

INCOME TAX PROPOSAL #20
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Apportionment Formula for Income Taxes

Summary of Proposal for Consideration

This proposal would amend the apportionment formula for taxing multistate business income to use a single sales factor apportionment, effective for tax years beginning January 1, 2019.

Under Arkansas Code § 26-51-709, Arkansas apportions all business income owed to the state using a three-factor formula with a double-weighted sales factor. Arkansas calculates apportionment by adding a business's property, payroll, and double the sales and dividing the sum by four (4). Under this proposal, multistate business income would be apportioned by dividing the taxable entity's gross receipts from business conducted in Arkansas by the taxable entity's gross receipts from its entire business nationwide.

Fiscal Analysis

According to the Department of Finance and Administration, amending the apportionment formula for taxing multistate business income to use a single sales factor would result in an estimated increase of eight million eight hundred thousand dollars (\$8,800,000) in general revenues based on fiscal year 2016.