Arkansas Department of Finance and Administration

Corporate Income Tax

Apportionment of Business Income

Arkansas requires all business income shall be apportioned to this state by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus double the sales factor, and the denominator of which is 4.

Most state apportionment formulas fall within one of three categories:

- Equally weighted three-factor formulas;
- Three-factor formulas with enhanced sales factors; or
- Single sales factor formulas.

Wolters Kluwer, CCH White Paper, Apportionment of Business Income – September 2014

Apportionment of Business Income

Equally Weighted	Enhanced Sales Factor	Single Sales Factor
Alaska, Hawaii, Kansas, Mississippi, Missouri, Montana, North Dakota, Oklahoma, Utah	Alabama, Arkansas, Delaware, Florida, Idaho, Kentucky, Maryland, Massachusetts, New Hampshire, New Mexico, North Carolina, Tennessee, Vermont, Virginia, West Virginia	Arizona, California, Colorado, Connecticut, Georgia, Illinois, Indiana, Iowa, Louisiana, Maine, Michigan, Minnesota, Nebraska, New Jersey, New York, Oregon, Pennsylvania, South Carolina, Texas, Wisconsin
9	15	20
	(Enhanced = Double or greater weighted)	

CCH Multistate Tax Guide for 2017

Apportionment Comparison – High Sales Factor

	3 Factor - Equally Weighted	3 Factor with Double Sales	Single Sales Factor
Apportionable Income	$ 1,000,000	$ 1,000,000	$ 1,000,000
Arkansas Property	$ 100,000	$ 100,000	
Everywhere Property	$ 10,000,000	$ 10,000,000	
Property %	1%	1%	
Arkansas Payroll	$ 100,000	$ 100,000	
Everywhere Payroll	$ 10,000,000	$ 10,000,000	
Payroll %	1%	1%	
Arkansas Sales	$ 1,000,000	$ 1,000,000	$ 1,000,000
Everywhere Sales	$ 10,000,000	$ 10,000,000	$ 10,000,000
Sales %	10%	10%	10%
Double Weights Sales %	0%	10%	
SUM of Percentages	12%	22%	10%
Number of Factors	3	4	1
Arkansas Percentage	4.00%	5.50%	10.00%
Arkansas Net Taxable Income	$ 40,000	$ 55,000	$ 100,000

Apportionment Comparison – Low Sales Factor

	3 Factor - Equally Weighted	3 Factor with Double Sales	Single Sales Factor
Apportionable Income	$ 1,000,000	$ 1,000,000	$ 1,000,000
Arkansas Property	$ 1,000,000	$ 1,000,000	
Everywhere Property	$ 10,000,000	$ 10,000,000	
Property %	10%	10%	
Arkansas Payroll	$ 1,000,000	$ 1,000,000	
Everywhere Payroll	$ 10,000,000	$ 10,000,000	
Payroll %	10%	10%	
Arkansas Sales	$ 100,000	$ 100,000	$ 100,000
Everywhere Sales	$ 10,000,000	$ 10,000,000	$ 10,000,000
Sales %	1%	1%	1%
Double Weights Sales %	0%	1%	
SUM of Percentages	21%	22%	1%
Number of Factors	3	4	1
Arkansas Percentage	7.00%	5.50%	1.00%
Arkansas Net Taxable Income	$ 70,000	$ 55,000	$ 10,000

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State Filing Methods

- Separate filing means just that. Each company with nexus in the state must file its own separate return, regardless of whether it is part of an affiliated or consolidated group.
- Combined reporting requires the members of a “unitary” group to calculate their taxable income on a combined or “unitary” basis.
- The majority of states, while allowing separate filing, will also permit consolidated filing if certain requirements are met. To elect consolidated filing, most states require the same stock ownership requirements (80%) as that of the federal consolidated rules.

Corporate Tax Insider, Filing Methods for Multistate Taxpayer by Bruce Nelson, CPA. October 27, 2011

State Filing Methods

Separate	Combined
Alabama, Arkansas, Delaware, Florida, Georgia, Indiana, Iowa, Kentucky, Louisiana, Maryland, Mississippi, Missouri, New Jersey, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee and Virginia.	Alaska, Arizona, California, Connecticut, Colorado, Hawaii, Idaho, Illinois, Kansas, Maine, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Hampshire, New York, North Dakota, Rhode Island, Oregon, Texas, Utah, Vermont, Wisconsin and West Virginia.
21	25

Corporate Tax Insider, Filing Methods for Multistate Taxpayer by Bruce Nelson, CPA. October 27, 2011
List of Combined Reporting States Grows, Bill Kramer, Multistate Insider: October 7, 2015

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Apportionment Comparison – Low Sales Factor

	Consolidated with Passive Intangible Holding Company			Combined with PIHC
	Operating Company	Intangible Holding Company (AR Reg. 1996-3)		
Apportionable Income (NET)	$ 10,000,000	$ 10,000,000		$ 20,000,000
Arkansas Property	$ 1,000,000	$ -		$ 1,000,000
Everywhere Property	$ 100,000,000	$ 0		$ 100,000,000
Property %	1%	0%		1%
Arkansas Payroll	$ 1,000,000	$ -		$ 1,000,000
Everywhere Payroll	$ 100,000,000	$ 0		$ 100,000,000
Payroll %	1%	0%		1%
Arkansas Gross Sales	$ 1,000,000	$ 100,000		$ 1,000,000
Everywhere Gross Sales	$ 100,000,000	$ 10,000,000		$ 100,000,000
Sales %	1%	1%		1%
Double Weights Sales %	1%	1%		1%
SUM of Percentages	4%	2%		4%
Number of Factors	4	4		4
Arkansas Percentage	1.00%	0.50%		1.00%
Arkansas Net Taxable Income	$ 100,000	$ 50,000		$ 200,000
Net Taxable Income	$ 150,000			$ 200,000

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Arkansas Regulation 1996-3

APPORTIONMENT OF BUSINESS INCOME ARISING FROM INTRAGROUP INTANGIBLE LICENSING TRANSACTIONS:

1. Determination

- a. In accordance with the terms of Ark. Code Ann. § 26-5-101 IV-18 and Ark. Code Ann. § 26-51-718, the Director determines that the allocation and apportionment provisions of the AMTC (Article IV of Multi-state Tax Compact) and the AUDITPA (Arkansas Uniform Division of Income for Tax Purposes Act) do not fairly represent the extent of business activity in the State of Arkansas for taxpayers.
- b. A corporation which owns, licenses or manages intangible property has nexus with Arkansas for purposes of filing a corporate income tax return when the corporation seeks the benefit of economic contact with Arkansas by directing its economic activity at this State through the licensing of these intangibles in an intragroup intangible licensing transaction.

State Filing Methods

Market vs COP

- Market based sourcing of sales requires service income to be included as an Arkansas sale if the customer is located in Arkansas.

- Cost of performance sourcing requires service income in be included as an Arkansas sale to the extent that income producing activity occurs in Arkansas.

State Filing Methods

Market Based	Cost of Performance	N/A
21	23	6
13 States have adopted since 2012		No Tax

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