

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1240

Bill Subtitle: TO AMEND THE INCOME TAX LAWS RELATING TO CERTAIN TRUSTS; TO PRESERVE CERTAIN TRUST ASSETS; AND TO EXEMPT CERTAIN TRUSTS FROM INCOME TAX.

Basic Change :

Sponsors: Reps. Lundstrum, Maddox and Sen. C. Penzo

HB1240 exempts nongrantor trusts from state income tax. Income earned by a trust is generally subject to income tax in Arkansas. HB1240 exempts a trust administered by a trustee who is an Arkansas resident if the trust is not considered a "grantor trust" under 26 U.S.C. § 671 et seq. A grantor trust is a trust where the creator of the trust retains ownership of the assets of the trust. Under HB1240, a nongrantor trust will be exempt from income tax.

HB1240 is effective for tax years beginning on or after January 1, 2023.

Revenue Impact :

FY2024 - \$12.1M General Revenue Reduction

[Revenue Impact is gathered from actual tax reported on electronically filed 2021 AR Fiduciary Income Tax Returns on complex and simple fiduciary returns. Decedent, grantor, bankruptcy, and charitable fiduciary returns are excluded from the revenue impact. The above estimate does not include the tax paid on the income passed through to beneficiaries on Form AR K-1 and tax paid at the individual level.]

Taxpayer Impact :

Arkansas resident taxpayers with non-grantor trusts will be exempt from income tax.

Resources Required :

Computer programs, tax forms, and instructions will need to be updated. Programming costs for the Arkansas Integrated Revenue System (AIRS) is estimated at \$8,000.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Department employees will need to be educated as well as the tax community.

Other Comments :

None.

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Legal Analysis :

None.