

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1524

Bill Subtitle: TO AMEND THE INCOME TAX LAWS CONCERNING THE DEPRECIATION AND EXPENSING OF PROPERTY.

Basic Change : Sponsor: Rep. Sullivan

HB1524 will adopt IRC Section 179 as exists in federal law on January 2, 2013. Current state tax limits under Section 179 would be increased from \$25,000 to \$500,000 and phase out would increase from \$200,000 to \$2,000,000. Effective for tax years beginning on or after January 1, 2014.

Revenue Impact :

Estimate revenue loss of \$64M in FY16 and \$32.2M in FY17M.

Taxpayer Impact :

Taxpayers that elect to expense depreciating property would be allowed higher limits and phase out amounts. For taxpayers who have already filed 2014 returns, amended returns will have to be filed to claim the additional deduction.

Resources Required :

Update computer programs, tax forms, and instructions.

Time Required :

Adequate time is provided.

Procedural Changes :

Tax forms and instruction booklets will need to be updated. Employees will need to be educated as well as the tax community.

Other Comments :

The bill states that it applies for tax years beginning on or after January 1, 2014. It is likely that some affected taxpayers have already filed returns for 2014 and will need to file amended returns to take advantage of the new depreciation rules. Affected taxpayers will likely reduce the amount of 3rd and 4th quarter estimate payments they are making for the 2015 tax year and request refunds of tax overpayments for 2014 and 2015 tax years. Although federal limits have not yet been raised from \$25,000, it is likely Congress will do so.

Legal Analysis :

HB1524 amends the depreciation and expensing of property provisions of § 26-51-428(a) for income tax purposes. The bill provides that Arkansas would adopt 26 U.S.C. § 179 as in effect on January 2, 2013, for the purpose of computing Arkansas income tax liability for property purchased in tax years beginning on or after January 1, 2014. Under current law, Arkansas has adopted § 179 as it existed on January 1, 2009.