State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement

Bill: HB1935 **Amendment Number: H1**
Bill Subtitle: TO CREATE A MODERNIZATION AND AUTOMATION TAX CREDIT TO ENCOURAGE INVESTMENT BY EXISTING BUSINESSES WITHIN THE STATE.

Sponsors:

Rep. Eaves and Sen. Gilmore

Basic Change:

House Amendment No. 1 --- HB1935-H1 (engrossed 04/08/25) increases the minimum requirements for a business to qualify for the modernization and automation tax credit. Specifically, HB1935-H1:

- Increases the minimum investment from $5,000,000 to $25,000,000; and
- Requires a positive cost-benefit analysis from the Arkansas Economic Development Commission.

Original Bill --- HB1935 amends the Consolidated Incentive Act of 2003 to create a "modernization and automation tax credit." A business seeking to qualify for this credit must:

- Execute a financial incentive agreement for the project with the Arkansas Economic Development Commission (Commission) before incurring any project costs;
- Complete the project within six years of executing the agreement;
- Maintain the current average level of payroll and employment during the project and for at least 24 months after the project ends; and
- Be required to return any credits claimed if the business breaches the agreement.

To qualify for the credit, a business must:

- Have been in continuous operation in the state for at least two years;
- Incur at least $5,000,000 in project costs; and
- Hold a direct pay sales and use tax permit.

A credit of up to 5% of the eligible project costs may be awarded by the Commission. A business may not use more than $2,000,000 of credit in a year. Unused credits may be carried forward for up to five years before expiring.

HB1935 is effective on and after October 1, 2025.

Fiscal Impact:

Revenue neutral.
[Fiscal impact is revenue neutral because an approved project is required to have a positive cost-benefit to the state as certified by the Director of AEDC as well as an incentive agreement between the taxpayer and AEDC.]

Taxpayer Impact:

A qualified business may claim a modernization and automation tax credit if they meet the criteria under § 15-4-2706(c). A taxpayer must submit an application prior to incurring project costs (excluding preconstruction costs) and enter into a financial incentive agreement and AEDC must certify the project as having a positive cost-benefit to the state. Lease payments for buildings or equipment for five years may count toward the minimum investment threshold. Businesses are required to certify yearly expenditures to the Department of Finance and Administration to determine credit eligibility.

Resources Required:

Arkansas Integrated Revenue System (AIRS) programming costs are estimated to be $12,000 to implement the tax credit. Tax forms and instructions will need to be updated.

Time Required:

Adequate time is provided for implementation.

Procedural Changes:

Department employees will require training and the tax community will need to be educated.

Other Comments:

Under § 15-4-2706(a)(10), the business shall elect to receive the tax credits as either a sales and use tax credit or an income tax credit. The determination must be made before Commission approval of a financial incentive agreement.

One of the criteria for the new credit is that the taxpayer hold a direct-pay sales and use permit from the Department of Finance and Administration (DFA) before applying for the incentives. The bill provides a $2M cap on each taxpayer per year but does not provide for an aggregate cap on all credits.

Legal Analysis:

None.