Department of Finance and Administration

Legislative Impact Statement

Bill: HB1562
Bill Subtitle: TO REQUIRE THAT PARTNERSHIP INCOME BE DETERMINED FOR STATE INCOME TAX PURPOSES BY USING AN APPORTIONMENT METHOD.

Basic Change :

Sponsor: Representative Jett

HB1562 amends § 26-51-802(c) to require partnership tax returns to use the Uniform Division of Income for Tax Purposes Act (UDITPA), 26-51-701 et seq. for reporting purposes when income is from in state and out of state and is effective for tax years beginning from and after January 1, 2018. The bill also requires that each partner allocate income to Arkansas as determined and reported on the Arkansas partnership return.

Revenue Impact :
None.

Taxpayer Impact :
Taxpayers who filed using separate accounting methods will now follow UDIPTA formula for reporting purposes. Partnerships earning income from both within and without Arkansas will be required to apportion income to Arkansas instead of directly allocating income to Arkansas. Income will be allocated to each partner as reported on partnership returns and on Form ARK-1.

Resources Required :
Computer programs, forms, booklet instructions, training and procedures manuals will need updating.

Time Required :
Adequate time is provided.

Procedural Changes :
Computer programs, instruction booklets, forms, training manuals, and procedure manuals will need to be updated.

Other Comments :
None.

Legal Analysis :
Current law provides that partnerships are to allocate their taxable income to Arkansas. Allocation of taxable income requires a partnership to separately identify the state where items of income and expenses are properly attributable. Partnerships operating in multiple states have a difficult time allocating taxable income because of the difficulty in assigning a transaction that benefits the entire partnership to a particular state. This same problem was previously addressed in Arkansas law for corporations by providing that multistate corporations are to apportion their income to Arkansas using a formula designed to approximate the proper amount of income in this state. This bill provides that partnerships should apportion their income to Arkansas in the same manner currently used by corporations. This change will simplify the tax reporting requirements for multistate partnerships and will have no effect on partnerships that operate solely within Arkansas. Each individual partner will continue to allocate their share of the partnership income to Arkansas as under current law.