

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1563

Bill Subtitle: TO REQUIRE A CORPORATION FILING A FEDERAL SUBCHAPTER S INCOME TAX RETURN TO FILE AN ARKANSAS SUBCHAPTER S INCOME TAX RETURN.

Basic Change :

Sponsor: Rep. Jett

HB1563 will § 26-51-409(b) to require that any corporation filing as an S corporation for federal income tax purposes must file as an S corporation in Arkansas also. This change will be effective for tax years beginning on and after January 1, 2018.

Revenue Impact :

None.

Taxpayer Impact :

Taxpayers will no longer be required to file a separate Arkansas S election nor provide a copy of the federal notice of acceptance from the Internal Revenue Service to the Department of Finance and Administration for approval of Arkansas Subchapter S status.

Resources Required :

Tax forms and instructions will need to be revised, along with programming of the processing system.

Time Required :

Adequate time is provided.

Procedural Changes :

Computer programs, instruction booklets, forms, training manuals, and procedure manuals will need to be updated. Department employees and the public will need to be educated.

Other Comments :

None.

Legal Analysis :

HB1563 will amend § 26-51-409 to require every corporation filing a federal Subchapter S return to file an Arkansas Subchapter S return. Under current Arkansas law, federal Subchapter S corporations can elect to file as Subchapter S corporations for Arkansas purposes only if a state election is filed. This requirement can create confusion, since most states automatically require federal Subchapter S corporations to file state income tax returns as Subchapter S corporations with no state election required. Verification of federal Subchapter S status involves requiring a taxpayer to obtain a copy of its federal Subchapter S approval letter which can take several months. Requiring federal Subchapter S corporations to file Arkansas Subchapter S income tax returns will simplify the registration and filing process for taxpayers and will streamline return processing for the Department. Taxpayers will no longer be required to file an Arkansas Subchapter S election form and will simply file an Arkansas Subchapter S income tax return to be considered Subchapter S for Arkansas purposes.