State of Arkansas
Department of Finance and Administration
Fiscal Impact Statement

Bill: HB1076
Bill Subtitle: TO CREATE THE CARING FOR CAREGIVERS ACT; AND TO PROVIDE AN INCOME TAX CREDIT FOR EXPENSES INCURRED IN CARING FOR CERTAIN FAMILY MEMBERS.

Sponsors:

Rep. Hudson

Basic Change:

HB1076 creates the "Caring for Caregivers Act" which provides a non-refundable income tax credit for eligible expenditures incurred by a caregiver in caring for a family member who requires assistance with activities of daily living. To be eligible, the taxpayer must:

- Provide care and support for an eligible family member;
- Have a total adjusted gross income of less than $50,000, including any spousal income; and
- Personally incur uncompensated expenses directly related to caregiving (eligible expenditures include: home improvements that allow the family member to remain mobile, safe, and independent; equipment purchases that assist in activities of daily living; and other expenses that assist in caring for the family member such as home care aides and adult day care).

The family member must:

- Be at least 62 years old;
- Require assistance with at least two activities of daily living (which include ambulating, feeding, dressing, personal hygiene, continence, and toileting);
- Qualify as a dependent, spouse, parent, or other relative of the caregiver; and
- Live in a private residential home.

The amount of the credit is equal to 50% of the eligible expenditures incurred by the family caregiver. A family caregiver cannot claim a credit of more than $2,000 in any tax year. If the family member receiving care is a veteran or has a diagnosis of dementia, the limit is increased to $3,000. If two or more family caregivers claim a credit for the same family member, the tax credit is split in equal amounts among the caregivers.

The total amount of tax credits allowed under HB1076 is $1,500,000 per calendar year, and the credits are to be awarded in the order in which the credits are claimed.

HB1076 is effective for tax years beginning on or after January 1, 2025.

Fiscal Impact:

FY2026 - $1.5M General Revenue Reduction

[There are an estimated 13.9% of Arkansans who are unpaid caregivers. 13.9% of the Arkansas population multiplied by the ratio of taxpayers having an adjusted gross income (AGI) less than $50,000 is 267,000. The average amount of total expenditures estimated per taxpayer is $3,475. With

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the maximum credit allowed of $2,000 - $3,000 and the pool of taxpayers estimated to qualify for the credit, we estimate the $1.5M cap provided in the bill would be reached annually.]

Taxpayer Impact:

A taxpayer may receive up to a $2,000 or $3,000 income tax credit for the cost of eligible expenditures incurred to provide care and support for an eligible family member.

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 $8,000 with no annual maintenance cost. One additional Fiscal Support Analyst position would be needed to verify credits and audit returns for a total cost of $36,000 per year.

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:

This bill may benefit from an amendment to clarify the documentation a taxpayer is required to maintain or provide to the Department of Finance and Administration (DFA) to claim the credit, and guidance on a non-resident's ability to claim the credit.

Legal Analysis:

HB1076 may benefit from an amendment to award credits prior to the taxpayer's filing of an income tax return. The bill does not set up a separate process to award credits. If a family caregiver files his or her income tax return and claims a tax credit, he or she cannot be certain that there are any credits left to be awarded. If no credits are available because the cap has been reached, the family caregiver would be subject to an assessment for unpaid tax, along with penalty and interest.

HB1076 may also benefit from an amendment to clarify the treatment of the credit where two or more taxpayers claim a credit for expenses for the same family member. The bill's language in § 26-51-518(b)(3) is subject to at least two interpretations: (1) that the cap for the credit is to be split evenly so that each taxpayer could claim a credit of up to $1,000 or (2) that the total credit actually claimed, regardless of each taxpayer's proportional contribution to the aggregate credit, is split evenly among the taxpayers. The bill may also benefit from clarification as to how the Department should track expenditures as they relate to the same eligible family member.