Severance Tax, Individual Income Tax.

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.

E-File of corporation income tax return instructions for filing are posted at www.dfa.arkansas.gov. The Federal Return must be attached to the Arkansas E-File return.

Privately Designed Tax Forms.

Computer generated substitute tax forms are not acceptable unless the computer generated form is approved (in advance of use) by the Manager of the Income Tax Processing Section.

The 2017 Corporation Income Tax Instructions and most of the commonly requested forms are now on the internet. The instructions and forms may be viewed or downloaded from the following address: **www.dfa.arkansas.gov**. The website will also have prior year income tax instructions and forms, regulations and frequently asked questions.

For questions or comments you may contact the Corporation Income Tax Section through E-Mail at Corporation.Income@dfa.arkansas.gov, or call:

General Information: (501) 682-4775
Audit Unit: (501) 682-4776
Fax Number: (501) 682-7114

The physical location for this section is:

Corporation Income Tax Section
Ledbetter Building, Room 2250
1816 West 7th Street
Little Rock, AR 72201-1030

The mailing address is:

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

PLEASE DO NOT STAPLE RETURNS, SCHEDULES OR OTHER ATTACHMENTS.

The Arkansas Corporation Income Tax Return must Return must be organized as follows:

Other than Filing Status 4 Filers:

- Arkansas Form AR1100CT (front)
(Must be signed on Schedule A, page 2)
- Arkansas Form AR1100CT Schedule A, if applicable
- Arkansas Schedule of Check-Off Contributions, Form AR1100CO if applicable
- Arkansas approved extension, if applicable
- Arkansas Reconciliation Schedule, AR1100REC
(Filing Status 1 Only)
- Business Incentive Tax Credit Certificates
(originals), if any, Schedule AR1100BIC if applicable.
- All other schedules pertaining to the Arkansas return
- Copy of Federal return with supporting schedules

Corporations with Filing Status 2 must complete Schedule A (Apportionment Schedule).

Filing Status 4 Filers:

- Arkansas Form AR1100CT (page 1 only) for Group
(Must be signed on Schedule A, page 2)
- Arkansas Form AR1100CT for each entity (including parent) within the Group, and Schedule A, if applicable
- Arkansas Schedule of check-off Contributions, form AR1100CO, if applicable
- Arkansas approved extension, if applicable
- Arkansas Reconciliation Schedule, Form AR1100REC
- Business incentive Tax Credit Certificate (original)
if any, Form AR1100BIC, if applicable
- All other schedules pertaining to Arkansas Return
- Copy of Federal Return with supporting schedules

Corporations with Filing Status 4 (Consolidated Return) must complete a separate AR1100CT and Schedule A, if applicable, for each member with gross income from sources within Arkansas and consolidate the applicable taxable income on a Consolidated Group AR1100CT, and attach a copy of the Federal return. Each member's Arkansas Business Incentive Tax Credit may be combined to reduce the consolidated group's total tax liability without separate entity restrictions except for the Arkansas Economic Development Credit and ArkPlus Credit. Contribution limits are calculated on a separate corporation basis for consolidated filers.

All percentages used in determining the apportionment factor on Schedule A must be calculated to 6 places to the right of the decimal (example 35.333452%).

Estimated Tax Requirements.

ACA 26-51-911(c)(1) and **ACA 26-51-913(a)(2)** adopt federal due dates for making declarations of estimated Arkansas income tax. Arkansas taxpayers are required to file an Estimated Declaration when their liability exceeds \$1,000. The AR1100ESCT, Estimate Payment Vouchers 1 through 4 and Extension Voucher 5 for tax year 2018 are not included in these instructions. You will find them at our website, **www.dfa.arkansas.gov**. Filling the forms out online will automatically fill in the taxpayer information and provide the appropriate scan line needed for proper processing.

To make sure payments are processed correctly, please use the correct payment voucher. Use the AR1100ESCT Vouchers for Corporation Income tax payments and for Individual Composite payments use the AR1000CRES vouchers.

ACA 26-19-106 provides that a corporation with an estimated quarterly income tax liability equal to or greater than \$20,000.00 must pay the estimated quarterly income tax due by electronic funds transfer (Refer to General Instructions). Corporations that underestimate their corporate tax liability must calculate any penalty due as applicable, on Part 2 of Form AR2220, and enter the penalty amount on page 1, Line 45 of Form AR1100CT. Enter the numerical exception from Part 3 in the box on Line 45 if applicable.

If a corporation is required to remit Arkansas estimated corporation income tax payments through the Electronic Funds Transfer (EFT) method, **ACA 26-19-107** authorizes the assessment of an EFT penalty equal to five percent (5%) based on the amount of taxes due. Taxpayers who are required to pay by EFT will be notified in writing by the Department. **The Form EFT-CT is no longer used to register for EFT payments. You will find current instructions at www.dfa.arkansas.gov/offices/exciseTax/salesanduse/Documents/ACHCreditinstructions.pdf or by calling Excise Tax at (501) 682-7105.**

Copy of Federal Return is Required.

ACA 26-51-806(d)(1) requires a completed copy of corporation's Federal Corporate Income Tax Return, Form 1120, 1120S or other form, including all schedules and documents, be attached to the Arkansas "C" Corporation Income Tax Return, Form AR1100CT. "The Federal return may be submitted by CD, PDF, or TIF format" or attached in paper form.

Signatures and Verification

The return must be signed by a corporate officer in the space provided on the bottom of Schedule A, page 2 of Form AR1100CT. The return of a foreign corporation having an agent in the State may be sworn to by such agent. If receivers, trustees in bankruptcy, or assignees are operating the property or business of the corporation, such receivers, trustees, or assignees shall sign the return for such corporation under certification. The return must be signed in the space provided on the bottom of Schedule A, page 2 of Form AR1100CT. For consolidated returns, only the group Form AR1100CT, Schedule A, page 2, must be signed. Refer to General Instructions.

2017 State of Arkansas

Domestic and Foreign Income Tax General Instructions

Who Must File

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. Consolidated returns are permitted under certain conditions. D.I.S.C and F.S.C. Corporations are treated as regular business corporations. Business corporations, D.I.S.C and F.S.C. Corporations should use Arkansas Form AR1100CT. Small business "S" corporations with valid Arkansas "S" elections must use Form AR1100S. Financial institutions must check the appropriate filing status box on the Form AR1100CT or AR1100S. A pass-through entity filing as an LLC or Partnership or other pass-through entity electing to file as a corporation should check the box on Form AR1100CT. **(Refer to ACA 4-32-1313 or ACA 26-51-802.)**

Consolidated Returns

All corporations that are eligible members of an affiliated group filing a Federal Consolidated corporation income tax return may elect to file an Arkansas Consolidated income tax return. However, only corporations in the affiliated group that have gross income from sources within the State that is subject to Arkansas income tax are eligible to file consolidated income tax returns in Arkansas. An Arkansas consolidated group with its members having business activity only within Arkansas must check the box for Filing Status 4.

In computing Arkansas consolidated taxable income or loss to which the tax rate is applied, the separate net income or loss of each corporation that is entitled to be included in the affiliated group will be included in the consolidated net income or loss to the extent that its net income or loss is separately apportioned or allocated to Arkansas. All corporations in the affiliated group that are eligible to file an Arkansas Consolidated corporation income tax return must consent to, and join in, the filing of the return prior to the last day for filing. The filing of the consolidated return will be considered as consent of each eligible corporation in the affiliated group.

Corporations with Filing Status 4 (Consolidated Return) must complete a separate Form AR1100CT reflecting taxable income before intercompany eliminations and adjustments, and Schedule A, if multistate, for each member with gross income from sources within Arkansas. Each member's separate net income or loss must be consolidated on a group Form AR1100CT beginning on Line 30. Schedule A should not be completed for the

consolidated group, but must be included for signature by a corporate officer. **A complete copy of the Federal return must be attached. A schedule listing each intercompany elimination and adjustment, identifying the entity by FEIN to which it applies must be submitted if this information is not clearly shown on the Federal return.**

Time and Place For Filing

Arkansas adopted a new due date for Corporate Income tax returns for tax years beginning on or after January 1, 2016. Arkansas Corporate Income Tax Returns are now due the 15th day of the 4th month following the end of the tax year. This includes short tax years. Cooperative Association returns are due on or before the 15th day of the 9th month following the close of the tax year. Exempt organizations are due on the 15th day of the 5th month. Forms must be filed with the:

Department of Finance and Administration
Corporation Income Tax Section
P O Box 919
Little Rock, AR 72203-0919

Extensions 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. When filing the Arkansas AR1100CT, 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 extended 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, by the federal extended due date or, if applicable, the Arkansas extended due date to the Corporation Income Tax Section. **If you have an automatic federal extension and do not want to request an additional 60 day Arkansas extension, you do not fill out the Form AR1155. Extensions using Form AR1155 are only available for the filing of original returns.** Approved Arkansas extension(s) must be attached to the Arkansas income tax return when it is filed. Submit payment with the AR1155 Voucher that is attached to the form **only** if you are requesting an Arkansas Extension, unless paying by EFT method.

Amended Returns

The Amended Form AR1100CTX is not included in the 2017 C Corporation Income Tax Instructions. Taxpayers filing a 2017 tax year amended return must file on the 2017 Form AR1100CT and check the Amended Return box at the top of the form. Amended returns for tax year 2009 and prior tax years must be filed on the 2009 Form AR1100CTX. Arkansas amended returns must be filed within three (3) years from date of filing the original return or two (2) years from date of payment of tax on the original return, whichever is later, except when required to report the final results of an IRS audit. A copy of the corporation's federal amended return or IRS audit report must be attached to the Arkansas amended return. Refund requests must be filed on the amended return. Attach schedules and an explanation for filing the Arkansas amended return to the AR1100CT. If multistate, attach amended apportionment schedule. If consolidated, attach separate company amended AR1100CT. Interest at 10% per annum will be computed on a daily rate of .00027397 from the original return due date to date amended return is filed and the tax is paid.

Report of Change in Federal Taxable Income

An agreed Revenue Agent's Report (RAR) must be reported on an amended return using the appropriate Form AR1100CT or AR1100CTX, (refer to Amended Return instructions). The RAR must be reported to this State within 180 days after the receipt of the RAR or supplemental report reflecting correct net income of taxpayer. ACA 26-18-306(b)(1-3) 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 a taxpayer fails to disclose Federal Revenue Agent's Report.

Period Covered

A taxpayer must calculate his Arkansas income tax liability using the same income year for Arkansas income tax purposes as used for Federal income tax purposes (**ACA 26-51-402**). **Arkansas Regulation 1.26-51-102(17)(B)** states, A fractional part of a year (short tax year) means a period of less than twelve (12) months. If a short tax year ends on or before the 15th day of the month, then the short tax year shall be deemed to have ended on the last day of the previous month. If a short tax year ends on or after the 16th of the month, the the short tax year shall be deemed to have ended on the last day of the current month.

Filing Declaration of Estimated Income Tax

Every taxpayer who can expect to owe Arkansas income tax in excess of \$1,000 must make a declaration and timely pay the estimated tax in equal installments. The declaration shall be filed with the commissioner on or before the 15th day of the 4th month of the tax year of the taxpayer, except those taxpayers whose income from farming for the tax year can reasonably be expected to amount to at least two-thirds (2/3) of the total gross income from all sources for the tax 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 tax year or 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 tax year. To avoid penalty, all other taxpayers must pay quarterly estimates on or before the 15th day of the 4th month, 6th month, 9th month and 12th month of the tax year. The Form AR1100ESCT, Estimate payment vouchers 1 through 4 and Extension payment voucher 5 are not included in these instructions. Filling out the forms on our website, **www.dfa.arkansas.gov**, will automatically fill in the taxpayer information and provide the appropriate scan line needed for proper processing.

Corporations may remit estimated and extension corporation income tax payments through ATAP (Refer to **www.atap.arkansas.gov** for instructions).

If the Director determines that a corporation's estimated quarterly Arkansas income tax liability exceeds \$20,000.00, the corporation is required to pay the estimated quarterly income tax payments due by electronic funds transfer (EFT). The EFT must be made no later than the day before each quarterly due date. If the corporation timely pays the estimated quarterly income tax payments by EFT, the corporation is not required to file a quarterly estimated income tax voucher. If a taxpayer is required to submit estimate payments by EFT, a letter will be sent by DFA notifying the taxpayer of the requirement.

Accounting Methods

A taxpayer must calculate his Arkansas income tax liability using the same accounting method for Arkansas income tax purposes as used for Federal income tax purposes. If a corporation changes its accounting method, attach a copy of any certification or approval received from the Internal Revenue Service authorizing the change of accounting method to the corporation's Arkansas return. (**ACA 26-51-401**).

Payment of Taxes

The tax should be paid by attaching to the return a check or money order payable to the order of "Department of Finance & Administration." Enclose proper payment voucher with all remittance checks and write the corporation's FEIN or CIT account ID number and the tax year on the check. Payments with returns **may not** be made by EFT. Tax due on returns may be paid through ATAP. (Refer to www.atap.arkansas.gov.) **To avoid interest and/or penalty the tax must be paid in full by the original return due date, which is the 15th day of the 4th month after the close of the corporation's tax year. An approved federal and/or state extension, which allows the corporation's return to be filed on or before the approved extended due date, does not extend the time period to pay the tax due in full. Interest and/or penalty will be assessed on any tax due paid after the original return due date as referenced above. Payments with a return should include the AR1100CTV payment voucher for Corporation Income tax payments and the AR1000CRV for Individual Income tax.**

Do not send cash by mail, nor pay in person, except at the:

Corporation Income Tax Section
Department of Finance and Administration
Ledbetter Building, Room 2250
1816 West 7th Street
Little Rock, AR 72201-1030

Penalties and Interest

The following penalties shall be imposed:(ACA 26-18-208)

- 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.

If any part of any deficiency or tax liability is due to negligence or intentional disregard of rules and regulations, a penalty of 10% of the total amount shall

be added. Any part of any deficiency determined to be due to fraud shall be subject to a 50% penalty. Interest at the rate of 10% per annum shall be assessed on all tax deficiencies. **Interest will be computed using a daily rate of .00027397 from the 15th day of the 4th month after the close of the tax year until the date the tax is paid.**

Balance Sheets

The balance sheet submitted with the return should be prepared from the books and should agree therewith. If there are any differences between current year beginning and prior year ending balance sheets, submit schedule of reconciliation with the return. All corporations engaged in an interstate and intrastate trade or business and reporting to the Surface Transportation Board or to any national, state, municipal or other public officer, may submit copies of their balance sheet, prescribed by said Board, national, state or municipal authorities, as of the beginning and end of the taxable year.

Specific Line Instructions for Page 1 of AR1100CT

Line 7-Gross Sales: Enter the gross sales, less goods returned and any allowances or discounts from the sale price.

Line 8-Less Cost of Goods Sold: Enter the cost of goods sold. 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 cost or market, whichever is lower. 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 Profit: Enter the gross profit which is obtained by deducting Line 8 from Line 7.

Line 10-Dividends: Enter taxable dividends only. Dividends from 80% or greater directly owned subsidiaries are exempt.

Line 11-Taxable Interest: Enter interest income taxable in Arkansas. Enter amounts received or credited as interest to the corporation during the tax year on bank deposits, C.D.'s, notes, mortgages, corporation bonds, taxable U.S. interest and all other interest including interest on out-of-state municipal bonds (out-of-state municipal bonds are taxable in Arkansas). **Attach schedule to the Arkansas return identifying each U.S. Agency or political subdivision of Arkansas**

and Schedule AR1100REC to reconcile amounts received that are not included as taxable interest on the Arkansas return.

Line 12-Gross Rents/Gross Royalties: Enter all gross rents and royalties. Attach schedule showing amounts received from rents and royalties separately, if not shown separately on federal return. The schedule should reconcile Arkansas and federal rents and royalties.

Line 13-Gains or Losses: Enter the total net gain or loss. Capital loss is reported in the tax year in which it is incurred. Gains and Losses must be adjusted to indicate any difference in Arkansas and federal basis.

Line 14-Other Income: Enter all other taxable income for which no place is provided on the return. The holder of the ownership interest in a Financial Asset Securitization Investment Trust (FASIT) must list the net income from prohibited transactions on this line. Attach schedule explaining all items included.

Line 15-Total Income: Enter the net amount of Lines 9 through 14 inclusive.

Line 16-Compensation of Officers/Other Salaries and Wages: Enter the compensation of all officers and employees, in whatever form paid. Attach a schedule showing amounts paid to officers and employees separately, if not shown separately on the federal return. The schedule should reconcile Arkansas and Federal compensation of officers and employees.

Line 17-Repairs: Enter the amount of repair costs for business property.

Line 18-Bad Debts: Enter debts which have been definitely ascertained to be worthless and have been charged off within the year. The Reserve Method for computing and deducting bad debts on receivables may be used only by small banks and thrift institutions. A debt previously charged off as bad, if subsequently collected, must be reported as income for the year in which collected.

Line 19-Rent on Business Property: Enter rent paid for business property.

Line 20-Taxes: Enter taxes paid or accrued during the taxable year. Do not include Arkansas or federal income taxes or taxes assessed against local benefits tending to increase the value of the property assessed. Attach Schedule AR1100REC to the AR1100CT to reconcile federal and Arkansas taxes.

Line 21-Interest: Enter interest paid on business indebtedness.

Line 22-Contributions: Enter the Arkansas allowable amount for charitable contributions. Title 26 U.S.C.170 as in effect on January 1, 2017, regarding deductions for charitable contributions, is adopted for the purpose of computing Arkansas income tax liability with the exception of the carryforward period. A five (5) year carryforward period is allowed and is carried over separately from the NOL. No carryback of contributions is allowed. The Arkansas contribution deduction allowable will be calculated using Arkansas taxable income rather than Federal taxable income. The contribution limits are calculated on a separate corporation basis for consolidated filers. **(ACA 26-51-419)(a)(1)**

Line 23-Depreciation: Enter depreciation expense claimed. **ACA 26-51-428** did not adopt the bonus depreciation provisions contained in Internal Revenue Code 168(k). The following IRC Code was adopted: Sections 167, 168(a)-(j), of the IRS Code of 1986 as in effect on January 1, 2017 and Section 179 as in effect on January 1, 2009 for property purchased in tax years beginning on or after January 1, 2014. For tax years beginning on or after January 1, 2011 the Section 179 expense election is \$25,000 with phase out beginning at \$200,000. **Attach Arkansas Schedule AR1100REC to the AR1100CT to reconcile Federal and Arkansas depreciation (for Filing Status 1 Only).**

Line 24-Depletion: Enter depletion claimed. Arkansas allows Federal depletion allowances as in effect January 1, 2007. In computing the depletion allowance deduction allowed for oil and gas wells, the depletion deduction shall be controlled by the provisions of IRC Section 613A as in effect on January 1, 2011.

Line 25-Advertising: Enter amount for business advertising.

Line 26-Other Deductions: Enter other deductions authorized by law. Attach schedule explaining all items included. Pension Profit Sharing and Employee Benefits deductions remain valid deductions. Those lines were removed from Form AR1100CT to allow other modifications.

Domestic Production Activity Deduction is not an allowed deduction for Arkansas.

Line 27-Total Deductions: Enter the total of Lines 16 through 26 inclusive.

Note: Expenses of Earning Tax Exempt Income

ACA 26-51-431(c) provides that no deductions shall be allowed for interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the taxes imposed by Arkansas law; expenses otherwise allowable as deductions which are related to tax exempt income other than interest; expenses otherwise allowable as deductions which are related to non-business income.

Example a: (interest expense):

$$\frac{\text{avg. non-tax assets}}{\text{avg. total assets}} \times \text{disallowed interest expense} = \text{expense}$$

Example b: (non-business income):

$$\% \times \text{non-bus. inc.} = \text{disallowed expense}$$

Taxpayer must justify % used and submit schedule. State may increase % if justification can be made.

Line 28-Taxable Income Before Net Operating Losses: Enter the amount from subtracting Line 27 from Line 15.

Line 29-Net Operating Losses: Enter on line 29, or Schedule A, Part C, Line 3, net operating losses being claimed but do not exceed net taxable income on the return. Losses must be carried forward under the following conditions: *(Attach AR1100NOL form)*

(A) Net operating losses must be carried over to the next succeeding taxable period and annually thereafter for a total period of five (5) tax periods succeeding the year of such net operating loss or until such net operating loss has been exhausted or absorbed by the taxable income of any succeeding year, whichever is earlier.

(B) For computing the amount of NOL that will be allowed for carryforward purposes, there shall be added to gross income all nontaxable income, not required to be reported as gross income by law, less any related expenses which will otherwise be nondeductible. Multistate tax filers must follow above procedures and apportion NOL by the apportionment formula for year of loss, applying the Arkansas percentage factor for the year of loss against total apportionable loss for that year. Failure to provide (with the return) a complete schedule of net operating losses may result in disallowance of any NOL claimed.

Carryback of NOL is not allowed. Contributions are not to be added to NOL and carried forward.

Net operating losses of a corporation which merges into another corporation will be allowed under the following conditions:

- (1) The acquiring corporation must own at least 80% of the acquired corporation's voting stock, **and**
- (2) Assets of the merged corporation must earn sufficient profits in the post-merger period to absorb the carryover losses claimed by the surviving corporation.

Attach schedules of proof and computations to the return on which any NOL is being carried forward.

Line 30-Net Taxable Income: Enter the amount of taxable income (Line 28 less Line 29 or Schedule A Line C4 on page 2). (If Amended Return box checked, enter amended net taxable income).

Line 31-Tax from Table: Enter Tax from Table (pages 25-26).

Line 32-Business Incentive Credits: Enter Business Incentive Credits, attach AR1100BIC and original certificates.

Line 33-Tax Liability: Enter Tax Liability. (If Amended Return box checked, enter amended tax liability). (Line 31 less Line 32)

Line 34-Estimated Tax Paid: Enter Estimated Tax paid, including estimate carryforward from prior year.

Line 35-Payment with Extension Request: Enter payment made with extension request.

Line 36-Withholding Payment: Enter amount of withholding from a partnership, if applicable, attach Form AR1100-WH

Line 37-Amended Return Only: Enter Net tax paid (refunded or carried forward) on previous return(s) for this tax year.

Line 38-Overpayment: Enter Overpayment amount (Line 34 plus Line 35 plus Line 36; plus or minus Line 37, less line 33).

Line 39-Amount Applied to 2018 Estimated Tax: Enter amount applied to 2018 estimated tax.

Line 40-Amount Applied to Check Off Contributions: Enter amount applied to Check Off Contributions, attach AR1100CO.

Line 41-Amount to be Refunded: Enter amount to be refunded (Line 38 less Lines 39 and 40).

Line 42-Tax Due: Enter the tax due (Line 33 less Line 34 and 35; and Line 36 plus or minus Line 37).

Line 43-Interest on Tax Due: Enter the interest on tax due.

Line 44-Penalty for Late Filing or Payment: Enter the penalty for late filing or payment amount.

Line 45-Penalty for Underpayment of Estimated Tax: Enter the penalty for underpayment of Estimated tax, attach AR2220 and enter exception checked in Part 3.

Line 46-Amount Due: Enter the amount due (add Lines 42 through 45).

General Instructions

For Taxpayers with Income from Sources Within and Without the State

Multistate corporations should complete lines 30-46 of page 1, and Schedule A, page 2 of Form AR1100CT. Multistate corporations should not complete lines 7-29 of Form AR1100CT.

Business Income is defined in **ACA 26-51-701(a)** as income arising from transactions and activity in the regular course of the 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 operations. 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 activity occurring in the regular course of a trade or business. In general, all transactions and activities 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 Arkansas law. **ACA 26-51-701(e)** defines Nonbusiness income as all income other than business income.

Unitary Determination of Intangible Income:

Interest, dividends (less than 80% directly owned), rents, royalties and gains and losses from multistate corporations are apportionable to Arkansas if a unitary business relationship exists between the intangible income and the State of Arkansas. Generally, a unitary

business relationship will exist when an activity conducted in one state benefits and is benefited by an activity conducted in another state.

Apportionment Formula:

In general, taxpayers with income derived from activities both within and without the State are required to apportion Business Income and allocate the Nonbusiness and Partnership income using the following factors:

All multistate corporations apportion business income to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor, plus double the sales factor, and the denominator of which is four (4). If a taxpayer does not have all four (4) factors, the denominator shall be the same as the number of entries other than zero (0) that apply to the total (everywhere) amounts of the property, payroll and sales factors. When double weighted, the sales factor counts as two (2).

Financial Institutions must use the single weighted sales factor. Construction companies, pipelines, publishing companies, railroads, and TV and radio broadcasters must utilize the double weighted sales factor apportionment method with factor modifications. Requirements for apportionment formulas of the businesses listed in this paragraph (except for financial institutions) are contained in the Arkansas Corporation Income Tax Regulations which may be obtained from www.dfa.arkansas.gov.

Change of Method:

Prior approval Required Before Deviation From the Allocation and Apportionment Method: 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 Commissioner of Revenue, Department of Finance and Administration may require in respect to all or any part of the taxpayer's business activity, if reasonable:

- A) Separate accounting
- B) The exclusion of any one or more factors;
- C) The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this State, **or**
- D) The employment of any other method to effectuate 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 federal taxable income before any adjustments, net operating losses or special deductions from Line 28 of the federal Form 1120. If federal Form 1120 is not filed, use the appropriate line from the federal form that is filed that reflects taxable income before adjustments, net operating loss and special deductions.

Line 2: Enter any Add Adjustments. Examples include: AR Corporation Income Taxes Deducted, Bonus Depreciation, Federal Charitable Contributions, and Partnership Loss. (Attach detailed schedule)

Line 3: Enter any Deduct Adjustments. Examples include: AR Depreciation, AR Charitable Contributions, Partnership Income. (Attach detailed schedule)

Line 4: Enter Arkansas Total Apportionable Income. Line 1 + Total Amount from Line 2 - Total Amount from Line 3 = 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. The examples listed above are not intended as an all-inclusive list of required adjustments.

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 a fraction, the numerator of which 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 of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the tax period. **(ACA 26-51-710)**

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 3 ÷ 2) in both Columns.*

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

Line c. For Financial Institutions Only, refer to ACA 26-51-1404 *Enter Average Value of Intangible Property in Column A and B. (Attach schedule)*

Line d. Enter Total Property in both Columns: *(Add Lines a.4, b and c).*

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

Payroll Factor: 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.

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. Financial institutions cannot double weight the sales/receipts factor. **(ACA 26-51-715 and ACA 26-51-1403).**

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: The income producing activity is performed entirely within Arkansas **or** the income producing activity is performed both inside and outside of Arkansas, in which event the portion of income reportable to Arkansas shall be determined by utilizing the formula for apportioning income to Arkansas during the year of the sale by including the income from income producing activity in the numerator and denominator of the taxpayer's sales factor.

(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 to tax years beginning on or after January 1, 1995) (Financial Institutions must use Single Weighted Factor, Column C, Line 3f X 2).

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

Line 5: Enter Percentage Attributable to Arkansas:

Line 4 divided by the Single/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 (1d), (2a) and (3f). Also an entry other than zero in Part B, Column B, Line (3f), counts as two (2) entries unless using Single Weighted Factor.

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 schedule*).

Line 3: Enter only the amount of Apportioned NOL available or the amount needed to absorb the total of Lines 1 and 2 on Part C. (*Attach Form AR1100NOL*).

Example: Line C1=\$1000 + Line C2=\$500
NOL available is \$5000; Line C3 will only show \$1500

Line 4: Enter Total Income Taxable to Arkansas: Total of Lines C1, C2, and C3. (Enter here and on Line 32, page 1)

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 property factor to exclude outer-jurisdictional, film and radio transmission property from the numerator and denominator of the property factor. 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.

Publishing

Arkansas Regulation 3.26-51-718(d) modifies the apportionment factors 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. Outer-jurisdictional property shall not be included in the property factor's denominator. The sales factor is modified to include a "circulation factor".

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**.

Allocated Income:

Partnership Income:

Act 482 of 2017 amends **ACA 26-51-802(c)** to require partnership income from activities 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 ARK-1 from the partnership.

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.

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.

Apportionment of Intragroup Intangible Licensing Transactions:

Regulation 1996-3 clarifies the calculation method for determining the sales factor in apportioning business income received from intragroup intangible licensing transactions. This regulation applies to a corporation that is a passive intangible holding company and receives business income from intragroup intangible licensing transactions with one or more members of the same group. Also, at least one of the other members of the same group from which the business income is received by the taxpayer must be subject to the Arkansas Income Tax Act.

The sales factor for intragroup intangible transactions is modified as follows:

1. If the licensing agreement states a method of measuring the activity between the licensor and licensee, the numerator of the sales factor is the amount of the sales or receipts received as provided in the licensing agreement.
2. If the licensing agreement does not state a method of measuring the activity between the licensor and licensee, the measuring activity will be based on one of the following:
 - a. If the licensee's activity generates sales or receipts, the numerator of the sales factor will be the percentage of sales in Arkansas compared to the licensee's total sales, **or**
 - b. If the licensee's activity does not generate sales or receipts, the numerator of the sales factor will be the percentage of units produced or cost of units produced in Arkansas compared to the licensee's total units produced or total cost of units produced, **or**
 - c. If neither of the above methods accurately represent the licensor's business activity in Arkansas, the licensor may petition for or the Director may require another method.
3. If the licensing agreement states a method of measuring the activity between the licensor and licensee in addition to a specifically stated dollar amount, the numerator of the sales factor will be the stated measuring activity plus the stated dollar amount attributable to Arkansas.

This Regulation modifies the sales factor for intragroup intangible licensing transactions only, and business income from any other source should be apportioned in accordance with ACA 26-51-709.

If a passive intangible holding company meets the above characteristics and the licensee elects to forego the intragroup intangible licensing transactions deduction, the passive intangible holding company will not be required to report the business income received from intragroup intangible licensing transactions for Arkansas income tax purposes.

The licensee's election to forego the deduction will be binding unless the licensee and the passive intangible holding company submit a written petition to change the election to the Director, and the Director approves the change.

FINANCIAL INSTITUTIONS

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.

ACA 26-51-1401 et seq. adopted the Multistate Tax Commission regulation regarding apportionment and allocation of net income of financial institutions. It 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 apportionment percentage which is determined by adding the receipts factor, property factor, and payroll factor and dividing the sum by three (3).

Receipts Factor:

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. Financial institutions must single weight the sales factor.

Property Factor:

Generally, the property factor is a fraction, the denominator includes the average value of all owned and rented real and tangible personal property used by the financial institution in its trade or business. The property factor also includes two intangible assets, loans and credit card receivables, which are valued at their average outstanding principal balance, without regard for any reserve for bad debts, but reduced by any amount written off for federal income tax purposes. The numerator includes the average value of real and tangible personal property owned or rented by the taxpayer that is located or used within Arkansas during the taxable year and the average value of the taxpayer's loans and credit card receivables that are located in Arkansas during the taxable year. Loan and credit card receivables are attributed to Arkansas if they are property assigned to a regular place of business of the taxpayer within Arkansas. A loan or credit card receivable is properly assigned to the place of business which they have a preponderance of substantive contacts with as determined by such activities as the solicitation, investigation, negotiation, approval and administration of the loan or credit card receivable.

Payroll Factor:

Generally, the payroll factor is a fraction, the numerator of which is the total amount paid in this State during the taxable year by the taxpayer for compensation and the denominator of which is the total compensation paid both within and without the State during the taxable year. The payroll factor shall include only that compensation which is included in the computation of the apportionable income tax base for the taxable year.

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.

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.

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.

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 year

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 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 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.

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.

(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 years or until exhausted, whichever occurs first for projects beginning on or after January 1, 2017. After March 12, 2001, projects used for commercial purposes can qualify for this credit.

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.

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.

(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.

(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.

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. Youth Apprenticeship Program

ACT 1042 of 2017 amends **ACA 26-51-509** to provide **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. 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.

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 activities. 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 until 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 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. Application 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.

20. Arkansas Historic Rehabilitation Income Tax Credit

Act 393 of 2017 amends ACA 26-51-2204 to create a credit for qualified rehabilitation expense in an amount equal to 25% of the total incurred by a person, firm or corporation subject to state income tax or an insurance company paying annual premium to complete a certified rehabilitation project up to the first \$500,000 of expenses on income producing property or \$100,000 on non-income producing property for project that starts on or after January 1, 2009. For projects starting on or after July 1, 2017, \$1,600,000 of qualified rehabilitation expenses on income producing property. The credit may offset 100% of income or annual premium tax due. Any unused

credit shall be carried forward for five (5) tax years. **Act 567 of 2015** changes the sunset date to be extended from December 31, 2015 to December 31, 2027 and no credit may be established after December 31, 2027.

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 2017. 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.

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 this document to the return claiming the credit.

Exempt Organizations

ACA 26-51-303 provides exemption from income taxation for certain types of organizations.

The Non-Profit Corporation Act of 1993 sets out filing requirements of the Secretary of State as well as action to be taken for receiving recognition of income tax exempt status by the Arkansas Revenue Division. Guidelines for filing with the Secretary of State may be obtained by contacting that office at:

Telephone numbers: (501) 682-3409
(888) 233-0325

Website: www.sos.arkansas.gov

Non-Profit corporations, unincorporated groups or associations shall be eligible to receive Arkansas income tax exempt status upon submitting proper documentation and application to:

Arkansas Department of Finance and
Administration
Corporation Income Tax Section
P O Box 919
Little Rock, AR 72203-0919
Telephone number (501) 682-4775

The following information must be submitted for review in determining income tax exempt status:

A) Organizations with an IRS Ruling letter:

- 1) Copy of IRS Ruling letter.
- 2) Copy of pages 1 and 2 of IRS Form 1023 or 1024.
- 3) Statement declaring Arkansas Code exemption.

B) Organizations without an IRS Ruling letter:

- 1) Arkansas Form AR1023CT.
- 2) Copy of Articles of Incorporation, Article of Association, copy of Trust Indenture or Agreement.
- 3) Copy of Bylaws.

Income derived from investments made by nonprofit organizations which is not for the sole purpose of providing pension and annuity benefits to members should be reported on Form AR1100CT. Attach a copy of the applicable federal form.

Exemption from income taxation does not apply to Sales Tax exemption. For Sales Tax forms or procedures, please refer to the website at www.dfa.arkansas.gov, or phone (501) 682-1895.

Small Business (S) Corporations

Qualifying corporations may elect to be treated as "Small Business (S) Corporations" for Arkansas income tax purposes. **ACA 26-51-409(b)(2)** requires corporations to have elected Subchapter S treatment for federal tax purposes if electing Subchapter S treatment for Arkansas income tax purposes for the same tax year. 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 100 shareholders. Members of a family (and their estates) are 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 or 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.
- 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 Corporation status even though the bank stock is owned by an individual's IRA rather than the individual.

A corporation that is treated as Qualified Subchapter S Subsidiary (QSSS) for federal purposes is not allowed to file a separate Arkansas corporation return. Instead, the federal parent of any QSSS doing business in Arkansas must file an Arkansas return and report the Arkansas activity of the QSSS.

For an election to be valid, all persons who are shareholders of the corporation on the first day of the corporations' taxable year or on the day of the Arkansas election whichever is later, must consent by signature, to such election on Arkansas election Form AR1103 and requires a copy of the IRS Notice of Acceptance as an S corporation or a Federal form 2553 filed with the IRS to be submitted for approval. If the AR1103 is received without the Notice of Acceptance or Form 2553 it will not be approved until one of those documents is received. All shareholders are required to file Arkansas

Individual income tax returns or be included in a composite return. Please refer to the 2017 Subchapter S tax instructions for details on filing as an S corporation.

Act 434 of 2017 repeals ACA 256 51-413(b).

The annual income tax return of a small business corporation is to be submitted on Arkansas Form AR1100S. The Arkansas election (Form AR1103) and Arkansas Subchapter S corporation income tax return (Form AR1100S) should be submitted to:

Department of Finance and Administration
Corporation Income Tax Manager
P. O. Box 919
Little Rock, AR 72203-0919

Physical address:
1816 West 7th Street Room 2250
Little Rock, AR 72201

Telephone number: (501) 682-4775
Website: **www.dfa.arkansas.gov**