Stricken language would be deleted from and underlined language would be added to the law as it existed prior to this session of the General Assembly.

INTERIM STUDY PROPOSAL 2007-125

State of Arkansas
86th General Assembly
Regular Session, 2007

A Bill

SENATE BILL 179

By: Senators Womack, Critcher, Altes, Baker, Broadway, Hendren, Horn, B. Johnson, Trusty
By: Representatives Key, Petrus, Anderson, Thyer, Garner, Harris, D. Hutchinson, Jeffrey, King, Lovell, Ragland, Reynolds, Rosenbaum, Sample, Saunders, Sullivan

Referred to
Revenue and Taxation - Senate
by the Arkansas Senate
on 04/03/2007

For An Act To Be Entitled

AN ACT TO INCREASE THE AMOUNT OF THE RETIREMENT OR DISABILITY BENEFITS INCOME TAX EXEMPTION; AND FOR OTHER PURPOSES.

Subtitle

AN ACT TO INCREASE THE AMOUNT OF THE RETIREMENT OR DISABILITY BENEFITS INCOME TAX EXEMPTION.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. Arkansas Code § 26-51-307, is amended to read as follows:

26-51-307. Retirement or disability benefits.

(a)(1) ~~The first six thousand dollars ($6,000)~~ The first ten thousand dollars ($10,000) of benefits received by any resident of this state from an individual retirement account or the first ~~six thousand dollars ($6,000)~~ ten thousand dollars ($10,000) of retirement benefits received by any resident of this state from public or private employment-related retirement systems, plans, or programs, regardless of the method of funding for these systems, plans, or programs, shall be exempt from the state income tax.

(2)(A) Only individual retirement account benefits received by an individual retirement account participant after reaching the age of fifty-nine and one-half (59 1/2) years qualify for the exemption.

(B) The only other distributions or withdrawals from an individual retirement account that qualify for the exemption before the individual retirement account participant reaches the age of fifty-nine and one-half (59 1/2) years are those made on account of the participant's death or disability.

(C) All other premature distributions or early withdrawals including, but not limited to, those taken for medical-related expenses, higher education expenses, or a first-time home purchase do not qualify for the exemption.

(3) The exemption provided for in this subsection (a)(1) shall be adjusted annually according to subsection (e) of this section.

(b)(1)(A) Except as provided in subdivision (b)(2) of this section, the exemption provided for in subsection (a) of this section for benefits received from an individual retirement account or from a public or private employment-related retirement system, plan, or program shall be the only exemption from the state income tax allowed for benefits received from an individual retirement account or from any publicly or privately supported employment-related retirement system, plan, or program, excepting only benefits received under systems, plans, or programs which are by federal law exempt from the state income tax.

(B) No taxpayer shall receive an exemption greater than ~~six thousand dollars ($6,000)~~ the amount allowed in this section for the applicable tax year ~~during any tax year~~ under the provisions of this section.

(2) The provisions of this section shall not apply to retirement or disability benefits received under a plan, system, or fund described in § 26-51-404(b)(6).

(c)(1) Section 72 of the Internal Revenue Code of 1986, as in effect on January 1, 2005, shall provide the sole method by which a recipient of benefits from an individual retirement account or from public or private employment-related retirement systems, plans, or programs may deduct or recover his or her cost of contribution to the plan when computing his or her income for state income tax purposes.

(2) A taxpayer shall not be allowed to deduct or recover any

portion of the taxpayer's cost of contribution to the plan that the taxpayer:

(A) Has once deducted or recovered; or

(B) Would have been allowed to deduct or recover under any provision of law or court decision.

(d)(1) An individual who is sixty-five (65) years of age or older and who does not claim an exemption under subsection (a) of this section shall be entitled to an additional state income tax credit of twenty dollars ($20.00).

(2) This credit is in addition to all other credits allowed by law.

(e) For taxable years beginning January 1, 2009, and thereafter, the Chief Fiscal Officer of the State shall calculate and implement a yearly cost of living adjustment (COLA), if any, for the exemption in (a)(1) of this section, rounding to the nearest one-hundred dollar ($100) any subsequent exemption amount calculated.

(f) For purposes of subdivision (e) of this section, the cost-of-living adjustment to the exemption for any taxable year shall be calculated by multiplying the most current adjusted exemption by the Consumer Price Index for All Urban Consumers (CPI-U), published by the United States Department of Labor, as published on or before the last day of the preceding calendar year.

(g) The Consumer Price Index for All Urban Consumers (CPI-U) for any calendar year is the average of the CPI-U as of the close of the twelve month period ending on August 31 of that calendar year.

SECTION 2. This act is effective for tax years beginning January 1, 2007.