

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1031

Bill Subtitle: TO REQUIRE THE ELECTRONIC FILING OF INCOME TAX RETURNS BY TAX PRACTITIONERS; AND TO AMEND THE LAW CONCERNING TAX PRACTITIONERS.

Basic Change :

HB1031 would require that a “tax practitioner” that files a taxpayer’s federal income tax return electronically must also file the taxpayer’s Arkansas state income tax return electronically. HB1031 defines a “tax practitioner” as a “person, partnership, limited liability company, or corporation that compiles a tax return for hire.” HB1031 would provide the authority of the Department of Finance and Administration (DFA) to waive the electronic filing requirement if DFA determines that filing the Arkansas return electronically would cause undue hardship to the practitioner.

HB1031 would be effective for tax years beginning on and after January 1, 2021.

Revenue Impact :

None.

Taxpayer Impact :

A tax practitioner that files a taxpayer’s federal return electronically would be required to file the taxpayer’s Arkansas return electronically unless DFA determined that filing the Arkansas return electronically would cause undue hardship to the practitioner.

Resources Required :

It is anticipated that cost savings of up to \$500,000 may result due to returns being filed electronically as opposed to paper returns. DFA estimates that an additional 110,447 returns would be filed electronically saving approximately \$4.51 per paper return processing costs plus associated mailing costs.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Computer programs, tax forms and instructions and training manuals will need to be updated. Department employees will need to be educated as well as the tax community.

Other Comments :

The IRS has a higher percentage (91%) of income tax returns that are electronically filed compared to the State of Arkansas (86%). Paper returns have slower processing times and are more costly to process.

Legal Analysis :

Federal regulations require the electronic filing of federal income tax returns in certain circumstances.

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In addition, a taxpayer may choose to file the taxpayer's federal income tax return electronically even if not required by law. Under this bill, absent a determination of undue hardship on the tax practitioner, a tax practitioner would have to file the taxpayer's Arkansas income tax return electronically if the tax practitioner also filed the taxpayer's federal income tax return electronically.

HB1031 also removes a separate definition of "tax practitioner" from § 26-51-810, which authorizes DFA to impose a postage fee sufficient to defray the cost of postage for mailing out tax forms to tax practitioners. The proposed definition of "tax practitioner" under HB1031 is substantially the same as the definition under the postage fee defrayment statute. The movement of the definition of "tax practitioner" to the general "definitions" section in § 26-51-102 would provide a uniform definition that applies to the current postage fee defrayment statute, to the new electronic filing statute, and to any other provision of the Income Tax Act of 1929 that includes the term "tax practitioner."