

Income/Franchise:

Arkansas: New Law Says Nonresident Income is Allocated Based on Where Employee Performs Work

S.B. 484, signed by gov. 4/29/21. Attempting to “clarify” that nonresident income is allocated based on where the employee is located when performing the work associated with the income, new law provides that, applicable for tax years beginning on or after January 1, 2021, a nonresident individual who is paid a salary, lump sum payment, or any other form of payment that encompasses work performed both inside and outside of Arkansas “shall pay Arkansas income tax only on the portion of the individual’s income that reasonably can be allocated to work performed in Arkansas.” The legislation states that “a nonresident individual performs work in Arkansas when that individual is physically located in Arkansas when performing the work.”

[URL: https://www.arkleg.state.ar.us/Bills/Detail?id=sb484](https://www.arkleg.state.ar.us/Bills/Detail?id=sb484)

The new law also expands the definition of an Arkansas “employer” for income tax withholding purposes to include “a person doing business in or deriving income from sources outside this state who has control of the payment of wages to an individual for services performed within this state.” Other changes in the law include revisions to current law that provides a tax credit for individual income tax owed to other states – stating that income from property located or business transacted in another state does *not* include work performed in Arkansas. Please contact us with any questions.

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