



**STATE OF ARKANSAS  
Department of Finance  
And Administration**

**REVENUE DIVISION  
Corporation Income Tax**  
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Arkansas CPA Society Members

RE: Arkansas Apportioned Income Tax Returns

The Department of Finance and Administration (DFA) values the good working relationship with the tax preparer community. Your dedication to providing your clients with quality service has allowed the DFA to administer the taxes it manages efficiently because of the quality of your work. We would like to inform you of some errors that are occurring on apportioned business income tax returns recently filed for corporations and partnerships. This recurring error is mostly occurring with returns filed using Ultratax software, but there are a few other filing errors we have seen recently from returns filed using other software programs. We wanted to send out notification of these issues so that returns filed in the future will not have the problems noted below.

The main problem we have noticed in recently filed returns occurs when a company operating only in Arkansas files a multistate apportioned return and then completes the section of the apportionment schedule that reconciles federal taxable income to the amount of income that is to be apportioned to Arkansas. Most of these returns then complete only a property factor that shows the percentage in Arkansas to be 100%. For Sub-S corporations and partnerships, the Arkansas column showing the Arkansas income and deductions on page 1 of the return is also being completed as if the return is being filed for a company doing business only in Arkansas.

In addition to the issue noted above, DFA has seen a number of returns filed as a multistate apportioned return and all the factors equal 100% in Arkansas. Please be advised that if a business income tax return is prepared and the Arkansas apportionment factor is 100%, then the return should be filed as a corporation or partnership only doing business in Arkansas and not as a multistate apportioned return. DFA has begun the process of modifying the efile rules for Arkansas business income tax returns that will reject the filing of an Arkansas return that files a multi-state apportioned return and all the factors equal 100%. DFA will also reject any efiled partnership or Sub-S corporation income tax return filed as a multistate apportioned return that also completes the Arkansas column on page 1 for businesses operating only in Arkansas; and any efiled business income tax return filed as a corporation only doing business in Arkansas that also completes the apportionment schedule. These changes will take effect in the coming weeks and will result in returns being rejected for these filing errors.

Also note that Act 822 of 2019 changed the Arkansas statutory apportionment method from a three-factor apportionment to a single sales factor for tax years beginning on or after January 1, 2021. Only businesses whose principal business activities are in an industry that is specifically

required to use a modified three factor apportionment method may do so for tax years beginning on or after January 1, 2021. DFA will be correcting the apportionment to a single sales factor for 2021 returns that are not covered by a special industry regulation that requires a modified 3 factor apportionment method. The industries that are required to use a modified three factor apportionment are Railroads, Private Railcar Operators, Construction Contractors, Television and Radio Broadcasters, Publishers, and Pipeline Operators. All other multistate taxpayers are required to apportion their income using a single sales factor except trucking companies and bus lines. Trucking companies and bus lines must apportion their income using only a mileage factor that should be shown in the sales factor area of the apportionment schedule.

The DFA would like to thank the tax preparer community for working with us to make filing Arkansas income tax returns simpler and more accurate as a result of this notice. Feel free to contact the Department if you have any questions about this notice or any other concerns you have about filing Arkansas business income tax returns.

Sincerely,

Scott Fryer  
Assistant Administrator for Income Tax  
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