INSTR

INSTRUCTIONS FOR FORM AR-718

Arkansas Corporation Special Industry and Alternative Apportionment

Act 822 of 2019 amends Arkansas Code Annotated 26-5-101, Article IV and 26-51-709 through 26-51-718 to provide for a single sales factor to apportion income from within and without Arkansas for tax years beginning on or after January 1, 2021. For tax years beginning on or after January 1, 2021, all taxpayers with income from sources within and without Arkansas must use a single sales factor to apportion income from Arkansas unless the taxpayer is required or approved in advance for the use of an alternative apportionment method.

Industries required to use special industry apportionment methods under the special industry apportionment regulations should apportion income using a single sales factor as modified using the special industry apportionment method in the regulation and exclude the property and payroll factors.

1. Construction Contractors by Regulation 1.26-51-718(d)
2. Television and Radio Broadcasting by Regulation 2.26-51-718(d)
3. Publishing Companies by Regulation 3.26-51-718(d).
4. Airlines by Regulation 4.26-51-718(d) – Miles
5. Bus Lines and Trucking Companies by Regulation 5.26-51-718(d) – Miles
6. Pipelines by Regulation 6.26-51-718(d).
7. Railroads by Regulation 2.26-51-204. (3 factors or a single sales factor optional)
8. Private Railcar Operators by Regulation 2.26-51-204.

Enter the FEIN in the box provided.

Type of Required Alternative Apporitonment

Check the box for the appropriate industry requiring alternative apportionment or other required/pre-approved agreement. **Please refer to the special industry apportionment regulations for any modifications required.**

Alternative Apportionment Factor

Column A is for Amounts in Arkansas; Column B is the Total Everywhere; Column C is the Percentage of Column (A)÷(B). Calculate all percentages to six (6) places beyond whole percentages. Example 26.123456%

Property Factor: The property factor is only to be used if the taxpayer is approved in advance by the Department for an Alternative Apportionment method or otherwise allowed by statute. The property factor is a fraction, the numerator is the average value of the taxpayer's real and tangible personal property owned or rented and used in this State during the tax period, and the denominator is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the tax period.

Line 1: Enter Property Used in Business

Line a: Tangible Assets Used in Business and Inventories.

(a1) Enter the amount at the beginning of the year in both Column A and Column B.

(a2) Enter the amount at the end of the year in both Column A and Column B

(a3) Enter total amounts: (Add Lines a1 and a2) in both Columns.

(a4) Enter Average of Tangible Assets: (Line 3 ÷ 2) in both Columns.

Line b: Enter Rental Property: (8 times annual rent Column A and B.)

Line c: Enter Total Property in both Columns: (Add Lines a.4 and b).

In Column C, calculate the Arkansas percent by dividing the amount on Line c, Column A by the amount on Line c, Column B.

Payroll Factor: The payroll factor is only to be used if the taxpayer is approved in advance by the Department for an Alternative Apportionment method or otherwise allowed by statute. The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the taxpayer for compensation and the denominator of which is the total compensation paid everywhere during the tax period. The payroll factor shall include only that compensation which is included in the computation of the apportionable income tax base for the taxable year. **(ACA 26-51-713 and ACA 26-51- 1405)**

Column A is total compensation paid within Arkansas; Column B is total compensation paid everywhere during the tax year; Column C is the percentage of Column (A) ÷ (B).

Line 2: Enter Salaries, Wages, Commissions and Other Compensation Related to the Production of Business Income.

Sales/Receipts Factor: The receipts factor is a fraction, the numerator of which is the total sales of the taxpayer in this State during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period. The method of calculating receipts for purposes of the denominator is the same as the method used in determining receipts for purposes of the numerator. The receipts factor shall include only those receipts which constitute business income and are included in the computation of the apportionable income base for the taxable year. Arkansas requires receipts to be gross receipts instead of net receipts.

Line 3a: Sales/Receipts

1. Enter Destination Shipped from Within Arkansas: Sale of property that is delivered or shipped by a seller located in Arkansas to a purchaser located in Arkansas.

2. Enter Destination Shipped from Without Arkansas: Sale of property that is delivered or shipped to a purchaser located in Arkansas regardless of the f.o.b. point or other conditions of the sale.

b. Enter Origin Shipped from Within Arkansas to Other Non-Taxable Jurisdictions: Sales of property that is shipped from an office, store, warehouse, factory or other place of storage in Arkansas to a taxpayer that is not taxable in the state of the purchaser.

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INSTRUCTIONS FOR FORM AR-718 (Cont.)

Arkansas Corporation Special Industry and Alternative Apportionment

Beginning January 1, 2024, a percentage of sales to which the throwback rule applies as taxable to Arkansas and a percentage as taxable to the destination state, with the amount taxable to the destination state increasing each year as the amount taxable to Arkansas decrease.

The percentages will be as follows:

- **2024: 85.71% to Arkansas.**

c. Enter Other Sales/Receipts: Items such as 1. capital & ordinary gains, 2. dividends, 3. interest, 4. rents, 5. royalties, and 6. services will be reported in the appropriate boxes. For 8. other business gross receipts, attach schedule.

Gross receipts from transactions other than sales of tangible personal property are attributed to Arkansas if:

1) The income producing activity is performed entirely within Arkansas or, 2) If the income producing activity is performed both inside and outside of Arkansas, the income reportable to Arkansas is determined by calculating the property, payroll, and sales factor excluding sales from transactions other than the sale of tangible personal property and applying the resulting percentage to the Arkansas sales factor numerator for gross receipts from transactions other than sales of tangible personal property.

9. Enter Total Sales/Receipts: (Add Lines 1.a through 3.c.8). Divide Line 3.c.9 in Column A by Line 3.c.9 in Column B to arrive at the percentage for Line 3.c.9 in Column C.

10. Enter Double Weighted: Applies only to corporations reporting under the three factor special industry regulations. Corporations using a single sales factor apportionment or a single factor apportionment method for special industries do not double weight sales.

Line 4: Enter Sum of Percentages: (Single Weighted: Add Column C, Lines 1c, 2a and 3.c.9) (Double Weighted: Add Column C, Lines 1c, 2a and 3.c.10).

Line 5: Enter Percentage Attributable to Arkansas: Line 4 divided by the Double Weighted Factor. For Line 5, divide Line 4 by number of entries other than zero which you make on Column B, Lines (1c), (2a), and (3.c.9). Line (3.c.9), counts as two (2) entries, only if using double weighted factor. **For corporations using the sales factor only or a single factor apportionment method under the special industry regulations, enter the percentage on Line 3.c.9, Column C.**

The percentage attributable to Arkansas on line 5, column C is to be reported on Schedule A, Part B, line 4 of the AR1100CT.

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Arkansas Corporation Special Industry and Alternative Apportionment

Special Industry Apportionment Rules

Arkansas Regulations require taxpayers primarily engaged in certain industries to apportion income using a special industry apportionment method. See below for a brief description of each special industry apportionment method. For a complete description of industries that are required to modify their apportionment factors, see the Corporation Income Tax Regulations at www.dfa.arkansas.gov.

Construction Contractors

Arkansas Regulation 1.26-51-718(d) modifies the sales factor for all Construction contractors. Gross receipts derived from the performance of a contract are attributable to Arkansas if the construction project is located in Arkansas. If the construction project is located both inside and outside of Arkansas, the gross receipts attributable to Arkansas are based upon the ratio that construction costs for the project in Arkansas incurred during the tax year bear to the total construction costs for the entire project during the tax year. The amount of gross receipts to be included in the sales factor for the current tax year is based on the cost ratio regardless of whether the taxpayer uses the accrual method or the cash method of accounting for receipts and disbursements. All Construction contractors should not use a property or payroll factor for tax years beginning in 2021 and after.

Television and Radio Broadcasting

Arkansas Regulation 2.26-51-718(d) modifies the numerator of the sales factor to include all gross receipts of the taxpayer from sources within Arkansas plus a ratable part of film or radio programming revenue including advertising revenue determined by an audience factor. The audience factor is determined based on the ratio that the taxpayer's Arkansas viewing or listening audience bears to its total viewing or listening audience. Television and radio broadcasters should not use a property or payroll factor for tax years beginning in 2021 and after.

Publishing

Arkansas Regulation 3.26-51-718(d) modifies the sales factor for taxpayers in the business of publishing, selling, licensing, or distribution of books, newspapers, magazines, periodicals, trade journals, or other printed materials that have income from sources both inside and outside of Arkansas. The sales factor is modified to include a "circulation factor". Publishers should not use a property or payroll factor for years beginning in 2021 or after.

Airlines

Arkansas Regulation 4.26-51-718(d) requires airlines to determine Arkansas net taxable income by taking that portion of total operating revenue that the total passenger and freight receipts in Arkansas bear to total receipts from inside and outside Arkansas.

Bus Lines and Trucking Companies

Arkansas Regulation 5.26-51-718(d) requires a company whose primary business is bus lines or trucking to determine its net income subject to Arkansas income tax by an apportionment formula which is the number of miles operated within Arkansas divided by the total system miles.

Pipelines

Arkansas Regulation 6.26-51-718(d) establishes special rules for taxpayers operating a pipeline for the transportation of oil or gas both inside and outside of Arkansas. The sales factor includes any gas sales and storage sales within Arkansas plus a proportionate part of system revenue earned in Arkansas determined on the basis of total barrel or unit miles within Arkansas to the total barrel or unit miles in the system. Pipelines should not use a property or payroll factor for tax years beginning in 2021 and after.

Private Railcar Operators

Arkansas Regulation 2.26-51-204 requires taxpayers, other than a railroad, engaged in the business of operating railcars or in the business of furnishing or leasing railcars for the transportation of freight or property whether or not owned by such taxpayer, over any railway lines partly within and partly without the State to determine Arkansas net taxable income by taking that portion of total net operating income that the total miles operating in the State bears to total system miles operated.

Public Utilities

Arkansas Regulation 3.26-51-204 requires telephone, electric power, and gas distribution companies operating both inside and outside of Arkansas shall allocate and apportion their net income provided under ACA 26-51-701, et seq, ACA 26-51-709 requires income to be apportioned using a single sales factor.