

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1559

Bill Subtitle: TO AMEND THE CORPORATE INCOME TAX WITHHOLDING REQUIREMENTS FOR MEMBERS OR OWNERS OF A PASS-THROUGH ENTITY.

Basic Change :

Sponsor: Representative Jett

HB1559 amends § 26-51-919(a)(2) to require that pass-through entities withhold income tax at the maximum rate for a C corporation which is a member of the pass-through entity. § 26-51-919(d) is also amended to clarify that C corporations cannot be included in the filing of a composite return. This bill is effective for tax years beginning from and after January 1, 2017.

Revenue Impact :

Revenue Neutral.

Taxpayer Impact :

Pass-through entities will be required to withhold income tax on any C corporation that is a member of the pass-through entity. C corporations will be able to claim the withholding to offset their Arkansas corporation income tax liability.

Resources Required :

Forms and instructions along with system programming will need to be updated.

Time Required :

Adequate time is provided.

Procedural Changes :

Computer programs, forms, instructions, procedures manuals, and training manuals will need to be updated.

Other Comments :

None.

Legal Analysis :

Under current Arkansas law, pass-through entities are required to withhold Arkansas income tax on behalf of individual owners and members of pass-through entities with the exception of Subchapter C corporations. Under current law, a pass-through entity must refund any tax mistakenly withheld to the Subchapter C corporation in addition to filing an amended withholding return. Under the bill, all owner and member types of pass-through entities will be able to claim the tax withheld on their behalf as a credit on their income tax returns. Requiring pass-through entities to also withhold on Subchapter C corporations will insure that Arkansas collects income tax from all owners of pass-through entities with Arkansas taxable income.