

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1450

Bill Subtitle: TO AMEND THE ADDITIONAL PENALTIES PROVIDED FOR FAILURE TO COMPLY WITH STATE TAX PROCEDURE; AND TO REPEAL THE ADDITIONAL PENALTY FOR FAILING TO MAKE REQUIRED QUARTERLY ESTIMATED INCOME TAX PAYMENTS.

Basic Change :

Sponsors:

Reps. J. Moore, Achor, Beaty Jr., M. Brown, Joey Carr, A. Collins, Ennett, Eubanks, Evans, D. Garner, Gazaway, Gonzales, Haak, Hawk, Hollowell, Hudson, L. Johnson, Long, Lynch, McAlindon, McCollum, McCullough, B. McKenzie, Painter, Pearce, Perry, Puryear, Ray, R. Scott Richardson, Rye, Underwood, and Vaught; Sens. Gilmore and J. Dotson

HB1450 repeals §§ 26-18-208(6) and 26-65-107(d)(1) and (2) to eliminate the penalty for failing to properly make quarterly estimated income tax payments.

Under current law, every taxpayer subject to income tax is required to make a declaration of estimated tax for the year if the taxpayer can reasonably expect to owe more than \$1,000 or more when their tax return is filed. The declaration must be filed with the Department of Finance and Administration (DFA) on or before the 15th day of the 4th month of the income tax year. A taxpayer must estimate an amount not less than 90% of the amount actually due. The taxpayer may divide the estimated tax payments into quarterly installments to be made throughout the year towards their anticipated income tax liability. Subject to exceptions provided under Arkansas law, a taxpayer's failure to make the declaration of estimated tax and pay the proper amount of estimated tax due generally results in the imposition of a 10% penalty.

HB1450 eliminates the 10% penalty for a taxpayer's failure to make the declaration of estimated tax or failure to pay the proper amount of estimated tax due.

HB1450 is effective for tax years beginning on or after January 1, 2023.

Revenue Impact :

FY2023 - up to \$393 million General Revenue Reduction

FY2024 – up to \$367 million General Revenue Gain

FY2025 and after - \$13.1 million General Revenue Reduction

[The revenue impact assumes all taxpayers will cease making estimated payments and shift revenue to the next fiscal year. It is unknown how many taxpayers will continue to make estimated payments if there is no longer a penalty.

The revenue impact was calculated using underpayment of estimated tax penalties (UEP) for the 2022 tax year of \$13,087,972 across all tax types from 91,150 taxpayers for an average of \$143.59. It is estimated that April and June of 2023 estimated payments of approximately \$380M may not be made and instead taxpayers will make additional return or extension payments in FY2024 shifting the revenue from one fiscal year to the next for the initial year of the bill. This would be a one-time revenue shift. The estimated revenue shift was based on 59,881 estimated tax payments made in FY2022

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totaling \$379,976,695. The chart below provides the quarterly estimated payments that taxpayers paid to DFA in April and June 2022.]

Estimated Payments	April & June 2022
Account Type	Sum of Payment Amount
Corporation Income Tax	\$196,516,002
Fiduciary Income Tax	\$8,488,275
Income Composite Tax	\$10,461,057
Individual Income Tax	\$152,911,106
Pass-Through Entity Tax	\$11,575,265
Withholding Wage Tax	\$6,240
Total	\$379,976,695

Taxpayer Impact :

A taxpayer will still be required to make estimated payment declarations. However, if the taxpayer fails to make a declaration or if the amount of estimated payments made are insufficient to pay the taxpayer's liability for the tax year, no penalty would be due.

Resources Required :

Computer programs, tax forms, and instructions will need to be updated. Programming for the Arkansas Integrated Revenue System (AIRS) will be required at an estimated cost of \$26,000.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Individual Income Tax forms and instructions will need to be updated. Department employees will need to be educated as well as the tax community.

Other Comments :

None.

Legal Analysis :

None.