

**ARKANSAS SENATE**  
84th General Assembly - Regular Session, 2003  
**Amendment Form**

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**Subtitle of Senate Bill No. 334**

"AN ACT TO CLARIFY THE DEDUCTION OF INTEREST OR INTANGIBLE EXPENSES  
PAID TO A RELATED PARTY."

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**Amendment No. 2 to Senate Bill No. 334.**

Amend Senate Bill No. 334 as engrossed, S3/20/03:

Delete SECTION 1 and substitute the following:

"SECTION 1. Arkansas Code § 26-51-423, concerning the deduction of various expenses, is amended to add an additional subsection to read as follows:

(g)(1) A deduction pursuant to subsection (a)(1) of this section for interest or intangible-related expenses paid by the taxpayer to a related party shall be allowed only if:

(A) The interest or intangible-related income received by the related party is subject to income tax imposed by the State of Arkansas, another state, or a foreign government that has entered into a comprehensive income tax treaty with the United States government;

(B) The interest or intangible-related income received by the related party was received:

(i) Pursuant to an arm's length contract or at an arm's length rate of interest; and

(ii) Pursuant to a transaction not intended to avoid the payment of Arkansas income tax otherwise due;

(C) The taxpayer and the director enter into a written agreement prior to the due date of the taxpayer's Arkansas income tax return:

(i) Authorizing the taxpayer to take the deduction for the tax year at issue; or

(ii) Requiring the use of an alternative method of income apportionment by the taxpayer for the tax year at issue; or

(D) During the taxable year, the related party recipient of interest or intangible related income in a location not described in (g)(1)(A), "non-tax location":

(i) Operates an active trade or business in the non-tax location;

(ii) Has a minimum of fifty (50) full-time equivalent employees in the non-tax location;

(iii) Owns real or tangible personal property with a fair market value in excess of one million dollars (\$1,000,000) located in



the non-tax location; and

(iv) Has revenues generated from sources within the non-tax state in excess of one million dollars (\$1,000,000).”

The Amendment was read the first time, rules suspended and read the second time and \_\_\_\_\_

By: Senator Miller  
LDH/JMB - 032420030804  
JMB461

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Secretary