State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement

Bill: HB1540
Bill Subtitle: TO AMEND THE INCOME TAX CREDIT AND THE INCOME TAX DEDUCTION RELATED TO MAINTAINING, SUPPORTING, AND CARING FOR AN INDIVIDUAL WITH A DISABILITY.

Sponsors:

Rep. Mayberry and K. Brown

Basic Change:

HB1540 repeals the $500 income tax deduction under § 26-51-418 and increases the income tax credit under § 26-51-503 by $500 for a taxpayer who provides care for a disabled child.

§ 26-51-418 provides a $500 income tax deduction per tax year for a taxpayer who provides care for a totally and permanently disabled child in his or her home. An eligible child includes a natural or adopted child. “Totally and permanently disabled” is defined as a “child who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months." HB1540 repeals this income tax deduction.

§ 26-51-503 provides a non-refundable $500 income tax credit per tax year for a taxpayer who provides care to his or her child with a developmental disability. HB1540 makes the following changes to the income tax credit:

- Increases the income tax credit from $500 to $1,000;
- Expands the definition of a qualifying “individual” to a dependent within the meaning of § 26-51-501(a)(3)(B);
- Clarifies the types of medical professionals allowed to provide a developmental disability diagnosis; and
- Re-defines "developmental disability" to match the definition in 42 U.S.C. § 15002 to include: a severe, chronic disability of an individual that is attributable to a mental or physical impairment or combination thereof, manifested before the individual attained age 22, and is likely to continue indefinitely.

HB1540 is effective for tax years beginning on or after January 1, 2025.

Fiscal Impact:

FY2026 - $10M reduction in General Revenue
FY2027 - $10.8M reduction in General Revenue
FY2028 - $11.6M reduction in General Revenue

[Fiscal impact for FY2027 and FY2028 assumes an estimated increase of $800,000 annually due to increased disability credit claims. Fiscal impact is calculated using current taxpayer data from returns filed claiming the deduction and tax credit. In tax year 2023, there were 9,950 $500 credit claims and 11,600 $500 deduction claims. The overall fiscal impact based on claims alone is $16.4M. Factoring in a limit on overall net tax for each taxpayer, the adjusted impact is $8.4M. The number of overall claims

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increase each year. The fiscal year 2026 impact reflects two years of increased claims from 2023. It is estimated that an additional 800 claims will be filed annually.]

Taxpayer Impact:

A taxpayer would benefit from an increased tax credit under § 26-51-418 from $500 to $1,000.

Resources Required:

Computer programs, tax forms, and instructions will need to be updated. AIRS estimated the project cost for implementation to be $8,000.

Time Required:

Adequate time is provided for implementation.

Procedural Changes:

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

Other Comments:

Legal Analysis:

None.