

1 State of Arkansas  
2 95th General Assembly  
3 Regular Session, 2025  
4

# A Bill

HOUSE BILL 1435

5 By: Representative Achor  
6 By: Senators J. English, Irvin  
7

## For An Act To Be Entitled

9 AN ACT TO AMEND THE LAW CONCERNING INCOME TAX CREDITS  
10 RELATED TO CHILD CARE; TO AMEND THE INCOME TAX CREDIT  
11 FOR EMPLOYER-PROVIDED CHILD CARE; TO PROVIDE AN  
12 INCOME TAX CREDIT FOR LICENSED CHILDCARE PROVIDERS;  
13 TO DECLARE AN EMERGENCY; AND FOR OTHER PURPOSES.  
14

## Subtitle

15  
16  
17 TO AMEND THE LAW CONCERNING INCOME TAX  
18 CREDITS FOR CHILD CARE; TO AMEND THE  
19 INCOME TAX CREDIT FOR EMPLOYER-PROVIDED  
20 CHILD CARE; TO PROVIDE AN INCOME TAX  
21 CREDIT FOR LICENSED CHILDCARE PROVIDERS;  
22 AND TO DECLARE AN EMERGENCY.  
23

24 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:  
25

26 SECTION 1. Arkansas Code § 6-45-109(b), concerning certification of  
27 childcare facilities by the Division of Child Care and Early Childhood  
28 Education, is amended to read as follows:

29 (b) Upon certification of the childcare facilities, the division shall  
30 provide a listing of all certified facilities and their certification numbers  
31 to the Secretary of the Department of Finance and Administration for the  
32 purpose of the income tax credit or refund provided for in §§ 26-51-502 ~~and~~  
33 ~~26-51-507~~.  
34

35 SECTION 2. Arkansas Code § 20-78-205(d)(1)(I), concerning the  
36 information the Division of Child Care and Early Childhood Education shall



1 make available on the website of the Department of Human Services, is amended  
2 to read as follows:

3 (I) Availability of a federal or state tax credit or other  
4 federal or state tax benefit, including without limitation the employer-  
5 provided child care credit that is available to taxpayers under §§ ~~26-51-507~~  
6 ~~and 26-51-508~~.

7

8 SECTION 3. Arkansas Code § 26-51-507 is repealed.

9 ~~26-51-507. Employer provided child care — As qualified under former §~~  
10 ~~26-52-401 — Definition.~~

11 ~~(a) A business which qualifies for the exemption from the gross~~  
12 ~~receipts tax under former § 26-52-401(29) shall be allowed an income tax~~  
13 ~~credit of three and nine-tenths percent (3.9%) of the annual salary of~~  
14 ~~employees employed exclusively in providing childcare services.~~

15 ~~(b) If two (2) or more businesses participate in a childcare program~~  
16 ~~for their employees as provided by former § 26-52-401(29), then each business~~  
17 ~~will be allowed an income tax credit of three and nine-tenths percent (3.9%)~~  
18 ~~of the annual salary of only those employees who are on the respective~~  
19 ~~business' payroll and are employed exclusively for providing childcare~~  
20 ~~services.~~

21 ~~(c)(1) To qualify for the income tax credit, the revenue to the~~  
22 ~~business or businesses from the childcare facility cannot exceed the direct~~  
23 ~~operating costs of the facility. If, on an annual basis, the childcare~~  
24 ~~facility receives revenue which exceeds the direct operating costs of the~~  
25 ~~facility, the business or businesses will not be entitled to the income tax~~  
26 ~~credit.~~

27 ~~(2) As used in this section, "direct operating costs" means:~~

28 ~~(A) The cost of food and beverages provided to the~~  
29 ~~children;~~

30 ~~(B) The cost of labor for personnel whose services are~~  
31 ~~performed exclusively on the premises of the childcare facility for the care~~  
32 ~~of the children and all related employment taxes paid by the employer; and~~

33 ~~(C) All materials and supplies necessary to operate the~~  
34 ~~childcare facility.~~

35 ~~(d) The income tax credit created by subsection (a) of this section~~  
36 ~~shall first be available in the taxable year following the year the business~~

1 ~~makes payment of wages to childcare workers. To the extent that the credit is~~  
 2 ~~not fully utilized in this first year, it may be carried forward for an~~  
 3 ~~additional two (2) years. Any credit remaining thereafter shall expire.~~

4 ~~(e) The income tax provisions of this section shall be in full force~~  
 5 ~~and effect for all income tax years beginning on and after January 1, 1993.~~

7 SECTION 4. Arkansas Code § 26-51-508 is amended to read as follows:

8 26-51-508. Employer-provided child care ~~—As qualified under § 26-52-~~  
 9 ~~516 or § 26-53-132 — Definition Definitions.~~

10 ~~(a) A business which qualifies for the refund of the gross receipts~~  
 11 ~~tax or compensating use tax under § 26-52-516 or § 26-53-132 shall be allowed~~  
 12 ~~an income tax credit of three and nine-tenths percent (3.9%) of the annual~~  
 13 ~~salary of its employees employed exclusively in providing childcare service,~~  
 14 ~~or a five thousand dollar income tax credit for the first tax year the~~  
 15 ~~business provides its employees with a childcare facility.~~

16 ~~(b) If two (2) or more businesses participate in a childcare program~~  
 17 ~~for their employees as provided by § 26-52-516 or § 26-53-132, then each~~  
 18 ~~business will be allowed an income tax credit of three and nine-tenths~~  
 19 ~~percent (3.9%) of the annual salary of only those employees who are on the~~  
 20 ~~respective business' payroll and are employed exclusively for providing~~  
 21 ~~childcare services. The first year's five thousand dollar credit will be~~  
 22 ~~prorated among the businesses based upon the percentage of the cost paid by~~  
 23 ~~each business for the initial construction and equipping of the childcare~~  
 24 ~~facility.~~

25 ~~(c)(1)(A) To qualify for the income tax credit, the revenue to the~~  
 26 ~~business or businesses from the childcare facility cannot exceed the direct~~  
 27 ~~operating costs of the facility.~~

28 ~~(B) If, on an annual basis, the business receives revenues~~  
 29 ~~from the operation of the childcare facility which exceed the direct~~  
 30 ~~operating costs of the facility, the businesses will not be entitled to the~~  
 31 ~~income tax credit.~~

32 ~~(2) As used in this subsection, "direct operating costs" means:~~

33 ~~(A) The cost of food and beverages provided to the~~  
 34 ~~children;~~

35 ~~(B) The cost of labor for personnel whose services are~~  
 36 ~~performed exclusively on the premises of the childcare facility for the care~~

1 ~~of the children and all related employment taxes paid by the employer; and~~  
 2 ~~(C) All materials and supplies necessary to operate the~~  
 3 ~~childcare facility.~~

4 ~~(d) The income tax credit created by subsection (a) of this section~~  
 5 ~~shall first be available in the taxable year following the year the business~~  
 6 ~~makes payment of wages to childcare workers. To the extent that the credit is~~  
 7 ~~not fully utilized in this first year, it may be carried forward for an~~  
 8 ~~additional two (2) years. Any credit remaining thereafter shall expire.~~

9 (a) As used in this section:

10 (1) "Eligible expense" means:

11 (A) The cost of construction, renovation, expansion, or  
 12 repair of a childcare facility by a taxpayer to provide childcare services  
 13 for the employees of the taxpayer;

14 (B) A payment to a childcare facility licensed by the  
 15 Department of Human Services for the provision of childcare services for one  
 16 (1) or more employees of the taxpayer;

17 (C) A payment to a childcare facility licensed by the  
 18 Department of Human Services to reserve childcare services for one (1) or  
 19 more employees of the taxpayer; and

20 (D)(i) Fifty percent (50%) of the amount contributed by an  
 21 employer for dependent care assistance provided to an employee of the  
 22 employer under a dependent care assistance program as described in 26 U.S.C.  
 23 § 129, as it existed on January 1, 2025.

24 (ii) The total amount of eligible expenses allowed  
 25 under subdivision (a)(1)(D)(i) of this section shall not exceed two thousand  
 26 five hundred dollars (\$2,500) per employee of the employer that benefits from  
 27 a dependent care assistance program during the tax year;

28 (2) "Rural area" means an area in the state that is not within  
 29 the boundaries of an incorporated town or a city that has a population of  
 30 more than twenty-five thousand (25,000) according to the most recent federal  
 31 decennial census; and

32 (3) "Small business" means a business that has:

33 (A) Fewer than two hundred fifty (250) employees; and

34 (B) Less than five million dollars (\$5,000,000) in yearly  
 35 revenue.

36 (b)(1)(A) There is allowed an income tax credit against the income

1 tax imposed by this chapter in the amount equal to the eligible expenses  
2 incurred by an employer during the tax year.

3 (B) The income tax credit allowed under this section shall  
4 not exceed five hundred thousand dollars (\$500,000) for an employer in a tax  
5 year.

6 (2)(A) The total aggregate amount of income tax credits allowed  
7 under this section for all employers shall not exceed fifteen million dollars  
8 (\$15,000,000) in a calendar year.

9 (B)(i) Three million seven hundred fifty thousand dollars  
10 (\$3,750,000) of the total aggregate amount of income tax credits that may be  
11 allowed under subdivision (b)(2)(A) of this section shall be reserved for the  
12 award of income tax credits to small businesses and employers that have their  
13 primary place of business located in a rural area.

14 (ii) The remaining amount of income tax credits that  
15 may be allowed under subdivision (b)(2)(A) of this section shall be awarded  
16 to employers without regard to their location or size.

17 (c) The amount of the income tax credit under this section that may be  
18 claimed by an employer in a tax year shall not exceed the amount of income  
19 tax due by the employer.

20 (d)(1) To claim an income tax credit under this section, an employer  
21 shall submit an application for the tax year to the Department of Finance and  
22 Administration using the form required under subdivision (d)(2)(A) of this  
23 section.

24 (2) The Department of Finance and Administration shall:

25 (A) Prepare and provide a standardized form for an  
26 employer to use to apply for the income tax credit allowed under this  
27 section;

28 (B) Require an employer submitting an application under  
29 this section to:

30 (i) Certify that the expenses for which the employer  
31 is claiming a credit under this section are eligible expenses; and

32 (ii) Provide documentation to substantiate the  
33 amount of eligible expenses for which the employer is claiming a credit under  
34 this section; and

35 (C)(i) Subject to the limitations stated in this section,  
36 award an income tax credit under this section to an employer that submits a

1 completed application on the required form and provides the certification and  
2 documentation required under this section.

3 (ii) If an applicant for an income tax credit under  
4 this section fails to submit a completed application on the required form or  
5 fails to provide the certification or documentation, or both, required under  
6 this section, the Department of Finance and Administration shall  
7 automatically deny the application.

8 (e) An employer that is exempt from taxation under 26 U.S.C. §  
9 501(c)(3), as it existed on January 1, 2025, may transfer or sell an income  
10 tax credit allowed under this section.

11 (f) The Department of Finance and Administration may adopt rules to  
12 administer this section.

13  
14 SECTION 5. Arkansas Code Title 26, Chapter 51, Subchapter 5, is  
15 amended to add an additional section to read as follows:

16 26-51-518. Licensed childcare provider.

17 (a) As used in this section:

18 (1) "Eligible children" means individuals who are twelve (12)  
19 years of age or younger;

20 (2) "Licensed childcare provider" means a person or facility  
21 that owns or operates a childcare facility licensed by the Department of  
22 Human Services; and

23 (3) "Rural area" means an area in the state that is not within  
24 the boundaries of an incorporated town or a city that has a population of  
25 more than twenty-five thousand (25,000) according to the most recent federal  
26 decennial census.

27 (b)(1) There is allowed an income tax credit against the income tax  
28 imposed by this chapter in the amount determined under subdivision (b)(2) of  
29 this section for a licensed childcare provider.

30 (2)(A) Subject to the limitations stated this section, the  
31 amount of the income tax credit allowed under this section shall be  
32 calculated by multiplying the average monthly number of eligible children  
33 enrolled with the licensed childcare provider claiming the income tax credit  
34 during the tax year by one thousand five hundred dollars (\$1,500).

35 (B) The income tax credit allowed under this section shall  
36 not exceed twenty-five thousand dollars (\$25,000) for a licensed childcare

1 provider in a tax year.

2 (3)(A) The total aggregate amount of income tax credits allowed  
3 under this section for all licensed childcare providers shall not exceed five  
4 million dollars (\$5,000,000) in a calendar year.

5 (B)(i) One million one hundred twenty-five thousand  
6 dollars (\$1,125,000) of the total aggregate amount of income tax credits that  
7 may be allowed under subdivision (b)(3)(A) of this section shall be reserved  
8 for the award of income tax credits to licensed childcare providers located  
9 in a rural area.

10 (ii) The remaining amount of income tax credits that  
11 may be allowed under subdivision (b)(3)(A) of this section shall be awarded  
12 to licensed childcare providers without regard to the location of the  
13 licensed childcare provider.

14 (c) The amount of the income tax credit under this section that may be  
15 claimed by a licensed childcare provider in a tax year shall not exceed the  
16 amount of income tax due by the licensed childcare provider.

17 (d)(1) To claim an income tax credit under this section, a licensed  
18 childcare provider shall submit an application for the tax year to the  
19 Department of Finance and Administration using the form required under  
20 subdivision (d)(2)(A) of this section.

21 (2) The Department of Finance and Administration shall:

22 (A)(i) Prepare and provide a standardized form for a  
23 licensed childcare provider to use to apply for the income tax credit allowed  
24 under this section.

25 (ii) The form required under subdivision  
26 (d)(2)(A)(i) of this section shall require at least the following  
27 information:

28 (a) Documentation evidencing the applicant's  
29 ownership of a childcare facility licensed by the Department of Human  
30 Services;

31 (b) The amount of income tax credit for which  
32 the licensed childcare provider is submitting an application under this  
33 section; and

34 (c) The average number of eligible children  
35 enrolled with the licensed childcare provider submitting the application  
36 during the tax year; and

1           (B)(i) Subject to the limitations stated in this section,  
2 award an income tax credit under this section to a licensed childcare  
3 provider that submits a completed application on the required forms and  
4 provides the information required under this section.

5           (ii) If an applicant for an income tax credit under  
6 this section fails to submit a completed application on the required form or  
7 fails to provide the information required under this section, the Department  
8 of Finance and Administration shall automatically deny the application.

9           (e) A licensed childcare provider that is exempt from taxation under  
10 26 U.S.C. § 501(c)(3), as it existed on January 1, 2025, may transfer or sell  
11 an income tax credit allowed under this section.

12           (f) The Department of Finance and Administration may adopt rules to  
13 administer this section.

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15           SECTION 6. EFFECTIVE DATE. Sections 1-5 of this act are effective for  
16 tax years beginning on or after January 1, 2026.

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18           SECTION 7. EMERGENCY CLAUSE. It is found and determined by the  
19 General Assembly of the State of Arkansas that this act would create  
20 significant changes to the state's tax laws; that taxpayers and employers  
21 plan to meet their obligations on a calendar-year basis; and that this act is  
22 immediately necessary to ensure the financial stability of the state, to  
23 allow taxpayers and employers time to plan for and implement the changes in  
24 law created by this act, and to ensure that the Department of Finance and  
25 Administration has sufficient time to update its forms and software and train  
26 its personnel in accordance with this act. Therefore, an emergency is  
27 declared to exist, and this act being immediately necessary for the  
28 preservation of the public peace, health, and safety shall become effective  
29 on:

30           (1) The date of its approval by the Governor;

31           (2) If the bill is neither approved nor vetoed by the Governor,  
32 the expiration of the period of time during which the Governor may veto the  
33 bill; or

34           (3) If the bill is vetoed by the Governor and the veto is  
35 overridden, the date the last house overrides the veto.

36