



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

**Bill: HB1435**

**Bill Subtitle: TO AMEND THE LAW CONCERNING INCOME TAX CREDITS FOR CHILD CARE; TO AMEND THE INCOME TAX CREDIT FOR EMPLOYER-PROVIDED CHILD CARE; TO PROVIDE AN INCOME TAX CREDIT FOR LICENSED CHILDCARE PROVIDERS; AND TO DECLARE AN EMERGENCY.**

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**Sponsors:**

**Rep. Achor and Sens. English and Irvin**

**Basic Change:**

HB1435 restructures the income tax credit for employer-provided childcare and creates an income tax credit for childcare providers.

**Income Tax Credit for Employer-Provided Childcare** --- Under current law, an employer who provides childcare for employees is allowed an income tax credit equal to either:

- 3.9% of the annual salary paid by the employer to its employees who are employed exclusively in providing childcare services; or
- A \$5,000 credit for the first tax year the business provides a childcare facility for its employees.

HB1435 replaces the current employer-provided childcare tax credit with a new non-refundable income tax credit for an employer that provides childcare services for an employee. The new income tax credit is equal to the expenses incurred by the employer to:

- Construct, renovate, expand, or repair a childcare facility to provide childcare services for employees;
- Pay a licensed childcare facility to provide childcare services for employees;
- Pay a licensed childcare facility to reserve childcare services for employees; and
- 50% of the amount contributed by the employer for dependent care assistance under a dependent care assistance program as provided in 25 U.S.C. §129, provided that, the employer shall not receive more than \$2,500 per employee that benefits from a dependent care assistance program.

HB1435 limits the credit to \$500,000 per taxpayer per tax year and the total aggregate amount of credits for all employers to \$15 million per calendar year. \$3.75 million of the \$15 million is annually reserved to provide tax credits to rural employers or small businesses. A business is a rural employer if it is not located in a city having a population of more than 25,000. A business is a small business if it has fewer than 250 employees and less than \$5 million in annual revenue.

HB1435 requires the Department of Finance and Administration (DFA) to establish a form and an administrative process for an employer to use when claiming the tax credit. This form shall be used by the taxpayer to apply for the credit, to certify the expenses for which the credit is claimed, and to provide documentation substantiating the amount of credit claimed. If the employer is a tax-exempt entity, the employer may sell the tax credits it earned.



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**Income Tax Credit for Childcare Providers** --- HB1435 creates a non-refundable income tax credit for a person or facility that owns or operates a childcare facility licensed by the Department of Human Services. The credit is calculated by multiplying the average monthly number of eligible children enrolled in the childcare facility during the tax year by \$1,500. The credit may not exceed \$25,000 per taxpayer per tax year.

HB1435 provides that the total amount of credits issued to all childcare facilities in a calendar year cannot exceed \$5 million. Also, \$1.125 million of the \$5 million is annually reserved for childcare facilities located in cities having a population of 25,000 or less.

HB1435 requires DFA to establish a form and application process to be used by a childcare provider to apply for the credit. If the childcare facility is a tax-exempt entity, it may sell the income tax credits it earned.

HB1435 is effective for tax years beginning on and after January 1, 2026.

**Fiscal Impact:**

**FY2026** - \$20 Million General Revenue Reduction

[ Fiscal impact was determined using information obtained from the Arkansas Division of Elementary and Secondary Education showing the capacity for childcare was sufficient to reach the maximum caps for both tax credits in the bill. ]

**Taxpayer Impact:**

An employer who invests in the construction, renovation, expansion, or repair of a childcare facility for use by their employees or provides childcare benefits for employees may qualify for an income tax credit up to \$500,000 per year. A licensed childcare provider may qualify for an income tax credit up to \$25,000 per year. For either credit, a taxpayer shall apply to DFA and provide supporting documentation.

**Resources Required:**

Computer programs, tax forms, and instructions will need to be updated. Programming costs for the Arkansas Integrated Revenue System (AIRS) are estimated to be \$20,000. DFA would require additional staff to review employer expenses and to award and track tax credit maximums. The anticipated cost for one Fiscal Support Analyst is \$50,000 per year.

**Time Required:**

Adequate time is provided for implementation.



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**Procedural Changes:**

Department employees will need to be educated as well as the tax community. DFA will create a standardized form for the taxpayer to use to apply for the income tax credit. DFA may promulgate rules to administer the section.

**Other Comments:**

The bill references the Arkansas Better Chance program and facility licensing under the Department of Human Services starting on page 4, line 15. That function is now under the Department of Education.

The bill includes detailed eligibility requirements and application procedures to ensure compliance. DFA will need to establish a process for allocating tax credits and verifying expenses. The caps on available credits may result in denied claims if demand exceeds supply.

**Legal Analysis:**

HB1435 may benefit from an amendment to address how the annual limitations are to be administered if income tax credits are claimed in excess of the provided limitations. HB1435 may benefit from an amendment to clarify the treatment of any portion of the tax credit a taxpayer is unable to use because the amount of the credit exceeds their tax liability. HB1435 may also benefit from an amendment to change the annual aggregate limitation for both credits to a limitation per tax year rather than per calendar year.

HB1435 may benefit from an amendment to define "licensed childcare provider" on page 6, line 20, to include a "person or entity" rather than a "person or facility." An entity, such as a corporation or LLC, files tax returns.

HB1435 appears to contain a drafting error. Page 6, line 30, states, "Subject to the limitations stated this section, the". The bill should likely state, "Subject to the limitations stated *in* this section, the".