



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

Bill: HB1026

Bill Subtitle: TO CREATE THE ARKANSAS PROMISE ACT; AND TO CREATE AN INCOME TAX CREDIT FOR TUITION PAID FOR AN ELIGIBLE STUDENT AT A PUBLIC INSTITUTION OF HIGHER EDUCATION.

Sponsors:

Rep. Collins

Basic Change:

HB1026 creates the Arkansas Promise Act, which provides a refundable income tax credit for amounts paid by a taxpayer as tuition for the taxpayer or the taxpayer's dependent under certain conditions.

The bill defines "tuition" as "charges levied for attendance at a public two-year or four-year institution of higher education." Tuition amounts paid by scholarship or grant are not to be included.

To be eligible for the tax credit, the taxpayer must have paid tuition for a student that:

- Is a resident with an in-state tuition classification;
- Has completed the Free Application for Federal Student Aid (FAFSA) for the semester or term for which the tax credit is claimed and the FAFSA application shows adjusted gross income of less than \$90,000;
- Is classified as degree- or credential-seeking pursuing a certificate, associate degree, or bachelor's degree;
- Is initially enrolled in a public two-year or four-year institution of higher education within two years of graduating from high school or obtaining a high school equivalency diploma;
- Has accumulated fewer than 65 credit hours prior to the first semester at the public two-year or four-year institution of higher education;
- Has completed at least six credit hours at the end of each semester for which the tax credit is claimed; and
- Has maintained a grade point average of at least 2.5 on a 4.0 scale for each semester the tax credit is claimed.

The income tax credit may be claimed for no more than four consecutive academic semesters.

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

Fiscal Impact:

FY2026 - \$29.4M General Revenue Reduction

[Fiscal impact is based on National Center for Education Statistics reported 2022 and 2023 Arkansas high school graduates totaling 30,510 and 30,220, respectively. The Arkansas Division of Higher Education (ADHE) reported an annual college attendance rate of 42.1%. ADHE "Student Retention & Graduation Academic Year 2022 - 2023" reported a 70% annual retention rate yielding 21,751 eligible students. Statisticalatlas.com identified household income percentiles used to estimate a 30% family out-of-pocket tuition contribution rate. The average 2022 - 2023 in-state tuition cost for the University of Fayetteville, University of Arkansas Monticello, University of Central Arkansas, Arkansas State



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University, and Arkansas State University - Beebe, totaled \$5,215. When compared to the \$10,000 expected national contribution yields a \$4,500 average expected Arkansas family contribution. 21,751 eligible students x \$4,500 expected family contribution x 30% contribution rate = \$29.4M fiscal impact. Fiscal impact does not take into consideration tuition increases or population increases. Fiscal impact does not account for growth in enrollment as a result of availability of the credit.]

Taxpayer Impact:

An Arkansas resident paying tuition at an eligible public institution of higher education or on behalf of his or her dependent may receive a refundable income tax credit up to the amount of tuition paid, exclusive of tuition paid by scholarships or grants.

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.

Time Required:

Adequate time is provided for implementation.

Procedural Changes:

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

Other Comments:

None.

Legal Analysis:

HB1026 defines "tuition" as "charges levied for attendance at a public two-year or four-year institution of higher education." Institutions often charge amounts specifically identified as "tuition" which are typically imposed on a per-credit hour basis; however, institutions also charge other fees and costs related to a student's attendance. For example, there are often fees (e.g., facilities fees, activity fees, health fees, and late fees) and other amounts paid to the institutions such as room and board costs. Such fees are typically mandatory, and some institutions have on-campus housing requirements for certain students, leaving the possibility that these types of fees and costs are included within the bill's definition of tuition. The bill may benefit from an amendment to clarify whether these charges qualify as "tuition" for purposes of the tax credit.



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HB1026 may also benefit from clarification regarding the extent to which a taxpayer may claim the credit in instances where the taxpayer has paid tuition for more than one student within a given semester or series of semesters.

HB1026 may benefit from an amendment to clarify the documentation a taxpayer is required to provide to the Department of Finance and Administration to claim the tax credit, including the student's transcripts.