



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

Bill: HB1116

Bill Subtitle: TO CREATE THE REMOTE AND MOBILE WORK MODERNIZATION AND COMPETITIVENESS ACT; AND TO PROVIDE INCOME TAX AND WITHHOLDING EXEMPTIONS RELATED TO CERTAIN REMOTE AND MOBILE EMPLOYEES AND NONRESIDENTS.

Sponsors:

Rep. Ray and Sen. Dismang

Basic Change:

HB1116 creates the "Remote and Mobile Work Modernization and Competitiveness Act" which provides an income tax exemption for a taxpayer who earns \$2,500 or less from work performed within the state during a tax year if the taxpayer works in more than one state during the tax year. HB1116 authorizes the Department of Finance and Administration (DFA) to enter into a reciprocal agreement with another state to exempt that state's residents from Arkansas income tax if a similar exemption is provided by that state to Arkansas residents.

HB1116 provides an exemption from withholding requirements for an employer who has an employee who:

- Performs employment duties in the state for 15 days or fewer during the year;
- Performs employment duties for the employer in more than one state during the year; and
- Is not being paid as a professional athlete, professional entertainer, or public figure.

In determining whether withholding is required, an employer who fails to deduct and withhold the amount required from the wages of an employee who works in more than one state will not be liable for penalties and interest if the employer:

- Maintains a time and attendance system; or
- Does not maintain a time and attendance system, but instead relies on:
 - The employer's own records maintained in the regular course of business;
 - The employee's reasonable determination of the time spent working in the state, absent the employer's knowledge of fraud or a conspiracy to evade taxation;
 - Travel records;
 - Travel expense reimbursement records; or
 - A signed statement from the employee attesting to the time spent working in the state.

HB1116 is effective for tax years beginning on or after January 1, 2026.

Fiscal Impact:

FY2026 - \$515,000 General Revenue Reduction

FY2027 - \$775,000 General Revenue Reduction

[Fiscal impact was estimated using 2023 income tax return data on non-resident taxpayers. FY2026 represents one-half of a year withholding reduction and FY2027 includes a full year withholding reduction net of refunds issued for overpayments on returns filed.



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The fiscal impact does not incorporate any possible loss of general revenue in the event DFA enters into a reciprocity agreement with one or more other states.]

Taxpayer Impact:

An individual earning an aggregate amount \$2,500 in compensation for employment duties in Arkansas will be eligible for an exemption from income tax provided that the person performed employment duties for an employer in more than one state during the tax year. An employer would not be required to deduct and withhold Arkansas income from an employee's wages if the employee performed employment duties in the state for 15 or fewer days during the tax year provided that: (1) the employee performed duties in more than one state; and (2) the employee was not compensated for services as an athlete, entertainer, or public figure. An employer using a time and attendance system or relying on good-faith records to allocate income among states where an employee performs duties in more than one state would not be subject to the assessment of interest or penalties for failing to deduct and withhold taxes from an employee's wages.

Resources Required:

Computer programs, tax forms, and instructions will need to be updated. The cost estimate of the Arkansas Integrated Revenue System (AIRS) is \$4,000 with no annual maintenance cost.

Time Required:

Adequate time is provided for implementation.

Procedural Changes:

Department employees and the tax community will need to be educated, and exemption forms and instructions will need to be created.

Other Comments:

None.

Legal Analysis:

HB1116, Section 3, may benefit from an amendment to allow a reciprocity agreement with states that do not impose an income tax and nonresident jurisdictions such as the District of Columbia and Puerto Rico.

HB1116, Section 4, may benefit from an amendment to clarify that the exemption only applies to nonresidents of the state.



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HB1116, Section 4, may also benefit from an amendment to exempt the mobile worker's income from the definition of gross income in § 26-51-404. Section 4 provides for an "exemption" from Arkansas income tax for income (up to \$2,500) that the mobile employee receives for work performed within the state. Under § 26-51-435, the gross income of a nonresident is applied entirely to Arkansas and the resulting tax liability is calculated before the apportionment of tax liability between Arkansas and another jurisdiction. Section 4's exemption from income tax does not explicitly exclude a mobile worker's income from the definition of gross income.