



**State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement**

Bill: SB558

Bill Subtitle: TO REQUIRE THE ELECTRONIC FILING OF CERTAIN CORPORATE INCOME TAX RETURNS.

Sponsors:

Sen. Crowell and Rep. Hollowell

Basic Change:

SB558 requires a corporation to electronically file its corporation income tax return with the Department of Finance and Administration (DFA) if the corporation or affiliated corporation is required to file its corporation income tax return electronically with the Internal Revenue Service (IRS). A taxpayer that is a member of an affiliated group in a federal consolidated return is required to file electronically if the parent corporation is required to file electronically with the IRS.

SB558 allows the Secretary of DFA to waive the electronic filing requirement if he or she determines filing electronically would cause the business undue hardship.

SB558 is effective for tax years beginning on or after January 1, 2025.

Fiscal Impact:

None.

Taxpayer Impact:

A corporation required to file electronically with the IRS under 26 C.F.R. § 301.6011-5 or those in affiliated groups with a federal parent meeting that threshold will be required to file the corporation's Arkansas return electronically. This requirement includes corporations filing ten or more returns of any type annually. A taxpayer may need to acquire updated tax software or use a third-party tax preparation provider with electronic filing capability.

Resources Required:

Computer programs, tax forms, and instructions will need to be updated.

Time Required:

Adequate time is provided for implementation.

Procedural Changes:

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



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Other Comments:

Corporation Income tax returns currently have no electronic filing requirement in Arkansas. The IRS requires taxpayers to electronically file a return if they file ten or more of any information return, including W2 or 1099.

Four surrounding states (Louisiana, Oklahoma, Tennessee, and Mississippi) have electronic filing requirements. Missouri is the only surrounding state that does not have an electronic filing requirement for corporations. 29 states have electronic filing requirements for corporations.

Overall, 90% of corporation income tax returns are filed electronically, however, only 70-75% of consolidated corporate returns are filed electronically. About 300 consolidated returns are filed on paper, with an average of three subsidiary returns per consolidated group filing, or over 900 paper returns that must be manually entered and scanned into DFA's software for processing. The estimated cost of manually processing the returns is \$16K per year and 600 hours of labor.

Large consolidated returns are often submitted to DFA on paper, either in large boxes with copies of paper federal returns, which can be thousands of pages, or taxpayers send copies on CDs or USB drives. Computers used by the Department no longer have CD drives and require separate hardware to be installed to read and upload returns, and USB drives can pose a security risk. The file sizes of returns on disc make them difficult to upload.

Thirteen e-file providers are approved, with four offering consolidated electronic filing. Given the complexity of Arkansas consolidated corporate returns, which require separate computations and returns for each subsidiary, paper filing becomes exceptionally cumbersome for tax preparers. Compiling, printing, organizing, and mailing these multi-entity packets is time-intensive and prone to manual errors or missing pages.

Electronic filing, particularly through approved tax software, directly mitigates these challenges. The software automates the complex calculations and data population required for each separate entity return in the consolidated filing, drastically reducing preparation time and the risk of calculation errors. Submission is streamlined to a single transmission, eliminating physical printing, assembly, and postage costs while providing quick confirmation of receipt and faster processing. Therefore, despite the return's complexity, e-filing offers a significantly less burdensome, more accurate, and efficient method compared to a paper-based consolidated submission.

Legal Analysis:

None.