Department of Finance and Administration

Legislative Impact Statement

Bill: SB482
Bill Subtitle: TO PROVIDE FOR DESTINATION SOURCING OF SALES TO THE UNITED STATES GOVERNMENT FOR PURPOSES OF ARKANSAS INCOME TAX APPORTIONMENT.

<u>Basic Change :</u>

Sponsor: Sen. J. Dismang

SB482 discontinues origin-based sourcing for sales of tangible personal property to the United States Government. It instead requires apportionment of such sales based on the shipping or delivery destination of the property.

Under current law, a multistate corporation that conducts business in Arkansas must calculate Arkansas income tax through a formula based on the total sales of the taxpayer in the state. A multistate business is required to include "unreported" out-of-state sales in its sales in this state. Stated differently, all sales must be reported somewhere or else a taxpayer would have untaxed "nowhere" income. "Nowhere" sales are recaptured under § 26-51-716.

Under § 26-51-716, for the purposes of calculating corporate income tax, sales of tangible personal property are "in this state" if the property is delivered to a purchaser within Arkansas. Sales are also considered to be "in this state" if the tangible personal property is shipped from an office, store, warehouse, factory or other place of storage in this state and: (1) the purchaser is the United States Government; or (2) the taxpayer is not taxable in the state of the purchaser. SB482 repeals the throwback rule for sales shipped from Arkansas to the United States Government for tax years beginning on or after January 1, 2022.

Arkansas corporate income tax laws apportion to Arkansas sales of tangible personal property to the United States Government if the property is shipped from Arkansas. If the purchaser is an entity other than the United States Government, Arkansas corporate income tax laws apportion the income from that sale based on the shipping or delivery destination of the property. Under SB482, sales to the United States Government will also be based on the shipping or delivery destination of the purchased property.

SB482 will be effective for tax years beginning on or after January 1, 2022.

<u>Revenue Impact :</u>

FY2023 - $34.3 million reduction to General Revenue.

<u>Taxpayer Impact :</u>

Taxpayers will not be required to source sales to the United States Government based on origin, but instead the sourcing will be based on destination for tax years beginning on or after January 1, 2022.

<u>Resources Required :</u>

Computer programming, instruction books and manuals will need updating.

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Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Employees and the tax community will need training on the new sales sourcing rules.

Other Comments :

None.

Legal Analysis :

None.