

1 State of Arkansas  
2 94th General Assembly  
3 Regular Session, 2023  
4

As Engrossed: H1/30/23 S2/6/23

# A Bill

HOUSE BILL 1026

5 By: Representative Ray  
6 By: Senator Payton  
7

## For An Act To Be Entitled

9 AN ACT TO PROHIBIT LOCAL GOVERNMENTS FROM ENACTING AN  
10 INCOME TAX; AND FOR OTHER PURPOSES.  
11

## Subtitle

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14 TO PROHIBIT LOCAL GOVERNMENTS FROM  
15 ENACTING AN INCOME TAX.  
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18 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:  
19

20 *SECTION 1. Arkansas Code § 14-43-607 is repealed.*

21 ~~14-43-607. Income tax.~~

22 ~~(a) After approval of a majority of those voting on the question in~~  
23 ~~the municipality in a general or special election, a city of the first class~~  
24 ~~may levy a tax on income of individual residents of that city.~~

25 ~~(b) Upon the condition that a tax is levied pursuant to this section~~  
26 ~~at the same or higher rate upon income of individual residents of that city,~~  
27 ~~then after approval at the same election required in this section or at a~~  
28 ~~subsequent election, the city may levy a tax on income earned by other~~  
29 ~~individuals derived from activities, services rendered, or employment within~~  
30 ~~the levying city.~~

31 ~~(c) The rate of tax on income authorized by this section shall be a~~  
32 ~~single percentage of the net income tax payable to the State of Arkansas.~~

33 ~~(d)(1) One half ( $\frac{1}{2}$ ) of a taxpayer's income which is subject to a tax~~  
34 ~~authorized by this section, in a city which is not his or her residence,~~  
35 ~~shall be exempt from payment of the tax if a tax authorized by this section~~  
36 ~~is levied by a city in which the taxpayer resides.~~



1 ~~(2) The other one half (1/2) of a taxpayer's income subject to a~~  
 2 ~~tax authorized by this section shall be exempt from payment of the tax~~  
 3 ~~authorized by this section in the city in which the taxpayer resides.~~

4 ~~(c)(1)(A) The governing body of any city levying the tax authorized in~~  
 5 ~~this section and the Secretary of the Department of Finance and~~  
 6 ~~Administration are authorized and empowered to enter into a contractual~~  
 7 ~~agreement whereby the secretary shall collect any of the taxes assessed by~~  
 8 ~~the city, whether by withholding of income tax or otherwise, and remit them~~  
 9 ~~to the city.~~

10 ~~(B) This agreement may also provide for a consideration to~~  
 11 ~~be allowed the secretary for services rendered in making such collections.~~

12 ~~(2) The secretary may establish rules concerning the procedures~~  
 13 ~~for collecting these taxes by him or her.~~

14 SECTION 2. Arkansas Code § 26-73-103(a), concerning the levy of new  
 15 taxes by a county or municipality, is amended to read as follows:

16 (a)(1) In addition to all other authority of local governments to levy  
 17 taxes provided by law, any county acting through its quorum court or any  
 18 municipality acting through its governing body may levy any tax not otherwise  
 19 prohibited by law.

20 (2)(A) However, ~~no~~ an ordinance levying ~~an income tax authorized~~  
 21 ~~by this subchapter or any other~~ a tax that is ~~not~~ authorized under this  
 22 subchapter shall be valid ~~until~~ only if it is adopted at a special or general  
 23 election by the qualified electors of the city or in the area of the county  
 24 where the tax is to be imposed, as the case may be.

25 (B) A county, municipality, or other local government  
 26 shall not levy a tax on income.

27  
 28 SECTION 3. Arkansas Code § 26-73-104 is repealed.

29 ~~26-73-104. Levy of income and other taxes.~~

30 ~~(a)(1) A local government may levy a tax upon the income of its~~  
 31 ~~individual residents and corporations and individuals owning a business~~  
 32 ~~within the boundaries of the local government levying the tax, but no tax~~  
 33 ~~shall be levied on the income of corporations or other business entities in~~  
 34 ~~any local governmental unit unless a like tax is levied on the income of~~  
 35 ~~individual residents of such governmental unit.~~

36 ~~(2) However, in the event a municipality levies an income tax or~~

1 ~~other tax authorized by this subchapter, with the exception of the sales and~~  
2 ~~use tax, the county within which such municipality is located may not levy or~~  
3 ~~collect that tax being levied by the municipality within the corporate limits~~  
4 ~~of such municipality.~~

5 ~~(b)(1) For individual taxpayers, the rate of tax on income authorized~~  
6 ~~by this section shall be a single percentage of the income tax payable to the~~  
7 ~~State of Arkansas.~~

8 ~~(2)(A) For all domestic or foreign corporations, the rate of tax~~  
9 ~~on income authorized by this section shall be a percentage of the income tax~~  
10 ~~payable to the State of Arkansas, calculated on an apportionment formula~~  
11 ~~which shall consist of a fraction, the numerator of which is the property~~  
12 ~~factor, plus the payroll factor, plus the sales factor and the denominator of~~  
13 ~~which is three (3).~~

14 ~~(B) The sales factor is a fraction, the numerator of which~~  
15 ~~is the total sales of the corporation within the local government during the~~  
16 ~~tax period and the denominator of which is the total sales of the corporation~~  
17 ~~within the state for the same tax period.~~

18 ~~(C) The payroll factor is a fraction, the numerator of~~  
19 ~~which is the total amount paid in the local government during the tax period~~  
20 ~~by the corporation for compensation and the denominator of which is the total~~  
21 ~~compensation paid within the state for the same tax period.~~

22 ~~(D) The property factor is a fraction, the numerator of~~  
23 ~~which is the average value of the corporation's real and tangible personal~~  
24 ~~property owned or rented and used in the local government during the tax~~  
25 ~~period and the denominator of which is the average value of all the~~  
26 ~~corporation's real and tangible personal property owned or rented and used~~  
27 ~~within the state during the same tax period.~~

28 ~~(e) However, a corporation located within the boundaries of a local~~  
29 ~~government and subject to the tax under this section, having no sales,~~  
30 ~~payroll, and property in another local government, shall be permitted the~~  
31 ~~election of being taxed in the same manner as an individual taxpayer under~~  
32 ~~this section.~~

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34 /s/Ray

35 **APPROVED: 2/21/23**

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