



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

Bill: HB1787

Bill Subtitle: TO PROVIDE AN INCOME TAX EXEMPTION FOR CERTAIN RETIREMENT BENEFITS RECEIVED BY LAW ENFORCEMENT OFFICERS AND FIREFIGHTERS.

Sponsors:

Rep. Warren

Basic Change:

HB1787 provides an income tax exemption for the retirement benefits received by:

- A retired firefighter from a municipal or volunteer fire department in the state or the Arkansas National Guard; and
- A retired law enforcement officer, including:
 - A police officer with a municipal police department in the state;
 - A county sheriff or deputy sheriff of a county in the state;
 - A member of the police force of the Division of Arkansas State Police;
 - A member of the uniformed personnel of the Arkansas Highway Police Division of the Arkansas Department of Transportation; or
 - An officer of a state or local detention facility in the state.

HB1787 is effective for tax years beginning on or after January 1, 2026.

Fiscal Impact:

FY2026 - \$2.5M General Revenue Reduction

FY2027 and after - \$5M General Revenue Reduction

[Fiscal impact reflects data gathered from pension withholding tax filings for the Arkansas Local Police and Fire Retirement System (LOPFI) that shows approximately 10,000 retirees receive \$213M in benefits and withheld \$5M annually.]

Taxpayer Impact:

HB1787 exempts retirement benefits for qualifying law enforcement officers and firefighters from state income tax. Those with qualifying retirement benefits under \$6,000 may claim an exemption on other retirement income up to the \$6,000 threshold, while those with qualifying retirement benefits for law enforcement officers and firefighters over \$6,000 forgo the general exemption on other retirement benefits.

Resources Required:

Computer programs, tax forms, and instructions will need to be updated.

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.

Other Comments:

None.

Legal Analysis:

On page 2, line 21, subdivision (v) should likely be subdivision (f).

HB1787 may be subject to a constitutional challenge as violative of the doctrine of intergovernmental tax immunity because it does not provide the same tax treatment to federal law enforcement officers and firefighters. The bill may be seen as discriminating based on the source of payments which is the threshold test for such a violation.

The relevant federal provision is 4 U.S.C. § 111. This statute, which is coextensive with intergovernmental tax immunity, provides "The United States consents to the taxation of pay or compensation for personal service as an officer or employee of the United States...by a duly constituted taxing authority having jurisdiction, if the taxation does not discriminate against the officer or employee because of the source of the pay or compensation."

The Arkansas Supreme Court specifically addressed this issue in *Pledger v. Bosnick*, 306 Ark. 45, 811 S.W.2d 286 (1991) when considering an Arkansas law that provided a full exemption for the retirement income received by state employees and a \$6,000 exemption for all other retirees, including federal retirees. The Supreme Court stated:

[4 U.C.S § 111] constitutes an affirmative statutory grant of immunity from discriminatory state taxation equal to the constitutional Doctrine of Intergovernmental Tax Immunity, which applies between the states and the federal government and among the states themselves. Thus, if we find in this case that the Arkansas tax scheme discriminates against retirees from the federal government or other states when compared to the treatment given retirees from the State of Arkansas, we must find that the tax is in violation of the Constitutional Doctrine of Intergovernmental Tax Immunity.

The court concluded that the full exemption for state employee retirement violated federal law.