



**State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement**

Bill: HB1015

Bill Subtitle: TO AMEND THE INDIVIDUAL INCOME TAX LAWS; AND TO CREATE AN INCOME TAX CREDIT FOR DEPENDENT CHILDREN.

Sponsors:

Rep. Collins

Basic Change:

HB1015 creates a \$300 refundable income tax credit for qualifying taxpayers who provide support to certain dependents. To qualify for the credit, the dependent must meet the definition of "qualifying child" provided in the bill. The bill incorporates the definition of "qualifying child" found in 26 U.S.C. § 152(c) (IRC § 152), as it existed on January 1, 2025, except that the bill limits the definition to only include individuals who have not attained the age of 18 as of the end of the tax year.

The credit is available for an individual taxpayer with net income up to \$100,000 or taxpayers filing jointly with net income up to \$200,000. Married taxpayers that meet the income thresholds for the credit that file separately on the same return may each claim a \$150 credit against the tax due on the return of each spouse. The bill requires the Department of Finance and Administration (DFA) to make an annual cost-of-living adjustment to the amount of the credit.

HB1015 is effective for tax years beginning on or after January 1, 2025.

Fiscal Impact:

FY2026 - \$238M General Revenue Reduction

FY2027 - \$245M General Revenue Reduction

[Fiscal impact was prepared by multiplying the number of qualified dependents (793,000) by \$300. FY2027 increase due to 3% estimated annual inflation adjustment.]

Taxpayer Impact:

A taxpayer with one or more qualifying dependents and within the income threshold will receive a \$300 refundable credit per child. In tax year 2022, there were 618,000 taxpayers with 793,000 dependents who would qualify for the credit. Approximately 370,000 taxpayers would realize an overall reduction in tax liability at a cost of \$134M, and approximately 250,000 taxpayers would receive a refundable credit totaling \$83M.

Resources Required:

Computer programs, tax forms, and instructions will need to be updated. The cost estimate of the Arkansas Integrated Revenue System (AIRS) to program a new income tax credit is \$24,000. Annual maintenance will cost an additional \$4,000. Four additional auditor positions would be needed to verify credits and audit returns for possible fraud at a total additional cost of \$320,000 per year.



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Time Required:

Adequate time is provided for implementation.

Procedural Changes:

Department employees will require training and the tax community will need to be educated.

Other Comments:

DFA recommends tying the Consumer Price Index inflationary adjustment under HB1015 to the method provided under §§ 26-51-201 or -430 that uses the 12-month period ending on August 31 of the calendar year. Using this 12-month period would provide the most recent inflation data when DFA prepares the annual income tax booklet.

Under HB1015, it is possible a non-resident could file an Arkansas return and receive the full benefit of the refundable credit on apportioned income. DFA anticipates people currently under the filing thresholds and not required to file a return will be eligible to file a return to obtain the refundable credit. These factors could increase the fiscal impact and fraudulently-filed returns.

Legal Analysis:

HB1015 incorporates IRC § 152(c)'s definition of "qualifying child" as that federal statute existed on January 1, 2025. IRC § 152 provides that a "dependent" is a "qualifying child" or a "qualifying relative." Therefore, IRC § 152(c)'s definition of "qualifying child" is a component of that statute's definition of "dependent."

For two reasons, HB1015 would benefit from an amendment to provide a separately set forth definition of "qualifying child."

First, setting out a definition of "qualifying child" in the bill would allow for internal consistency with other Arkansas statutes. Other provisions of Arkansas's income tax laws, namely §§ 26-51-501 (personal tax credits) and 26-51-801 (requirements for filing a return), incorporate IRC § 152's definition of "dependent"; however, those statutes incorporate prior versions of that defined term. The current version of the federal definition of "qualifying child" includes additional requirements for an individual to be included as a qualifying child:

- An individual may not be treated as a dependent of a taxpayer if the individual files a joint return, other than a claim for refund, with the individual's spouse for the taxable year; and
- The individual must be younger than the taxpayer claiming the individual as a qualifying child.

Because of the additional requirements found in the current version of IRC § 152(c)'s definition of "qualifying child," there could be instances in which an individual qualifies as a "dependent" for purposes of personal tax credits or in regard to the requirements for filing returns under Arkansas law, but not qualify for the credit provided for in HB1015.



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Second, the bill provides that "[i]f both spouses filing separately on the same income tax return claim the income tax credit allowed under this section, the amount of the income tax credit shall be allocated in equal amounts between the taxpayers." This language is difficult to reconcile with language in IRC § 152(c) providing guidance for situations in which two or more individuals can claim a qualifying child for purposes of personal exemptions allowed for dependents. Specifically, IRC § 152(c)(4) addresses instances in which there is more than one person who can claim a qualifying child and provides various tiebreaking provisions, none of which result in allowing individuals to allocate amounts of a credit related to a qualifying child. To avoid confusion and to provide consistency, a separately stated definition of "qualifying child" could clarify under which circumstances the bill's credit can be allocated between two individuals and specify that in all other instances only a single taxpayer is eligible to claim the credit for a given "qualifying child" during a tax year.