

Income/Franchise:

Arkansas: Proposed Rule Implements Election to Pay Tax at the Pass-through Entity Level

Proposed Rule 2022-6; Legal Notice, Ark. Dept. of Fin. & Admin. (9/9/22). The Arkansas Department of Finance and Administration (Department) released a proposed rule reflecting legislation enacted last year that allows certain pass-through entities to elect to pay state income tax at the entity level on an annual basis [see H.B. 1209 (2021) and *State Tax Matters*, Issue 2021-11, for more details on this new law]. Specifically, the proposal seeks to implement new state law that for tax years beginning on or after January 1, 2022, provides the following:

URL: https://www.dfa.arkansas.gov/images/uploads/revenuePolicyLegalOffice/ProposedRule_2022-6.pdf

URL: https://www.dfa.arkansas.gov/images/uploads/revenuePolicyLegalOffice/LegalNotice_10032022.pdf

URL: <https://www.arkleg.state.ar.us/Bills/Detail?id=hb1209&ddBienniumSession=2021%2F2021R&Search=>

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/STM/210319_1.html

- A qualifying pass-through entity may elect to pay state income tax at the entity level if owners that hold more than 50% of the voting rights of the pass-through entity elect to do so; and
- Correspondingly, the income of a member that is subject to this new pass-through entity tax would be excluded from Arkansas income tax.

A public hearing on this proposed rule is scheduled for October 3, 2022, and the Department is also accepting written comments on it. Please contact us with any questions.

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