Governor Mike Beebe

ARKANSAS
2011
C Corporation Income Tax Instructions

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Tax Year 2011:
Due to increasing numbers of taxpayers electronically filing their tax returns, to conserve paper and mailing costs, Corporation Income tax booklets will not be mailed.

To obtain a booklet you may:
Call the Corporation income tax office at (501) 682-4775
Go to www.arkansas.gov/ccorp

The due date for filing Arkansas Corporation Income tax returns is on or before the 15th day of the 3rd month following the close of the tax year, for calendar year filers the due date is March 15th.

Mailing Address:
State of Arkansas
Corporation Income Tax Section
P O Box 919
Little Rock, Arkansas 72203-0919

Physical Address:
Corporation Income Tax
1816 W 7th St, Room 2250
Ledbetter Building
Little Rock, AR 72201-1030

WHAT'S NEW FOR 2011

NOTE: THE FOLLOWING IS A BRIEF DESCRIPTION OF EACH ACT AND IS NOT INTENDED TO REPLACE A CAREFUL READING OF THE ACT IN ITS ENTIRETY

Act 787 OF 2011 makes technical corrections to the Arkansas Income Tax Laws by adopting or readopting recent changes to the Internal Revenue Code.

Act 789 of 2011 allows The Department of Finance and Administration to offset any tax refund due for any tax collected by the department against a debt for any tax administered by the department.

Act 1166 of 2011 creates the Arkansas Central Business District Rehabilitation and Development Investment Tax Credit. The credit is limited to a total of $1,000,000 and the project threshold is a minimum investment of $30,000.

IMPORTANT REMINDERS FOR 2011

For tax years beginning on and after 2010 the AR1100CTX, Arkansas Amended return form was removed. An Arkansas Amended Return will be filed on the AR1100CT checking the appropriate box as filing an Amended return. Taxpayers should use AR1100CTX for tax years 2009 and prior.

The 2011 C Corporation income tax instructions contain two (2) new forms, the AR1100REC, Schedule for Reconciliation of Federal and Arkansas Interest Income, Taxes and Depreciation Deduction and the AR1100BIC, Schedule of Business Incentive Credits.

ATAP - Arkansas Taxpayer Access Point

Arkansas Taxpayer Access Point (ATAP) is available for the filing of most Arkansas Corporation Income Tax returns and tax payments. Federal returns and other required schedules may be attached with the ATAP filing or mailed separately to the Corporation Income Tax Section, on CD, in PDF or in paper form. The secure online filing, managing and payment options of ATAP are available at www.atap.arkansas.gov. Taxpayers and their authorized representatives will be able to view and manage their Corporation income tax activity including other tax activity such as Individual income tax, Sales tax, Withholding tax and other taxes administered by DFA. Accountants and attorneys must obtain permission from their clients to access and view their client's accounts.

ATAP is a web-based service that will give taxpayers, or their designated representative, online access to their tax accounts and offers the following services:

Register a business, file a return on-line, file a return using XML return upload, change a name, change an address, amend a return, make a payment, store banking information for use during payment submission, view tax period financial information (tax, penalty, interest, credits, balance, etc.), view payments received, view recent account activity, view correspondence from the department.

ATAP allows taxpayers to access their following accounts online: Corporation Income Tax, Sales and Use Tax, Withholding Tax, Motor Fuels Tax, Natural Gas, Severance Tax, Individual Income Tax.

If you are currently enrolled with our online systems to either make payments or file a return electronically, you will need to sign up in ATAP to take advantage of the enhanced services.

E-File of corporation income tax return instructions for filing are posted at **www.dfa.Arkansas.gov/.**

To correctly process the Corporation's return it is essential that every applicable line and space on Form AR1100CT and related schedules be typed or printed including tax year, corporation name, address, city, state, zip code, telephone number, FEIN (Federal Employer Identification Number), date of incorporation, federal business code (NAICS business code used on the federal return), date began business in Arkansas, and filing status (check one box only). If consolidated box 4 is checked, you must also indicate number of entities in Arkansas in the space immediately to the right of Filing Status 4 description. Consolidated filers must complete a Form AR1100CT (with Schedule A if applicable) for each corporate entity and a separate Form AR1100CT for the consolidated group. If Filing Status 4 is checked, do not check any other filing status box. An Arkansas consolidated group with its members having business activity only within Arkansas must check the box for Filing Status 4.

Copy of Federal Return is required.

Arkansas Code Annotated 26-51-806(d)(1) requires a completed copy of corporation's Federal Corporate Income Tax Return, Form 1120, 1120S or other form, including all schedules and documents, be attached to the Arkansas "C" Corporation Income Tax Return, Form AR1100CT. The Federal return may be submitted by CD or attached in paper form.

(A) Corporations selecting filing status 1 (Corporations Operating Only in Arkansas) or filing status 3 (Multistate Corporations-Direct Accounting, which requires prior written approval) must enter the appropriate Arkansas dollar amount on each applicable line of Form AR1100CT and attach a completed copy of the Federal Return.

(B) Multistate corporations, including financial institutions, selecting filing status 2 (Multistate Corporation-Apportionment) or filing status 4 (Consolidated Returns) must complete Schedule A, Page 2 of Arkansas Form AR1100CT and Lines 32 through 47, Page 1 of Form AR1100CT. Multistate corporations must attach a schedule or schedules of any adjustments shown on Schedule A, Page 2, of the Arkansas Form AR1100CT in part A2 and A3. Corporations selecting filing status 4 should refer to the Consolidated Returns section in the General Instructions section of the booklet. A completed copy of the multistate corporation's Federal return is also required to be attached to the Arkansas return.

Signature.

The return must be signed by a corporate officer in the space provided on the bottom of Schedule A, page 2, of Form AR1100CT.
(Refer to General Instructions, page 5.)

The Arkansas Corporation Income Tax Return must be organized as follows:

Other than Filing Status 4 Filers:

- Arkansas Form AR1100CT (front).
  (Must be signed on Schedule A, page 2)
- Arkansas Form AR1100CT Schedule A, if applicable.
- Arkansas Schedule of Check-Off Contributions, AR1100CO, if applicable.
- Arkansas approved extension, if applicable.
- Arkansas Reconciliation Schedule, AR1100REC
- Business Incentive Tax Credit Certificates, (originals), if any, Schedule AR1100BIC if applicable.
- All other Schedules pertaining to the Arkansas Return.
- Copy of Federal Return with supporting Schedules.

Filing Status 4 Filers:

- Arkansas Form AR1100CT (page 1 only) for Group. (Must be signed on Schedule A, page 2)
- Arkansas Form AR1100CT for each entity (including parent) within the Group, and Schedule A, if applicable.
- Arkansas Schedule of Check-Off Contributions, Form AR1100CO, if applicable.
- Arkansas approved extension, if applicable.
- Arkansas Reconciliation Schedule, AR1100REC
- Business Incentive Tax Credit Certificates, (originals), if any, Schedule AR1100BIC if applicable.
- All other Schedules pertaining to the Arkansas Return.
- Copy of Federal Return with supporting Schedules.

Corporations with Filing Status 2 must complete Schedule A (Apportionment Schedule).

All percentages used in determining the apportionment factor on Schedule A must be calculated to 6 places to the right of the decimal (example 035.333452%).

Corporations with Filing Status 4 (Consolidated Return) must complete a separate AR1100CT and Schedule A, if applicable, for each member with gross income from sources within Arkansas and consolidate the applicable taxable income on a Consolidated Group AR1100CT and attach a copy of the Federal Return. Each member's Arkansas Business Incentive Tax Credit may be combined to reduce the consolidated group's total tax liability without separate entity restrictions except for the Arkansas Economic Development Credit. Contribution limits are calculated on a separate corporation basis for consolidated filers for tax years beginning on or after January 1, 2001.

Estimated Tax Requirements.

ACA 26-51-911(c)(1) and ACA 26-51-913(a)(2) were amended in 2003 adopting federal due dates for making declarations of estimated Arkansas income tax. Arkansas taxpayers are required to file an Estimated Declaration when their liability exceeds $1,000. ACA 26-19-106 provides that a corporation with an estimated quarterly income tax liability equal to or greater than $20,000.00 must pay the estimated quarterly income tax due by electronic funds transfer (Refer to General Instructions, page 5).

The AR1100ESCT, Estimate Payment Vouchers 1 through 4 and Extension Voucher 5 for tax year 2012 are not included in these instructions. The AR1100ESCT will be mailed on request. Blank AR1100ESCT forms can be obtained by contacting the Corporation Income Tax Section at (501) 682-4775 or by visiting our website, **www.arkansas.gov/ccorp.**

Corporations that underestimate their corporate tax liability must calculate any penalty due as applicable, on Part 2 of Form AR2220, and enter the penalty amount on page 1, Line 46 of Form AR1100CT. Enter the numerical exception from Part 3 in the box on Line 46.

NOTE: If a corporation has elected to, or is required to remit Arkansas estimated corporation income tax payments through the Electronic Funds Transfer (EFT) method, Arkansas Code Annotated 26-19-107 authorizes the assessment of an EFT penalty equal to five percent (5%) based on the amount of taxes due. Failure to remit Arkansas estimated corporation income tax payments through the EFT method will subject the Corporation to the five percent (5%) penalty.

Privately Designed Tax Forms.

Computer generated substitute tax forms are not acceptable unless the computer generated form is approved (in advance of use) by the Manager of the Corporation Income Tax Section.

Enclose proper tax documentation with all remittance checks. Please write the FEIN and appropriate tax year or CIT account number on the check.

The 2011 Corporation Income Tax Instructions and most of the commonly requested forms are now on the internet. The instructions and forms may be viewed or downloaded from the following address: **www.arkansas.gov/ccorp**. The website will also have prior year income tax instructions and forms. Regulations and frequently asked questions may be found at **www.dfa.Arkansas.gov/.**

For questions or comments you may contact the Corporation Income Tax Section through E- Mail at Corporation.Income@rev.state.ar.us or call:

General Information:	(501) 682-4775
Audit Unit:	(501) 682-4776
Fax Number:	(501) 682-7114

The physical location for this section is:

Corporation Income Tax Section
Ledbetter Building, Room 2250
1816 West 7th Street
Little Rock, AR 72201-1030

The mailing address:

Corporation Income Tax Section
P O Box 919
Little Rock, AR 72203-0919

2011 State of Arkansas
Domestic and Foreign Income Tax General Instructions

Who Must File

Every corporation organized or registered under the laws of this State, or having income from Arkansas sources as defined in ACA 26-51-205 must file an income tax return. Consolidated returns are permitted under certain conditions. D.I.S.C and F.S.C. Corporations are treated as regular business corporations. Business corporations, D.I.S.C and F.S.C. Corporations should use Arkansas Form AR1100CT. Small business “S” corporations with valid Arkansas “S” elections must use Form AR1100S. Financial institutions must check the appropriate filing status box on the AR1100CT or AR1100S form. A pass-through entity filing as an LLC or Partnership or other pass through entity electing to file as a corporation should check the box on the AR1100CT form. (Refer to ACA 4-32-1313 or ACA 26-51-802.)

Consolidated Returns

All corporations that are eligible members of an affiliated group filing a Federal Consolidated Corporation Income Tax Return may elect to file an Arkansas Consolidated Income Tax Return. However, only corporations in the affiliated group that have gross income from sources within the State that is subject to Arkansas income tax are eligible to file consolidated income tax returns in Arkansas. An Arkansas consolidated group with its members having business activity only within Arkansas must check the box for Filing Status 4.

In computing Arkansas consolidated taxable income or loss to which the tax rate is applied, the separate net income or loss of each corporation that is entitled to be included in the affiliated group will be included in the consolidated net income or loss to the extent that its net income or loss is separately apportioned or allocated to Arkansas. All corporations in the affiliated group that are eligible to file an Arkansas Consolidated Corporation Income Tax Return must consent to, and join in, the filing of the return prior to the last day for filing. The filing of the consolidated return will be considered as consent of each eligible corporation in the affiliated group.

Corporations with Filing Status 4 (Consolidated Return) must complete a separate Form AR1100CT reflecting taxable income before intercompany eliminations and adjustments, and Schedule A, if multistate, for each member with gross income from sources within Arkansas. Each member’s separate net income or loss must be consolidated on a group Form AR1100CT beginning on Line 32. Schedule A should not be completed for the consolidated group, but must be included for signature by a corporate officer. **A complete copy of the Federal return must be attached.** A schedule listing each intercompany elimination and adjustment, identifying the entity by FEIN to which it applies must be submitted if this information is not clearly shown on the Federal return.

Time and Place For Filing

AR1100CT Forms are due on or before the 15th day of the 3rd month following the close of the Corporation’s tax year. This includes short tax years. Cooperative Association returns are due on or before the 15th day of the 9th month following the close of the tax year. Exempt organizations are due on the 15th day of the 5th month. Forms must be filed with the:

Department of Finance and Administration
Corporation Income Tax Section
P O Box 919
Little Rock, AR 72203-0919

Amended Returns

The Amended Form AR1100CTX is not included in the 2011 C Corporation Income Tax Instructions. Taxpayers filing a 2011 tax year Amended return must file on the 2011 Form AR1100CT and check the Amended Return box at the top of the form. Amended returns for tax year 2009 and prior tax years must be filed on the 2009 Form AR1100CTX. Arkansas amended returns must be filed within three (3) years from date of filing the original return or two (2) years from date of payment of tax on the original return, whichever is later, except when required to report the final results of an IRS audit. A copy of the corporation’s federal amended return or IRS audit report must be attached to the Arkansas Amended return. Refund requests for tax year 2011 must be filed on the 2011 Form AR1100CT and the Amended Return box must be checked. Refund requests for tax year 2009 and prior tax years must be filed on the 2009 Form AR1100CTX. Attach schedules or documentation supporting all changes made on the Amended return. If multistate, attach amended apportionment schedule. If consolidated, attach separate company schedule of changes. Interest at 10% per annum will be computed on a daily rate of .00027397 from the original return due date to date Amended return is filed and the tax is paid. The original return due date for tax years beginning on or before December 31, 2002 is the 15th day of the 5th month after the close of the tax year. For tax years beginning on or after January 1, 2003 the due date is the 15th day of the 3rd month after the close of the tax year. Forms AR1100CT and AR1100CTX may be obtained from **www.arkansas.gov/ccorp** or by calling the Corporation Income Tax Section.

Report of Change in Federal Taxable Income

An agreed Revenue Agent’s Report (RAR) must be reported on an Amended return using the appropriate Form AR1100CT or AR1100CTX, refer to above instructions. The RAR must be reported to this State within 90 days after the receipt of the RAR or supplemental report reflecting correct net income of taxpayer. ACA 26-18-306(3)(b) states that a refund shall not be paid if the amended return is filed on or after the 91st day following receipt of the notice from the IRS. Any additional tax and interest must be paid with the amended return or a refund must be requested on an amended return if applicable. Statute of limitations will remain open for eight (8) years for assessment of tax if a taxpayer fails to disclose Federal Revenue Agent’s Report. The Act is effective for tax years beginning on or after January 1, 2009.

Extensions of Time for Filing

If you have received an automatic Federal extension (Form 7004), the time for filing your Arkansas Corporation Income Tax Return shall be extended until the due date of your Federal Return for a US domestic corporation. When filing the Arkansas AR1100CT, check the box at the top indicating that the Federal Extension Form 7004 and/or Arkansas Extension Form AR1155 has been filed and file the Arkansas return on or before the Federal or Arkansas extended due date. It is no longer necessary to include a copy of the Federal Form 7004.To request an initial Arkansas extension of 180 days from the original Arkansas return due date **or** an Arkansas extension of 60 days beyond the Automatic Federal extension due date, complete and mail Arkansas Form AR1155, Request for Extension of Time for Filing Income Tax Returns, by the federal extended due date or, if applicable, the Arkansas extended due date to the Corporation Income Tax Section. Arkansas extension(s) must be attached to the Arkansas income tax return. Interest at 10% per annum is due on all returns (including those with extensions) if the tax is not paid by the original return due date. Interest will be computed on a daily rate of .00027397. To avoid interest and/or penalty, any tax due payment must be made on or before the 15th day of the 3rd month following the close of the Corporation’s tax year. Attach your check to Extension Voucher 5 unless paying by EFT method and submit payment and , if applicable, Voucher 5 by the original due date of the AR1100CT.

Period Covered

A taxpayer must calculate his Arkansas income tax liability using the same income year for Arkansas income tax purposes as used for Federal income tax purposes (ACA 26-51-402).

Signatures and Verification

The return shall be sworn to by the President, Vice President, Treasurer, or other principal officer. The return of a foreign corporation having an agent in the State may be sworn to by such agent. If receivers, trustees in bankruptcy, or assignees are operating the property or business of the corporation, such receivers, trustees, or assignees shall execute the return for such corporation under certification. The return must be signed in the space provided on the bottom of Schedule A, page 2 of AR1100CT. For consolidated returns, only the group Form AR1100CT, Schedule A, page 2, must be signed.

Filing Declaration of Estimated Income Tax

Every taxpayer who can expect to owe Arkansas income tax in excess of $1,000 must make a declaration and timely pay the estimated tax in equal installments. The declaration shall be filed with the commissioner on or before the 15th day of the 4th month of the tax year of the taxpayer, except those taxpayers whose income from farming for the tax year can reasonably be expected to amount to at least two-thirds (2/3) of the total gross income from all sources for the tax year, may file such declaration and pay the estimated tax on or before the 15th day of the 2nd month after the close of the tax year or the taxpayer may file an income tax return and pay the tax on or before the 15th day of the 3rd month after the close of the tax year. To avoid penalty, all other taxpayers must pay quarterly estimates on or before the 15th day of the 4th month, 6th month, 9th month and 12th month of the tax year. Estimated payment vouchers 1 through 4 and extension payment voucher 5 (Forms AR1100ESCT) are not included in these instructions. Blank AR1100ESCT forms can be obtained by contacting the Corporation Income Tax Section or by visiting our website, **www.Arkansas.gov/ccorp.**

If the Director determines that a corporation's estimated quarterly Arkansas income tax liability exceeds $20,000.00, the corporation is required to pay the estimated quarterly income tax payments due by electronic funds transfer (EFT). The EFT must be made no later than the day before each quarterly due date. If the corporation timely pays the estimated quarterly income tax payments by EFT, the corporation is not required to file a quarterly estimated income tax voucher. The Director's determination will be based on the corporation's average quarterly liability for the preceding tax year. Each corporation participating in EFT payments must complete an Arkansas EFT-CT Authorization form upon the State's request.

NOTE: If a corporation has elected to, or is required to remit Arkansas estimated corporation income tax payments through the Electronic Funds Transfer (EFT) method, Arkansas Code Annotated 26-19-107 authorizes the assessment of an EFT penalty equal to five percent (5%) based on the amount of taxes due. Failure to remit future Arkansas estimated corporation income tax payments through the EFT method will subject the Corporation to the five percent (5%) penalty.

Corporations may remit estimated and extension corporation income tax payments through ATAP. (Refer to **www.atap.arkansas.gov** for instructions).

Accounting Methods

A taxpayer must calculate his Arkansas income tax liability using the same accounting method for Arkansas income tax purposes as used for Federal income tax purposes. If a corporation changes its accounting method, attach a copy of any certification or approval received from the Internal Revenue Service authorizing the change of accounting method to the corporation's Arkansas return (refer to ACA 26-51-401).

Payment of Taxes

The tax should be paid by attaching to the return a check or money order payable to the order of "Department of Finance & Administration." Write the corporation's FEIN or CIT account ID number on the check. Payments with returns **may not** be made by EFT. Tax due on returns may be made through ATAP. (Refer to **www.atap.arkansas.gov** for instructions). **To avoid interest and/or penalty the tax is to be paid in full by the original return due date, which is the 15th day of the 3rd month after the close of the Corporation's tax year. An approved federal and/or State extension, which allows the Corporation's return to be filed on or before the approved extended due date, does not extend the time period to pay the tax due in full. Interest and/or penalty will be assessed on any tax due paid after the original return due date as referenced above.**

Do not send cash by mail, nor pay in person, except at the:

Corporation Income Tax Section
Department of Finance and Administration
Ledbetter Building, Room 2250
1816 West 7th Street
Little Rock, AR 72201-1030

Penalties and Interest

The following penalties shall be imposed:

- Failure to file timely - 5% per month not to exceed 35%.
- Failure to make timely remittance - 5% per month not to exceed 35%.
- Underestimate penalty - 10% of the amount of the underestimate.
- Failure to file return - $50.00.
- Failure to make required EFT payment - 5% of the tax due.
- Incomplete electronic payment -10% of the amount of the draft or $20.00, whichever is greater.
- Failure to Comply - $50.00

If any part of any deficiency or tax liability is due to negligence or intentional disregard of rules and regulations, a penalty of 10% of the total amount shall be added. Any part of any deficiency determined to be due to fraud shall be subject to a 50% penalty. Interest at the rate of 10% per annum shall be assessed on all tax deficiencies. Interest will be computed using a daily rate of .00027397 from the 15th day of the 3rd month after the close of the tax year until the date the tax is paid.

Balance Sheets

The balance sheet submitted with the return should be prepared from the books and should agree therewith. If there are any differences between current year beginning and prior year ending balance sheets, submit schedule of reconciliation with the return. All corporations engaged in an interstate and intrastate trade or business and reporting to the Surface Transportation Board or to any national, state, municipal or other public officer, may submit copies of their balance sheet, prescribed by said Board, national, state or municipal authorities, as of the beginning and end of the taxable year.

Gross Sales

Enter on Line 9 of return, the gross sales, less goods returned and any allowances or discounts from the sale price.

Cost of Goods Sold

Enter on Line 10 the cost of goods sold.

If the production, purchase, or sale of merchandise is an income producing factor in the trade or business, inventories of merchandise on hand should be taken at the beginning and end of the taxable year, which may be valued at cost or market, whichever is lower. Explain fully the method used. In case the inventories reported on the return do not agree with those shown on the balance sheet, attach a statement explaining how the difference occurred.

Gross Profit

Enter on Line 11 the gross profit which is obtained by deducting Line 10, the cost of goods sold, from Line 9, the gross sales.

Dividends

Enter on Line 12 taxable dividends only. Effective for tax years beginning on or after January 1, 1997, dividends from 80% or greater directly owned subsidiaries are exempt.

Interest Income

Enter on Line 13 interest income taxable in Arkansas. Enter amounts received or credited as interest to the corporation during the tax year on bank deposits, C.D.'s, notes, mortgages, corporation bonds, taxable U.S. interest and all other interest including interest on out-of-state municipal bonds (out-of-state municipal bonds are taxable in Arkansas). <u>Attach schedule to the Arkansas return identifying each U.S. Agency or political subdivision of Arkansas and Schedule AR1100REC to reconcile amounts received that are not included as taxable interest on the Arkansas return.</u> **Attach Schedule AR1100REC to the AR1100CT to reconcile Federal and Arkansas interest income.**

Gross Rents and Gross Royalties

Enter on Line 14 all gross rents and royalties. Attach schedule showing amounts received from rents and royalties separately, if not separately shown on federal return. The schedule should reconcile Arkansas and Federal rents and royalties.

Gains from Sale of Assets

Enter on Line 15 the total net gain or loss.

Other Income

Enter on Line 16 all other taxable income for which no place is provided on the return. The holder of the ownership interest in a Financial Asset Securitization Investment Trust (FASIT) must list the net income from prohibited transactions on this line. Attach schedule explaining all items included.

Total Income

Enter on Line 17 the net amount of Lines 11 to 16 inclusive.

Compensation of Officers, Salaries and Wages

Enter on Line 18 the compensation of all officers and employees, in whatever form paid. Attach a schedule showing amounts paid to officers and employees separately, if not shown separately on the federal return. The schedule should reconcile Arkansas and Federal compensation of officers and employees.

Bad Debts

Enter on Line 20 debts which have been definitely ascertained to be worthless and have been charged off within the year. Effective for tax years beginning on and after January 1,1987, the Reserve Method for computing and deducting bad debts on receivables may be used only by small banks and thrift institutions. A debt previously charged off as bad, if subsequently collected, must be reported as income for the year in which collected.

Rent on Business Property

Enter on Line 21 rent paid for business property.

Tax Expense

Enter on Line 22 taxes paid or accrued during the taxable year. Do not include Arkansas income taxes or Federal income taxes or taxes assessed against local benefits tending to increase the value of the property assessed. **Attach Schedule AR1100REC to the AR1100CT to reconcile Federal and Arkansas taxes.**

Interest

Enter on Line 23 interest paid on business indebtedness.

Contributions

Enter on Line 24 the Arkansas allowable amount for charitable contributions. Arkansas recognizes the Federal Internal Revenue Code for contributions by corporations. Arkansas contribution carryover rules are the same as federal, except for the carryforward period. A five (5) year carryforward period is allowed and is carried over separately from the NOL. No carryback of contributions is allowed. The Arkansas contribution deduction allowable will be calculated using Arkansas taxable income rather than Federal taxable income. The contribution limits are calculated on a separate corporation basis for consolidated filers (ACA 26-51-419).

Depreciation Expense

Enter on Line 25 depreciation expense claimed.

Arkansas did not adopt the bonus depreciation provisions contained in Internal Revenue Code 168(k) and following.

Act 372 of 2009 adopted Sections 167,168(a)-(j), 179 and 179A of the IRS Code of 1986 as in effect on January 1, 2009 for property purchased in tax years beginning on or after January 1, 2009. The Section 179 expense election is $133,000 for tax years beginning on or after January 1, 2009. The Section 179 expense election is $134,000 for tax years beginning on January 1, 2010. For tax years beginning on or after January 1, 2011 the expense election will be $25,000. No bonus depreciation is allowed for Arkansas income tax purposes. **Attach Arkansas Schedule AR1100REC to the AR1100CT to reconcile Federal and Arkansas depreciation.**

Depletion

Enter on Line 26 depletion claimed. Arkansas allows Federal depletion allowances as in effect January 1, 2007. In computing the depletion allowance deduction allowed for oil and gas wells, the depletion deduction shall be controlled by the provisions of IRC Section 613A as in effect on January 1, 2011.

Other Deductions

Enter on Line 28 other deductions authorized by law. Attach schedule explaining all items included. Pension Profit Sharing and Employee Benefits deductions remain valid deductions. Those lines were removed from Form AR1100CT to allow other modifications.
Domestic Production Activity deduction is not an allowed deduction for Arkansas.

Net Operating Loss Carryover (NOL)

Enter on Line 31, or Schedule A, Part C, Line 3, net operating losses from business, profession or farming. Losses must be carried forward under the following conditions:

(A) Net operating losses must be carried over to the next succeeding taxable year and annually thereafter for a total period of five (5) years next succeeding the year of such net operating loss or until such net operating loss has been exhausted or absorbed by the taxable income of any succeeding year, whichever is earlier.

(B) For computing the amount of NOL that will be allowed for carryforward purposes, there shall be added to gross income all nontaxable income, not required to be reported as gross income by law, less any related expenses which will otherwise be nondeductible. Multistate tax filers must follow above procedures and apportion NOL by the apportionment formula for year of loss, applying the Arkansas percentage factor for the year of loss against total apportionable loss for that year. Failure to provide (with the return) a complete schedule of net operating losses may result in disallowance of any NOL claimed.

Carryback of NOL is not allowed. Contributions are not to be added to NOL and carried forward.

Net operating losses of a corporation which merges into another corporation will be allowed under the following conditions:

(1) The acquiring corporation must own at least 80% of the acquired corporation's voting stock, **and**

(2) Assets of the merged corporation must earn sufficient profits in the post-merger period to absorb the carryover losses claimed by the surviving corporation. Attach schedules of proof and computations to the return on which any NOL is being carried forward.

Expenses of Earning Tax Exempt Income

ACA 26-51-431(c) provides that no deductions shall be allowed for interest on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the taxes imposed by Arkansas law; expenses otherwise allowable as deductions which are related to tax exempt income other than interest; expenses otherwise allowable as deductions which are related to non-business income.

Example a: (interest expense):

$$\frac{\text{avg. non-tax assets}}{\text{avg. total assets}} \times \text{interest expense} = \text{disallowed expense}$$

Example b: (non-business income):

% X non-bus. inc. = disallowed expense

Taxpayer must justify % used and submit schedule.

Note: State may increase % if justification can be made.

Tax Liability

Enter on Line 33 the tax from table on pages 17 and 18.

Amended Return Only

Enter on Line 38 the net additional tax paid or (refunded or carried forward) on previous returns for this tax year.

BUSINESS INCENTIVE TAX CREDITS

1. Purchase of Waste Reduction, Reuse or Recycling Machinery or Equipment

ACA 26-51-506 provides an income tax credit equal to 30% of the cost of approved waste reduction, reuse or recycling machinery and equipment including the cost of installation. No other credit or deductions, except normal depreciation, may be claimed on that equipment. Any unused credit may be carried forward for the next three (3) succeeding years or until exhausted, whichever occurs first.

2. Consolidated Incentive Act

Act 716 of 2009 repeals Arkansas Code Title 2, Chapter 8 Subchapter 1, for Biotechnology and Advanced Fuels and repeals the Arkansas Emerging Technology Development Act of 1999; amends the Consolidated Incentive Act of 2003 by amending ACA 15-4-2703 to change the average hourly wage criteria; to include contractual agreements with state colleges, universities and other research organizations for inhouse research eligibility; amends ACA 15-4-2705(d) for qualifying for the job creation tax credit; The Code expands the research and development tax credit available under ACA 26-51-1102 by allowing an income tax credit equal to 33% of qualified research expenditures or of a donation made to support a research park authority or in a strategic research area approved by the Department of Higher Education and/or the Arkansas Science and Technology Authority. The credits may offset 100% of the business' tax liability and any unused tax credits may be carried forward for nine (9) years; amends ACA 15-4-2706 concerning proof of an equity investment to qualify for a special incentive to $250,000; amends ACA 15-4-2712 to clarify which incentives or tax credits may or may not be combined.

ACA 15-4-2707(d)(2)(C) and ACA 15-4-2711(f)(2) are amended to change the time to file for and claim the payroll rebate under the Payroll Rebate Program of 2003.

3. Child Care Facility

ACA 26-51-507 provides for an income tax credit of 3.9% of the annual salary of employees employed exclusively in providing child care services if the revenue to the business does not exceed the direct operating costs of the facility. Act 413 of 2001 requires certification of eligible childcare facilities by the Division of Childcare and Early Childhood Education.

ACA 26-51-508 provides that a business which qualifies for the refund of the Gross Receipts Tax or Compensating Use Tax under ACA 26-52-516 or ACA 26-53-132 shall be allowed an income tax credit of 3.9% of the annual salary of its employees employed exclusively in providing child care service, or a $5,000 income tax credit for the first tax year the business provides its employees with a child care facility. This credit is for a business which operates a child care facility for its employees only.

Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

4. Water Resource Conservation

(a) Water Impoundment outside and within critical areas:

Act 631 of 2011 amends ACA 26-51-1005 to provide an income tax credit equal to 50% of the cost of construction and installation or restoration of water impoundments or water control structures of twenty (20) acre-feet or more. The credit shall not exceed the lesser of 50% of the project cost incurred or $90,000. The Act repeals ACA 26-51-1006.

The amount of tax credit allowed to each approved applicant per project shall not exceed the lesser of the amount of individual or corporate income tax otherwise due or $9,000. Any unused credit may be carried forward for the next nine (9) succeeding tax years or until exhausted, whichever occurs first. After March 12, 2001, projects used for commercial purposes can qualify for this credit.

(b) Surface Water Conversion:

1. Outside Critical Areas- Act 631 of 2011 amends ACA 26-51-1007 to provide an income tax credit that shall not exceed the lesser of 10% of the project cost incurred or $27,000 for the reduction of groundwater use by substitution of surface water for water used for industrial, commercial, agricultural or recreational purposes.

   The credit shall not exceed the lesser of individual or corporate income tax otherwise due or $9,000 per project and any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

2. Within Critical Areas- Act 631 of 2011 amends ACA 26-51-1008 to provide an income tax credit not to exceed the lesser of 50% of the cost incurred or $27,000 for the reduction of groundwater use by substitution of surface water for water used for agricultural or recreational purposes. The credit shall not exceed the lesser of income tax otherwise due or $9,000 for projects using water for agricultural or recreational purposes.

For industrial or commercial projects, there shall be allowed a tax credit to each approved applicant not to exceed the lesser of 50% of the project cost incurred or $1,000,000. The amount of tax credit allowed is the amount of individual or corporate income tax otherwise due or $200,000. If the approved applicant is a pass-through entity the amount of tax credit that may be used for a taxable year shall not exceed the lesser of the aggregate amount of individual or corporate income tax due by all members or $9,000. "Critical areas" means those areas so designated by the Arkansas Natural Resources Commission.

Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first, for projects using water for agricultural or recreational purposes. For projects approved on or after August 1, 1997 and using water for industrial or commercial purposes any unused credit may be carried forward for the next four (4) succeeding tax years or until exhausted, whichever occurs first.

(c) Land Leveling for Water Conservation:

Act 631 of 2011 amends ACA 26-51-1009 to provide an income tax credit equal to 10% of the project cost incurred or $27,000 for agricultural land leveling to conserve irrigation water. The credit shall not exceed the lesser of the amount of individual or corporate income tax income tax otherwise due or $9,000 per project.

Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

(d) Wetland and Riparian Zone Creation and Restoration and Conservation Tax Credits Act:

ACA 26-51-1505 as amended to allow the Wetland and Riparian Zone Creation and Restoration Tax Credit to apply to taxable years beginning on or after January 1,1996, not to exceed $50,000 and the Wetland and Riparian Zone Conservation Tax Credits which shall apply to taxable years beginning on or after January 1, 2009 and shall equal 50% of the fair market value of the qualified property interest donation, calculated to exclude any short term capital gain under 26 U.S.C. 170(e)(1)(A) as in effect on January 1, 2009, not to exceed $50,000. The amount of credit shall be equal to the project costs not to exceed the lesser of income tax due or $5,000. An eligible donor may earn only one wetland and riparian zone conservation tax credit per income tax year. The availability of the tax credits shall expire on December 31st of the calendar year following the calendar year the tax credits used exceed $500,000. The Act is effective for tax years beginning on or after January 1, 2009.

Any unused credit may be carried forward for a maximum of nine (9) consecutive taxable years following the taxable year in which the tax credit originated.

Any water resource or surface water conservation project approved prior to December 31,1995 must comply with the provisions established under the Water Resource Conservation and Development Incentives Act of 1985.

5. Equipment Donation, Sale Below Cost or Qualified Research Expenditure

ACA 26-51-1102 provides an income tax credit for a taxpayer who donates or sells below cost new machinery or equipment to a qualified educational institution, or a taxpayer who has qualified research expenditures under a qualified research program. This credit is equal to 33% of the cost of the donation, sale below cost, or qualified expenditure and the credit may offset 100% of the net income tax liability.

Any unused credit may be carried forward for the next nine (9) succeeding tax years or until exhausted, whichever occurs first.

ACA 14-144-311 amends Arkansas Code Title 14 to authorize the creation and operation of research park authorities for the purpose of economic development, exempting the property of each research park authority from all state, county and municipal taxes including income tax, inheritance tax and estate tax. The act allows contributions to research park authorities to qualify for the credit provided by ACA 26-51-1103.

6. Workforce Training Credit

ACA 6-50-702 permits an income tax credit based on a portion of the cost of workforce training. If the training is in an Arkansas state supported educational institution, the credit allowed is the lesser of one-half (1/2) of the amount paid by the company or the hourly training cost up to $80 per instructional hour. If training is by company employees or company paid consultants, the tax credit cannot be more than $25 per hour.

There is no carryforward period for this credit. Applications for this credit are available from the Arkansas Department of Economic Development at (501) 682-7675.

7. Tourism Development Credit

ACA 15-11-509 provides for an income tax credit equal to 4% of the payroll of the new full-time permanent employees working at a tourism attraction project. To be counted as a new full-time permanent employee for the purpose of qualifying for the tax credit, the employee in the position must have been an Arkansas taxpayer during the year in which the credit was earned.

For projects receiving approval after March 1,1999, the credit may be applied against the approved company's income tax liability for the succeeding nine (9) years or until entirely used, whichever occurs first. The Act was effective August 12, 2005.

8. Youth Apprenticeship Program

ACA 26-51-509 provides for an income tax credit of $2,000 or 10% of the wages earned by a youth apprentice, whichever is less, to a business participating in the United States Department of Labor apprenticeship program. The credit may not exceed the income tax otherwise due and the pass through provisions of ACA 26-51-409 will apply as in effect for the taxable year the credit was earned.

Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

ACA 26-51-1601 et seq. provides for an income tax credit of $2,000 or 10% of the wages earned by a youth apprentice, whichever is less, to a business participating in the Arkansas Vocational and Technical Education Division apprenticeship program. The occupation in which the youth apprentice is employed must not be covered by the United States Department of Labor apprenticeship program as in effect on January 1,1995. The credit may not exceed the income tax otherwise due.

Any unused credit may be carried forward for the next two (2) succeeding tax years or until exhausted, whichever occurs first.

9. Biodiesel Incentive Act

ACA 15-4-2801 et seq. establishes an income tax credit to biofuels suppliers equal to 5% of the costs of facilities and equipment used directly in the wholesale or retail distribution of biodiesel fuels. The costs of service contracts, sales tax, or the acquisition of undeveloped land cannot be included in determining the amount of the credit. The credit cannot be claimed by a supplier for any facility or equipment in use on or before the certification of the company for tax credits, or for any facility or equipment for which a supplier previously claimed a tax credit for any other tax year. The limitations on the use of the credit will not apply if an entity is sold and the entity is entitled to credit.

The credit can be carried forward for a period not to exceed three (3) years. The provisions of the Act apply to tax years beginning on or after January 1, 2003 and the credit established under ACA 15-4-2803 expired on June 30, 2007.

10. Tuition Reimbursement Credit

ACA 26-51-1902 permits an income tax credit equal to 30% of the cost of tuition reimbursed by the employer to a full-time permanent employee on or after July 30, 1999. The credit cannot exceed 25% of the business' income tax liability in any one tax year and has no carryforward provision. The employee must attend a qualified Arkansas institution.

This credit is administered by the Arkansas Department of Economic Development. Form 1036 must be attached to the Arkansas return in addition to Form AR1100BIC to claim this credit.

11. Family Savings Initiative Credit

ACA 20-86-109, creates the Family Savings Initiative Act, effective July 1, 1999, which provides a tax credit to those taxpayers who make contributions to a designated fiduciary organization created pursuant to this Act. The fiduciary will notify the Department of Human Services of the deposits and will issue a certificate to be attached to the tax return for the first year the credit is taken. The credit allowed is the lesser of the income tax due or $25,000 per taxpayer. The total tax credit allowed for all taxpayers is $100,000 per year.

Any unused credit may be carried forward for the next three (3) succeeding tax years or until exhausted, whichever occurs first.

12. Public Road Improvement

ACA 15-4-2306 provides a tax credit for those taxpayers who contribute to the “Public Roads Incentive Fund” for the improvement of public roads. The credit is limited to 33% of the total contributions made to the fund and in any tax year is limited to 50% of the net Arkansas tax liability after all other credits have been taken. This credit is available for tax years beginning on or after January 1,1999.

Any unused credit can be carried forward for the next three (3) succeeding tax years or until the credit is exhausted, whichever occurs first. This program is administered by the Arkansas Department of Economic Development.

13. Low Income Housing Credit

ACA 26-51-1702 provides an income or premium tax credit for a taxpayer owning an interest in a qualified low income building which is approved through the Arkansas Development Finance Authority. The tax credit is computed by multiplying the Federal Low Income Housing Tax Credit for the qualified project by 20%.The credit may not exceed $250,000 or the income or annual premium tax otherwise due.

Any unused credit may be carried forward for the next five (5) succeeding tax years or until exhausted, whichever occurs first.

14. Purchase of Equity in a Capital Development Company

ACA15-4-1026 allows the original purchaser of an equity interest in a Capital Development Company in calendar years 2003-2015 to be entitled to an income or annual premium tax credit equal to 33.33% of the actual purchase price, limited to 50% of the net Arkansas income or premium tax liability in any one tax year. No capital development company shall enter into an agreement or commitment for the purchase by any person of equity interests in the capital development company on or after July 1, 2007.

Any unused credit may be carried forward for the next succeeding tax year and annually thereafter for a total of eight (8) succeeding the year in which the equity interest was purchased or until exhausted, whichever occurs first. In no event may the credit be allowed for any tax year ending after December 31, 2021.

15. Affordable Neighborhood Housing Tax Credit

ACA 15-5-1301 et seq. provides an income or annual premium tax credit for any business firm engaged in providing affordable housing which is approved through the Arkansas Development Finance Authority. The tax credit is limited to 30% of the total amount invested in affordable housing assistance activities. The credit may not exceed $750,000 or the income or premium tax otherwise due in any taxable year.

Any unused credit may be carried forward for the next five (5) succeeding tax years or until exhausted, whichever occurs first.

16. Coal Mining Tax Credit

ACA 26-51-511 provides an income or annual premium tax credit of $2.00 per ton of coal mined, produced or extracted on each ton of coal mined in Arkansas in a tax year. An additional credit of $3.00 per ton will be allowed for each ton of coal mined in Arkansas in excess of 50,000 tons in a tax year. The credit can only be earned if the coal is sold to an electric generation plant for less than $40 per ton excluding freight charges.

The credit expires five (5) tax years following the tax year in which the credit was earned.

17. Venture Capital Investment Credit

ACA 15-5-1401 et seq. provides an income tax credit up to $10 million per fiscal year as recommended by the Arkansas Development Finance Authority and approved by the State Board of Finance. The credit may not exceed the income tax otherwise due and is non-refundable.

Any unused credit may be carried forward for five (5) succeeding tax years after the tax year in which the credit was first used.

18. Rice Straw Tax Credit

ACA 26-51-512 allows an income tax credit in the amount of $15.00 for each ton of rice straw over 500 tons that is purchased by an Arkansas taxpayer who is the end user of the straw (person processing, manufacturing, generating energy or producing ethanol). The amount of the credit is limited to 50% of the income tax due for the tax year.

Any unused credit may be carried forward for ten (10) consecutive years following the tax year the credit was earned and is effective for tax years beginning on or after January 1, 2006.

19. Delta Geotourism Incentive Act

Act 349 of 2009 amends The Delta Geotourism Incentive Act of 2007 to allow a geotourism income tax credit to transfer to other tourism projects to construct, expand or remodel a geotourism supporting business. The minimum investment to claim the tax credit is $25,000.

Act 738 of 2011 changes the maximum investment to $250,000 for geotourism property located within the Lower Mississippi River Delta or a minimum investment of $100,000 in property located in the state but not within the Lower Mississippi River Delta and increases the credit amount from $25,000 to $62,500. The Act extends the sunset provision of the credit from 2016 to 2021 and is effective for tax years beginning January 1, 2011.

Act 1192 of 2009 amends The Delta Geotourism Incentive Act of 2007, to include insurance companies paying an annual premium tax and extend the geographical qualifications to within 30 miles of a national scenic byway for an income or premium tax credit for Geotourism investment in the lower Mississippi River Delta.

20. Arkansas Historic Rehabilitation Income Tax Credit

ACA 26-51-2201 creates a credit for qualified rehabilitation expenses in an amount equal to 25% of the total incurred by a person, firm or corporation subject to state income tax or an insurance company paying annual premium tax to complete a certified rehabilitation project up to the first $500,000 of expenses on income producing property or $100,000 on non-income producing property. The credit may offset 100% of income or annual premium tax due.

Any unused credit shall be carried forward for five (5) years and is effective for tax years beginning on and after January 1, 2009 .

Act 831 of 2011 extends the sunset date from December 31. 2015 to December 31, 2021.

21. Arkansas Central Business Improvement District Rehabilitation and Development Investment Tax Credit

Act 1166 of 2011 (ACA 26-51-2407) amends Arkansas Code 26, Chapter 51 to add Subchapter 24, to establish an investment tax credit equal to 25% for a qualified rehabilitation or development expenditure incurred for a qualified project up to the first $500,000 on income producing property or $200,000 on non-income producing property with a minumum investment of $30,000. The tax credit will be issued for up to $1,000,000 in any one fiscal year on a first come, first serve basis. The credit may be transferred, sold or assigned only one (1) time and will offset up to 100% of the state income tax due but shall not exceed the amount of income tax due for the taxable year.

Any unused tax credit may carried over for five (5) consecutive taxable years or until exhausted whichever occurs first. This act will take effect only if the Chief Fiscal Officer of the State certifies that sufficient funds are available. The credit will not be funded for tax year 2011. If it is determined that funding is available the act will be effective for tax years beginning on or after January 1 of the year following the certification and continue for a period of two (2) years.

The Business and Incentive Tax Credit Forms and Instructions may be obtained from:

Department of Finance and Administration
Tax Credit/Special Refunds Section
P O Box 1272
Little Rock, AR 72203-1272
or call (501) 682-7106
website: **www.dfa.Arkansas.gov/**

Specific Instructions

For Taxpayers with Income from Sources Within and Without the State

Multistate corporations should complete lines 32-47 of page 1, and Schedule A, page 2 of Form AR1100CT. Multistate corporations should not complete lines 9-31 of Form AR1100CT. If all apportionment factors are 100%, the corporation is not multistate and should file as a corporation operating only in Arkansas.

In general, taxpayers with income derived from activities both within and without the State are required to allocate and apportion the net income under the following provision.

Business and Nonbusiness Income Defined- ACA 26-51-701(a) defined "Business Income" as income arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management and disposition of the property constitute integral parts of the taxpayer's trade or business operations. In essence, all income which arises from the conduct of trade or business operations of a taxpayer is business income. Income of any type or class and from any source is business income if it arises from transactions and activity occurring in the regular course of a trade or business. In general, all transactions and activities of the taxpayer's economic enterprise as a whole constitute the taxpayer's trade or business and will be considered "Business Income", unless otherwise excluded by Arkansas law. Nonbusiness income means all income other than business income.

Unitary Determination of Intangible Income:

Interest, dividends (less than 80% directly owned), rents, royalties and gains and losses from multistate corporations are apportionable to Arkansas if a unitary business relationship exists between the intangible income and the State of Arkansas. The U.S. Supreme Court has identified certain factors of profitability such as functional integration, centralization of management and economies of scale and summarized these factors in the use of the term "flow of value" to indicate the contribution made to the overall business enterprise. Generally, a unitary business relationship will exist when an activity conducted in one state benefits and is benefited by an activity conducted in another state.

Arkansas will not accept returns filed on a unitary combined report basis.

Apportionment Formula:

For tax years beginning on or after January 1,1995 (for all multistate corporations except financial institutions, airlines, bus lines, truckers and private railcar operators) business income is to 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 four (4).
If a taxpayer does not have all four (4) factors, the denominator shall be the same as the number of entries other than zero (0) that apply to the total (everywhere) amounts of the property, payroll and sales factors. When double weighted, the sales factor counts as two (2).
For tax years beginning prior to January 1,1995, the single weighted sales factor must be used. Construction companies, pipelines, publishing companies, railroads, and TV and radio broadcasters must utilize the double weighted sales factor apportionment method with factor modifications. Requirements for apportionment formulas of the businesses listed in this paragraph (except for financial institutions) are contained in the Arkansas Corporation Income Tax Regulations which may be obtained from **www.dfa.Arkansas.gov/**

Property Factor:

The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in this state during the tax period and the denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the tax period. The average value of property owned by the taxpayer means the average of the original cost of the property including inventories, at the beginning and ending of the tax period. Property rented by the taxpayer is valued at eight (8) times the net annual rental rate.

Payroll Factor:

The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the taxpayer for compensation, and the denominator of which is the total compensation paid everywhere during the tax period.

Compensation is paid in this State if:

(A) The individual's service is performed entirely within the State, **or**

(B) The individual's service is performed both within and without the State, but the service performed without the State is incidental to the individual's service within the state, **or**

(C) Some of the service is performed in the State, **and**

(1) The base of operations or, if there is no base of operations, the place from which the service is directed or controlled, is in the State, **or**

(2) The base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is in this State.

Sales Factor:

The sales factor is a fraction, the numerator of which is the gross sales of the taxpayer in this State during the tax period, and the denominator of which is the gross sales of the taxpayer everywhere during the tax period.

Sales of tangible personal property are in this State if:

(A) The property is delivered or shipped to a purchaser, other than the United States Government, within this State regardless of the f.o.b. point or other conditions of the sale, **or**

(B) The property is shipped from an office, store, warehouse, factory, or other place of storage in this State, **and**

(1) the purchaser is the United States Government, **or**

(2) the taxpayer is not taxable in the state of the purchaser.

Sales, other than sales of tangible personal property, are in this State if:

(A) The income producing activity is performed in this State, **or**

(B) The income producing activity is performed both within and without the State in which event the income allocable to this State shall be the percentage that is used in the formula for apportioning business income to this State.

Part B, Line 3.g. of Schedule A (Page 2 of AR1100CT) reflects the double weighting of the sales factor.

Allocated Income:

Partnership Income:

ACA 4-32-1313 and ACA 26-51-802 adopt the federal "check the box" rules to make it consistent with Federal law regarding the income taxation of Limited Liability Companies and Partnerships. The change is effective for tax years beginning on or after January 1, 2003.

Subject to the provisions of ACA 26-51-202(c), all partnership income from activities within this State that is reflected on a partnership return shall be allocated to this State. Submit appropriate schedule [ACA 26-51-802(b)].

Non-business Income:

The following items of income to the extent that they do not constitute business income are to be allocated to this State.

1. Rents & Royalties:

A) Net rents and royalties from real property located in this State.

B) Net rents and royalties from tangible personal property.

1) If and to the extent that the property is used in this State, **or**

2) In their entirety, if the commercial domicile is in this State and the taxpayer is not organized under the laws of or taxable in the state in which the property is utilized.

The extent of utilization of tangible personal property in a state is determined by multiplying the rents and royalties by a fraction, the numerator of which is the number of days of physical location of the property in the State during the rental or royalty period in the taxable year; and the denominator of which is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable year.

If the physical location of the property during the rental or royalty period is unknown or unascertainable by the taxpayer, tangible personal property is utilized in the state in which the property is located at the time the rental or royalty payer obtained possession.

2. Gains and Losses:

Gains and losses from sales of assets:

A) Sales of real property located in this State.

B) Sales of tangible personal property.

1) The property had a situs in this State at the time of sale, **or**

2) The taxpayer's commercial domicile is in this State, **or**

3) The property has been included in depreciation which has been allocated to this State; in which event gains or losses on such sales shall be allocated on the percentage that is used in the formula for allocating income to this State.

3. Interest and Dividends:

Interest and dividends if the taxpayer's commercial domicile is in this State.

4. Patent and Copyright Royalties:

A) If and to the extent that the patent or copyright is utilized by the taxpayer in this State, **or**

B) If and to the extent that the patent or copyright is utilized by the taxpayer in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in this State.

A copyright is utilized in a state to the extent that printing or other publications originate in the state. If the basis of receipts from copyright royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the copyright is utilized in the state in which the taxpayer's commercial domicile is located.

Change of Method:

Prior Approval Required Before Deviation From the Allocation and Apportionment Method: If the allocation and apportionment provisions as set out above do not fairly represent the extent of the taxpayer's business activity in this State, the taxpayer may petition for, or the Commissioner of Revenue, Department of Finance and Administration may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

A) Separate accounting;

B) The exclusion of any one or more factors;

C) The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this State, **or**

D) The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

To "petition for" shall mean a formal written request submitted and approved prior to the filing of a return.

Apportionment of Intragroup Intangible Licensing Transactions:

Regulation 1996-3 clarifies the calculation method for determining the sales factor in apportioning business income received from intragroup intangible licensing transactions. This regulation applies to a corporation that is a passive intangible holding company and receives business income from intragroup intangible licensing transactions with one or more members of the same group. Also, at least one of the other members of the same group from which the business income is received by the taxpayer must be subject to the Arkansas Income Tax Act.

The sales factor for intragroup intangible licensing transactions is modified as follows:

1. If the licensing agreement states a method of measuring the activity between the licensor and licensee, the numerator of the sales factor is the amount of the sales or receipts received as provided in the licensing agreement.

2. If the licensing agreement does not state a method of measuring the activity between the licensor and licensee, the measuring activity will be based on one of the following:

    a. If the licensee's activity generates sales or receipts, the numerator of the sales factor will be the percentage of sales in Arkansas compared to the licensee's total sales, **or**

    b. If the licensee's activity does not generate sales or receipts, the numerator of the sales factor will be the percentage of units produced or cost of units produced in Arkansas compared to the licensee's total units produced or total cost of units produced, **or**

    c. If neither of the above methods accurately represent the licensor's business activity in Arkansas, the licensor may petition for or the Director may require another method.

3. If the licensing agreement states a method of measuring the activity between the licensor and licensee in addition to a specifically stated dollar amount, the numerator of the sales factor will be the stated measuring activity plus the stated dollar amount attributable to Arkansas.

This Regulation modifies the sales factor for intragroup intangible licensing transactions only, and business income from any other source should be apportioned in accordance with ACA 26-51-709.

If a passive intangible holding company meets the above characteristics and the licensee elects to forego the intragoup intangible licensing transactions deduction, the passive intangible holding company will not be required to report the business income received from intragroup intangible licensing transactions for Arkansas income tax purposes.

The licensee's election to forego the deduction will be binding unless the licensee and the passive intangible holding company submit a written petition to change the election to the Director, and the Director approves the change.

FINANCIAL INSTITUTIONS

In general all state and national banks, savings and loan, building and loan associations or any other entity operating as financial institutions are to be taxed under existing law. For a complete definition of "financial institution" refer to ACA 26-51-1402.

Who must file:

1) A financial institution having its principal office in this State shall be taxed as a business corporation organized and existing under the laws of this State, **or**

2) A financial institution having its principal office outside this State but doing business in this State shall be taxed as a foreign business corporation doing business in this State.

This is not intended to recognize the right of a foreign financial institution to conduct any business in this State except to the extent and under the conditions permitted by any acts or any other now existing applicable laws of this State.

ACA 26-51-702 requires financial organizations having business income from business activity both within and without the State of Arkansas to apportion their net income.

ACA 26-51-426 adopted Internal Revenue Code Sections 582, 585, and 593 as in effect January 1, 1999 regarding bad debts of financial institutions.

ACA 26-51-1401 et seq. (effective for taxable years beginning on or after January 1, 1996) adopted the Multistate Tax Commission regulation regarding apportionment and allocation of net income of financial institutions. It requires that a financial institution whose business activity is taxable both within and without this State to allocate and apportion its net income to this State. All business income which is includable in the apportionable income tax base, shall be apportioned to this State by multiplying such income by the apportionment percentage. The apportionment percentage is determined by adding the receipts factor, property factor, and payroll factor and dividing the sum by three (3).

Receipts Factor:

Generally, the receipts factor is a fraction, the numerator of which is the receipts of the taxpayer in this State during the taxable year and the denominator of which is the receipts of the taxpayer within and without this State during the taxable year. The method of calculating receipts for purposes of the denominator is the same as the method used in determining receipts for purposes of the numerator. The receipts factor shall include only those receipts described herein which constitute the business income and are included in the computation of the apportionable income base for the taxable year. Financial institutions cannot double weight the receipts factor.
(Refer to ACA 26-51-1403).

Property Factor:

Generally, the property factor is a fraction, the numerator of which is the average value of real property and tangible personal property rented to the taxpayer that is located or used within this State during the taxable year, the average value of the taxpayer's real and tangible personal property owned that is located or used within this State during the taxable year, and the average value of the taxpayer's loans and credit card receivables that are located within this State during the taxable year, and the denominator of which is the average value of all such property located or used within and without this State during the taxable year. (Refer to ACA 26-51-1404).

Payroll Factor:

Generally, the payroll factor is a fraction, the numerator of which is the total amount paid in this State during the taxable year by the taxpayer for compensation and the denominator of which is the total compensation paid both within and without the State during the taxable year. The payroll factor shall include only that compensation which is included in the computation of the apportionable income tax base for the taxable year. (Refer to ACA 26-51-1405).

Exempt Organizations

Arkansas Code Annotated (ACA) 26-51-303 provides exemption from income taxation for certain types of organizations.

Act 1147 of 1993 established the Non-Profit Corporation Act of 1993 and sets out filing requirements of the Secretary of State as well as action to be taken for receiving recognition of tax exempt status by the Arkansas Revenue Division. Guidelines for filing with the Secretary of State may be obtained by contacting that office at:

Arkansas Secretary of State
State Capitol Building
Little Rock, AR 72201

Telephone numbers: (501) 682-3409
(888) 233-0325

Website: **www.sosweb.state.ar.us/**

Non-Profit corporations, unincorporated groups or associations shall be eligible to receive Arkansas income tax exempt status upon submitting proper documentation and application to:

Arkansas Department of Finance and Administration
Corporation Income Tax Section
P O Box 919
Little Rock, AR 72203-0919

The following information must be submitted for review in determining income tax exempt status:

A) Organizations with an IRS Ruling letter:

1) Copy of IRS Ruling letter.
2) Copy of pages 1 and 2 of IRS Form 1023 or 1024.
3) Statement declaring Arkansas Code exemption.

B) Organizations without an IRS Ruling letter:

1) Arkansas Form AR1023CT.
2) Copy of Articles of Incorporation, Articles of Association, copy of Trust Indenture or Agreement.
3) Copy of Bylaws.

Income derived from investments made by nonprofit organizations which is not for the sole purpose of providing pension and annuity benefits to members should be reported on Form AR1100CT. Attach a copy of the applicable federal form.

Exemption from income taxation does not apply to Sales Tax exemption. For Sales Tax forms or procedures, please refer to the website at **www.dfa.Arkansas.gov/sales_tax**, or phone (501) 682-1895.

Small Business (S) Corporations

Qualifying corporations may elect to be treated as "Small Business (S) corporations" for Arkansas income tax purposes. ACA 26-51-409(b)(2) requires corporations to have elected Subchapter S treatment for federal tax purposes if electing Subchapter S treatment for Arkansas income tax purposes for the same tax year. The election may be made only if the corporation meets all of the following requirements:

1) It is treated as a Small Business Corporation with the Internal Revenue Service (IRS).
2) It has no more than 100 shareholders. Members of a family (and their estates) are treated as one shareholder for this requirement. All other persons are treated as separate shareholders.
3) It must be a corporation organized or created under the laws of the United States or a state or territory or it is a similar association taxed as a corporation.
4) Its shareholders are individuals, estates and certain trusts described in IRC 1361.
5) It has no nonresident alien shareholders.
6) It has only one class of stock.
7) It is not an ineligible corporation as defined in IRC 1361.
8) Banks may elect S Corp status even though the bank stock is owned by an individual's IRA rather than the individual.

For an election to be valid, all persons who are shareholders of the corporation on the first day of the corporation's taxable year or on the day of the Arkansas election, whichever is later, must consent by signature, to such election on Arkansas election Form AR1103 and requires a copy of the IRS Notice of Acceptance as an S Corporation to be submitted for approval. If the AR1103 is received without the Notice, it will not be approved until the Notice is received. All shareholders are required to file Arkansas Individual income tax returns or be included in a composite return. Please refer to the 2011 Subchapter S tax instructions for details on filing as an S corporation.

The annual income tax return of a small business corporation is to be submitted on Arkansas Form AR1100S. The Arkansas election (Form AR1103) and Arkansas Subchapter S corporation income tax return (Form AR1100S) should be submitted to:

Department of Finance and Administration
Corporation Income Tax Manager
P O Box 919
Little Rock, AR 72203-0919

Physical address:
1816 West 7th Street Room 2250
Little Rock, AR 72201

Telephone number: (501) 682-4775
Website: **www.arkansas.gov/scorp**

CORPORATION INCOME TAX TABLE

1. Find your income from Line 32; Enter tax on Line 33.

IF YOUR INCOME IS			IF YOUR INCOME IS			IF YOUR INCOME IS		
AS MUCH AS	BUT LESS THAN	YOUR TAX IS	AS MUCH AS	BUT LESS THAN	YOUR TAX IS	AS MUCH AS	BUT LESS THAN	YOUR TAX IS
0	100	0	5,000	5,100	71	10,000	10,100	212
100	200	1	5,100	5,200	73	10,100	10,200	215
200	300	3	5,200	5,300	75	10,200	10,300	218
300	400	4	5,300	5,400	77	10,300	10,400	221
400	500	5	5,400	5,500	79	10,400	10,500	224
500	600	6	5,500	5,600	81	10,500	10,600	227
600	700	7	5,600	5,700	83	10,600	10,700	230
700	800	8	5,700	5,800	85	10,700	10,800	233
800	900	9	5,800	5,900	87	10,800	10,900	236
900	1,000	10	5,900	6,000	89	10,900	11,000	239
1,000	1,100	11	6,000	6,100	92	11,000	11,100	243
1,100	1,200	12	6,100	6,200	95	11,100	11,200	248
1,200	1,300	13	6,200	6,300	98	11,200	11,300	253
1,300	1,400	14	6,300	6,400	101	11,300	11,400	258
1,400	1,500	15	6,400	6,500	104	11,400	11,500	263
1,500	1,600	16	6,500	6,600	107	11,500	11,600	268
1,600	1,700	17	6,600	6,700	110	11,600	11,700	273
1,700	1,800	18	6,700	6,800	113	11,700	11,800	278
1,800	1,900	19	6,800	6,900	116	11,800	11,900	283
1,900	2,000	20	6,900	7,000	119	11,900	12,000	288
2,000	2,100	21	7,000	7,100	122	12,000	12,100	293
2,100	2,200	22	7,100	7,200	125	12,100	12,200	298
2,200	2,300	23	7,200	7,300	128	12,200	12,300	303
2,300	2,400	24	7,300	7,400	131	12,300	12,400	308
2,400	2,500	25	7,400	7,500	134	12,400	12,500	313
2,500	2,600	26	7,500	7,600	137	12,500	12,600	318
2,600	2,700	27	7,600	7,700	140	12,600	12,700	323
2,700	2,800	28	7,700	7,800	143	12,700	12,800	328
2,800	2,900	29	7,800	7,900	146	12,800	12,900	333
2,900	3,000	30	7,900	8,000	149	12,900	13,000	338
3,000	3,100	31	8,000	8,100	152	13,000	13,100	343
3,100	3,200	33	8,100	8,200	155	13,100	13,200	348
3,200	3,300	35	8,200	8,300	158	13,200	13,300	353
3,300	3,400	37	8,300	8,400	161	13,300	13,400	358
3,400	3,500	39	8,400	8,500	164	13,400	13,500	363
3,500	3,600	41	8,500	8,600	167	13,500	13,600	368
3,600	3,700	43	8,600	8,700	170	13,600	13,700	373
3,700	3,800	45	8,700	8,800	173	13,700	13,800	378
3,800	3,900	47	8,800	8,900	176	13,800	13,900	383
3,900	4,000	49	8,900	9,000	179	13,900	14,000	388
4,000	4,100	51	9,000	9,100	182	14,000	14,100	393
4,100	4,200	53	9,100	9,200	185	14,100	14,200	398
4,200	4,300	55	9,200	9,300	188	14,200	14,300	403
4,300	4,400	57	9,300	9,400	191	14,300	14,400	408
4,400	4,500	59	9,400	9,500	194	14,400	14,500	413
4,500	4,600	61	9,500	9,600	197	14,500	14,600	418
4,600	4,700	63	9,600	9,700	200	14,600	14,700	423
4,700	4,800	65	9,700	9,800	203	14,700	14,800	428
4,800	4,900	67	9,800	9,900	206	14,800	14,900	433
4,900	5,000	69	9,900	10,000	209	14,900	15,000	438

TAX TABLE CONTINUED

IF YOUR INCOME IS AS MUCH AS	BUT LESS THAN	YOUR TAX IS	IF YOUR INCOME IS AS MUCH AS	BUT LESS THAN	YOUR TAX IS	IF YOUR INCOME IS AS MUCH AS	BUT LESS THAN	YOUR TAX IS
15,000	15,100	443	18,500	18,600	618	22,000	22,100	793
15,100	15,200	448	18,600	18,700	623	22,100	22,200	798
15,200	15,300	453	18,700	18,800	628	22,200	22,300	803
15,300	15,400	458	18,800	18,900	633	22,300	22,400	808
15,400	15,500	463	18,900	19,000	638	22,400	22,500	813
15,500	15,600	468	19,000	19,100	643	22,500	22,600	818
15,600	15,700	473	19,100	19,200	648	22,600	22,700	823
15,700	15,800	478	19,200	19,300	653	22,700	22,800	828
15,800	15,900	483	19,300	19,400	658	22,800	22,900	833
15,900	16,000	488	19,400	19,500	663	22,900	23,000	838
16,000	16,100	493	19,500	19,600	668	23,000	23,100	843
16,100	16,200	498	19,600	19,700	673	23,100	23,200	848
16,200	16,300	503	19,700	19,800	678	23,200	23,300	853
16,300	16,400	508	19,800	19,900	683	23,300	23,400	858
16,400	16,500	513	19,900	20,000	688	23,400	23,500	863
16,500	16,600	518	20,000	20,100	693	23,500	23,600	868
16,600	16,700	523	20,100	20,200	698	23,600	23,700	873
16,700	16,800	528	20,200	20,300	703	23,700	23,800	878
16,800	16,900	533	20,300	20,400	708	23,800	23,900	883
16,900	17,000	538	20,400	20,500	713	23,900	24,000	888
17,000	17,100	543	20,500	20,600	718	24,000	24,100	893
17,100	17,200	548	20,600	20,700	723	24,100	24,200	898
17,200	17,300	553	20,700	20,800	728	24,200	24,300	903
17,300	17,400	558	20,800	20,900	733	24,300	24,400	908
17,400	17,500	563	20,900	21,000	738	24,400	24,500	913
17,500	17,600	568	21,000	21,100	743	24,500	24,600	918
17,600	17,700	573	21,100	21,200	748	24,600	24,700	923
17,700	17,800	578	21,200	21,300	753	24,700	24,800	928
17,800	17,900	583	21,300	21,400	758	24,800	24,900	933
17,900	18,000	588	21,400	21,500	763	24,900	25,000	938
18,000	18,100	593	21,500	21,600	768			
18,100	18,200	598	21,600	21,700	773			
18,200	18,300	603	21,700	21,800	778			
18,300	18,400	608	21,800	21,900	783			
18,400	18,500	613	21,900	22,000	788			

(1) For Net Income $25,000 through $100,000, the tax is $940 plus 6% of the excess over $25,000.
(2) For Net Income over $100,000, the tax is $5,440 plus 6.5% of the excess over $100,000.