

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB236**

**Bill Subtitle: TO EXEMPT UNEMPLOYMENT COMPENSATION BENEFITS FROM INCOME TAX DURING A CERTAIN TIME PERIOD; AND TO DECLARE AN EMERGENCY.**

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### Basic Change :

**Sponsors: Sen. J. Dismang and Rep. Jett**

SB236 exempts unemployment compensation benefits paid from federal unemployment funds and unemployment insurance benefits received from unemployment compensation paid under Title IV of the Social Security Act from income tax for calendar years 2020 and 2021.

### Revenue Impact :

**FY2021** - \$51 million reduction to State General Revenue.

**FY2022** - \$3.1 million reduction to State General Revenue in addition to an undetermined amount.

[ 1099-Gs from the Department of Workforce Services (DWS) provide that \$2.6 billion in unemployment benefits were paid to 281,840 individuals for the 2020 tax year. Revenue Impact above assumes 65% of recipients of unemployment benefits will file a return and include the income (\$1.7 billion) on the taxpayer's 2020 return at a 3% effective tax rate and pay the tax due with the return.

According to the Bureau of Labor Statistics, the Arkansas unemployment rate peaked at 10.8% in April of 2020, and the December unemployment rate was 4.2%. The pre-pandemic unemployment rate in Arkansas for February 2020 was 3.5%.

It is unknown the number of 2020 1099-Gs above that were sent to individuals that resulted from a fraudulent claim for benefits. It is unknown the amount of benefits that will be received in the 2021 calendar year.

2018 and 2019 1099-Gs from the Department of Workforce Services (DWS) reported the following number of recipients of unemployment benefits and benefits paid:

<b>2018</b>	45,530 1099-Gs	\$108,764,170
<b>2019</b>	43,030 1099-Gs	\$98,713,566

Individual income tax return data for the 2018 and 2019 tax years show that approximately 63% of unemployment benefits was reported on 2018 returns and 67% reported on 2019 returns:

<b>2018</b>	25,097 returns	\$68,574,342
<b>2019</b>	23,731 returns	\$66,205,333

The effective tax rate for returns filed with reported unemployment benefits was 3.055% in 2018 and 3.037% for 2019. The estimated tax due on unemployment benefits reported on 2018 returns was \$3.2 million and \$3.1 million on 2019 returns. ]

### Taxpayer Impact :

Unemployment compensation would be exempt from income tax for the 2020 and 2021 tax years.

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### **Resources Required :**

Computer programs, tax forms, and instructions will need to be updated. Existing published documents will need to be changed and updates sent to taxpayers that received booklets.

### **Time Required :**

Software vendors and DFA tax systems will need 2-4 weeks to make the adjustments in existing systems and forms.

### **Procedural Changes :**

Department employees will need to be educated as well as the tax community.

### **Other Comments :**

Note that 2020 tax returns are in process of being filed. This means that new schemas will need to be passed to e-file software vendors.

### **Legal Analysis :**

Under current law, gross income includes "[u]nemployment compensation benefits paid from federal unemployment funds" and "[u]nemployment insurance benefits received from unemployment compensation paid under Title IV of the Social Security Act, 42 U.S.C. § 601 et seq., except for unemployment or sickness payments made pursuant to 45 U.S.C. § 352, as it existed on January 1, 2017."

SB236 creates an exemption from the tax imposed by the Income Tax Act of 1929 for unemployment compensation benefits and unemployment insurance benefits described above if those benefits are paid for calendar years 2020 or 2021.

SB236 contains an emergency clause and will become effective on the date of its approval by the Governor; the expiration of the time during which the Governor may veto the bill; or, if vetoed by the Governor and the veto is overridden, the date the last house overrides the veto.