

2025 Arkansas Tax & Incentives Legislation Summary



Matt Boch
Kutak Rock LLP
matt.boch@kutakrock.com

T.J. Lawhon
Wright, Lindsey & Jennings LLP
tlawhon@wlj.com

I. Introduction & Overview

The 2025 legislative session of the Arkansas General Assembly saw numerous tax enactments within a constrained revenue environment that did not allow for large tax cuts like in previous recent sessions.

Legislative highlights include the following:

Economic development bills enacted as part of the Improving Markets, Promoting Arkansas Commerce and Trade (IMPACT) package of the Arkansas Department of Commerce (see Part VII). This included amendments to the statutory state incentives by Acts 881 and 882 as well as referral of a ballot question to amend the Arkansas Constitution to allow creation of economic development districts.

Market-based sourcing legislation under Act 719, which is a significant change to Arkansas income tax apportionment for 2026 and later years (see Part III.C).

A \$100 increase in the property tax homestead tax credit by Act 330 (see Part V.A).

While Arkansas is in a fiscally stable outlook, current indications are that the General Assembly will not consider additional tax cuts until the 2026 fiscal session.

II. Background

The Arkansas General Assembly is a part-time legislature that meets biennially for general legislation, convening in January of odd-numbered years. There is also a more limited fiscal session in the off years, and the Governor has the power to call a special session.

The legislative session of the 95th Arkansas General Assembly began January 13, 2025, and adjourned *sine die* on May 5, 2025.

Unless otherwise indicated, enacted legislation is effective August 5, 2025, which is 90 days after adjournment *sine die*. See Ark. Atty. Gen. Op. 2025-032 (May 12, 2025).

The Arkansas Department of Finance and Administration (“DFA”) is the main tax administrator for the state. The Arkansas Department of Commerce, which includes the Arkansas Economic Development Commission (“AEDC”), is the primary economic development agency for the state.

III. Income Taxes

- A. Act 508:** Modernizes references to United States Armed Forces and uniformed services throughout the Arkansas Code, particularly regarding the Space Force. Income tax updates were: (1) the income tax exemption for compensation and benefits from military service, (2) the exemption for retirement and disability benefits, and (3) the Military Family Relief Check-Off Program.
- B. Act 578:** Authorizes Arkansas Natural Resources Commission to issue general obligation bonds exempt from state, county, and municipal taxes to finance development of water, waste disposal, and pollution abatement facilities.
- C. Act 614:** DFA will set mileage deduction by proclamation instead of rulemaking. DFA is instructed to set deductions as close to the federal deduction as is fiscally responsible without causing undue hardship on taxpayers.
- D. Act 696:** Provides an income tax exemption for payments made by the U.S. Department of Agriculture under the American Relief Act of 2025, including disaster relief and extension of the 2018 Farm Bill. Effective January 1, 2025.
- E. Act 719:** Amends the apportionment provisions of the Arkansas income tax, taking the state from costs-of-performance to market-based sourcing for sales of other than tangible personal property, effective for tax years on or after January 1, 2026. Much of the language is based on the Multistate Tax Commission model amendments to the Uniform Division of Income for Tax Purposes Act (UDITPA). Act 719 includes the following key provisions:

- The old concept of “business income” is replaced and broadened to “apportionable income,” which essentially is any income that is apportionable under the United States Constitution.
 - For sales factor purposes, sales of services will be sourced to where they are delivered, and sales of intangibles will be sourced based on where the property is used (subject to additional detailed rules). Telecoms can elect to use the old costs-of-performance sourcing through 2035.
 - Notwithstanding that the throwback rule is being phased out for tangible personal property, Act 719 does include a throw-out rule for services and intangibles. Language defining taxability in another state also is provided.
 - An economic nexus threshold of \$250,000 of Arkansas-sourced gross receipts is adopted, for corporations or partnerships that do not have physical presence in the state.
 - Updates to the alternative apportionment language that clearly place the burden of proof on the party asserting or requesting alternative apportionment.
- F. Act 802:** Updates the Arkansas Code regarding 529 accounts, particularly given the changes from the federal SECURE 2.0 Act. The provisions of Act 802 include exempting 529 to Roth IRA conversions from Arkansas income tax. Effective for tax years beginning on or after January 1, 2024.
- G. Act 839:** Amends various portions of the Arkansas Student-Athlete Publicity Rights Act, including an income tax exemption for NIL (name, image, or likeness) compensation received by a student-athlete or as a percentage of institutional athletic revenue. Effective for tax years beginning on or after January 1, 2025.
- H. Act 878:** Doubles the maximum teacher supplies deduction from \$500 to \$1,000 per taxpayer or \$2,000 for taxpayers filing jointly. Effective for tax years beginning on or after January 1, 2025.



IV. Sales & Use Taxes

- A. Act 146:** Prohibits local government from imposing a tax or fee, other than sales and use tax, on the use of lawn care devices.
- B. Act 329:** Amends the sales and use tax exemption for textbooks and other instructional materials to also include leased materials.
- C. Act 498:** Restricts DFA from subsequently assessing sales or use tax on the same taxpayer if the taxpayer has successfully appealed the sale or purchase of the same item for the same uses, unless there is a material change in relevant law or rule.
- D. Act 548:** Part of the Department of Commerce IMPACT package, this legislation amends and expands the data center sales tax exemption, which was first enacted in the 2023 legislative session, by reducing the qualifying investment from \$500 million to \$100 million, adding multi-site large data centers with \$2 billion qualifying investment, and excluding virtual currency facilities. Purchases qualifying for exemption are expanded and clarified. Administration of the exemption is moved from AEDC to DFA. Effective October 1, 2025.
- E. Act 621:** Provides for a new identification card for eligible farmers to present to sellers in lieu of an exemption certificate for purchases exempt from sales and use taxes. Effective beginning January 1, 2026.

- F. Act 710:** Creates an exemption from sales and use tax on a dealer's use of a vehicle equipped with a dealer's extra license plate, including uses by a dealer's owners, officers, managers, and salespersons. Act 710 is in response to *Arkansas DFA v. Trotter Ford, Inc.*, 2024 Ark. 31, in which the Department successfully assessed a dealer's use of vehicles as a withdrawal from stock.
- G. Act 714:** Amends the sales and use tax exemption for food and food ingredients sold in a public, common, high school, or college cafeteria or dining facility to also include contract services by third parties that operate for a profit. Effective October 1, 2025. Act 714 is intended to clarify the tax issue in *City of Pine Bluff A&P Commission v. Aramark Educational Services, LLC*, 2025 Ark. App. 306.
- H. Act 781:** Creates a sales and use tax exemption for all sales to the Arkansas Museum of Fine Arts or the Museum of Fine Arts Foundation. Effective October 1, 2025.
- I. Act 879:** Amends the sales and use tax exemption for aircraft. The aircraft seller resale exemption is amended to exclude aircraft lessors. A new resale exemption specific for aircraft leasing is created requiring leasing revenue to be at least 7.5% of the aircraft acquisition price. Effective October 1, 2025.
- J. Act 1007:** Creates a new, limited sales and use tax exemption for sales to small qualified non-profit organizations. The organization must have an annual budget less than \$200,000 and it must perform charitable, community-based services to benefit residents of Arkansas. There is an application and reverification process with DFA. Effective October 1, 2025.
- K. Act 1008:** Establishes the Grocery Tax Relief Act, eliminating the reduced state sales and use tax rate on food and food ingredients effective January 1, 2026. While state-level taxes are removed, local city and county taxes on groceries remain unaffected. The act also makes technical adjustments to Arkansas tax laws to reflect this change. Effective January 1, 2026.
- L. Act 1012:** Among its provisions encouraging lithium production, it creates a sales and use tax exemption for a qualified lithium facility (\$100 million investment and \$3 million payroll) for purchases of equipment used to process, develop, refine, convert, manufacture, or recycle lithium, cathode, anode, lithium battery, and grid storage products; services related to construction and operation of the facility; electricity used by the facility; and equipment and materials used for further manufacturing lithium and lithium batteries. Effective October 1, 2025. See additional discussion of Act 1012 in parts VI.D and VII.L.
- M. Act 1013:** Addresses the taxation of long-term motor vehicle leases of over 30 days. Regarding local sales and use taxes, lease payments on such long-term leases—including leases of aircraft; watercraft; and modular, manufactured, or mobile homes as well as motor vehicles—will be aggregated for purposes of the \$2,500 local tax cap. Effective October 1, 2025. Property tax aspects of Act 1013 are discussed in part V.O, below.
- N. Act 1019:** Amends the procedure for collecting and remitting sales tax on the sale of new or used motorboats by requiring the consumer to pay sales tax at the time of registration with DFA before issuing a certificate number decal. Effective October 1, 2025.

V. Property Taxes

- A. Act 121:** Clarifies the Property Tax Relief Trust Fund—which funds the homestead credit through a dedicated 0.5% statewide sales tax rate—shall be used only for property tax relief unless otherwise authorized by the General Assembly by a 3/4 vote of each house.
- B. Act 216:** Repeals the Commissioner of State Lands Urban Homestead Act, which offered tax-forfeited real estate by donation deeds to community organizations for use as low-income homesteads or public education facilities.
- C. Act 259:** Exempts disabled veterans from certain penalties when redeeming tax-delinquent lands owned by the disabled veteran from the Commissioner of State Lands.
- D. Act 330:** Increases the homestead property tax credit from \$500 to \$600, beginning with the 2025 assessment year.



- E. **Act 399:** Amends election requirements for public school districts. Specifically, it allows districts to renew an existing annual ad valorem property tax rate without holding an election, provided the rate remains unchanged. This streamlines the process for maintaining current school funding levels.
- F. **Act 407:** Quadruples the acreage eligible for the disabled veterans, surviving spouses, and minor dependent children homestead exemption from 40 acres to 160 acres. Effective beginning with the 2025 assessment year.
- G. **Act 410:** Provides that only Arkansas properties can be considered in determining the true market value of residential real property, and that consideration of commercial real property outside of the state is allowed only if there is no comparable commercial real property in the state. In addition, Act 410 amends the definition of “substantial improvement” for purposes of the elderly or disabled homestead valuation freeze to apply only to an improvement that increases the assessed value by at least 25% and to exclude repairs due to natural disaster unless the materials or components are of a higher quality and value. Act 410 is effective beginning with the 2025 assessment year.
- H. **Act 486:** Removes county equalization board jurisdiction from determining whether a property qualifies for the homestead property tax relief for a disabled person or a person 65 years of age, and specifies that a petition for such claim shall be filed with the county court.
- I. **Act 497:** Clarifies the exemption from personal property tax is applicable to motor vehicles used exclusively for purposes of public charity and are subject to a lease of at least 12 months by an institution of public charity. Effective beginning with the 2026 assessment year.
- J. **Act 550:** For purposes of the Armed Forces and National Guard deployment exemption from property tax payment penalty, Act 550 defines “deployment” and requires provision of the DD Form 214 to the county collector for purposes of verifying the exemption.
- K. **Act 780:** Allows collection of levee district assessments in the manner of property taxes, upon the written request of the levee district, for levee districts created by an act of the General Assembly.
- L. **Act 783:** Provides statutory definitions for various terms and concepts used in property tax valuation, including “fair market value” and its synonyms as well as the three approaches to valuation—cost, income, and market. The intent is to clarify the meaning of fair market value and related appraisal concepts. Effective beginning with the 2025 assessment year.
- M. **Act 842:** Requires DFA’s Assessment Coordination Division to issue rules and guidelines for the fair and equitable assessment of real property with federal or state-imposed restrictions for certain affordable housing programs. The rules are to be adopted by the ACD by January 1, 2026, or as soon as practicable thereafter.
- N. **Act 876:** Provides that a disabled veteran need submit a verification letter from the United States Department of Veterans Affairs only once—annual resubmission is not required. Provisions are added regarding notification by the taxpayer of changed circumstances and allowing a three-year lookback if the exemption is claimed erroneously. Effective beginning with the 2025 assessment year.
- O. **Act 877:** Requires counties to provide written notice in property tax statements to persons who are disabled or are more than 65 years of age regarding homestead property tax relief.
- P. **Act 880:** Expands the homestead property tax exemption for disabled veterans and surviving spouses and minor children to include property owned by the disabled veteran’s revocable trust, irrevocable trust, or limited liability company and who uses the dwelling as his or her principal place of residence. Effective beginning with the 2026 assessment year.
- Q. **Act 821:** Remedial language clarifies the valuation method of mineral rights for purposes of property taxes to expressly include natural gas wells and to include expenses and prices based on 1,000 cubic feet of gas. Effective beginning with the 2025 assessment year.
- R. **Act 1013:** Provides that a lessee of a leased motor vehicle for more than 30 days is the owner for purposes of personal property tax assessment. Effective beginning with the 2025 assessment year. (See also the Act 1013 sales tax discussion in part II.E, above.)

VI. Other Taxes

- A. **Act 380:** Extends the 4% medical marijuana special privilege tax indefinitely by eliminating the July 1, 2025 sunset date.
- B. **Act 554:** Amends Arkansas law to encourage captive insurers to locate in Arkansas. Tax provisions address redomestication, including allowing the forgoing of payment for either the first or second year of operations. In addition, a credit of up to 50% of premium tax is allowed for salaries and wages paid to Arkansas employees of a captive insurance company.
- C. **Act 673:** Allows a city volunteer fire department to collect dues on rural property covered by the fire department, in the same way as collected by a rural fire department.
- D. **Act 675:** Changes the wine direct shipper framework from a registration to a license and expressly requires the licensee to consent to state jurisdiction and audits.
- E. **Act 740:** Part of the Department of Commerce IMPACT package, this unemployment tax legislation lowers most contribution rates by 0.1% but raises the administrative assessment by 0.1%. It is anticipated that the additional administrative funds will be used for workforce training. The law also allows a business coming to Arkansas to elect to import its experience from one or more other states where it has similar operations, for contribution rate potentially as low as 1%.
- F. **Act 1012:** This is the lithium development bill. Among its provisions, it amends the severance tax to apply to lithium and lithium production at the same levels as bromine production. Effective October 1, 2025. The lithium production sales tax incentive is addressed above at IV.J, and recycling credits for lithium recycling are addressed in part VII.L below.

VII. Credits and Incentives

- A. **Act 373:** Establishes the Generating Arkansas Jobs Act of 2025. It permits utilities to implement gradual, annual rate adjustments to fund strategic infrastructure investments, thereby enhancing the state's ability to meet rising electricity demand and attract energy-intensive industries. It allows investor-owned utilities to apply excess accumulated deferred income taxes from strategic investments to reduce their rate base or provide customer bill credits, as determined by the Public Service Commission.
- B. **Act 440:** Part of the Department of Commerce IMPACT package, it amends and updates the Arkansas Small Business Innovation Research Matching Grant program and the Small Business Technology Transfer Grant program, including making it easier to award larger grants.
- C. **Act 546:** The Sustainable Aviation Fuel Incentive Act creates a new, specialized incentive providing an income tax credit equal to 30% of the equipment investment used to manufacture sustainable aviation fuel. The new incentive is intended for the Natural State Renewables fuel refinery to be located near Camden. Effective for tax years beginning on or after January 1, 2025.
- D. **Act 576:** Part of the Department of Commerce IMPACT package, it authorizes creation of local Industrial Development Authorities, each with its own board of directors and broad economic development powers, including eminent domain. Among other powers, an Industrial Development Authority could issue Act 9 bonds (industrial revenue bonds) for a PILOT arrangement.
- E. **Act 606:** Creates the Talent Recruitment Grant Program offering up to \$500,000 per applicant (municipality or nonprofit organization) to create programs to incentivize high-earning individuals outside of the state to relocate to municipalities in the state. Applicants must contribute at least 20% of the total cost of their programs.



- F. Act 701 and Act 709 (complementary House and Senate Acts):** Amends the Arkansas wood energy products and forest maintenance income tax credit by lowering the allowed credit from 30% to 20%, adding wood byproducts and bark to the qualified product list, increasing the investment threshold from \$50 million to \$1 billion, and increasing the full-time payroll threshold from 100 to 400 new full-time employees. Effective for years beginning January 1, 2026. This legislation is intended to incentivize an expansion of Green Bay Packaging.
- G. Act 838:** Amends the Arkansas Tourism Development Act, which offers up to 15% sales tax credit for approved project costs and 4% income tax credit for new full time payroll, by lowering the investment threshold for an eligible company from \$250,000 to \$50,000 in a high unemployment county and from \$500,000 to \$150,000 in any other county for tourism attraction projects located in a Natural State Initiative Opportunity Zone.
- H. Act 874:** Allows an excise tax credit for beer and sake produced with Arkansas rice in an amount equal to the percentage weight of Arkansas rice in the total grain bill of the qualified beer and sake.
- I. Act 881:** Part of the Department of Commerce IMPACT package, it amends the Consolidated Incentive Act, which is the main source of statutory incentives for business attraction and expansion. Act 881 creates a new corporate headquarters relocation incentive—a payroll incentive that can offset all or part of a taxpayer’s Arkansas corporate income tax liability for up to 9 years. It also updates the ArkPlus payroll incentive so that it can credit against sales tax as an alternative to an income tax credit. The compliance and clawback provisions of the Consolidated Incentive Act are also updated. Effective for tax years beginning on or after January 1, 2026.
- J. Act 882:** Also part of the IMPACT package, it creates a new, negotiated tax modernization and automation tax credit of up to 5% of eligible project costs. At least \$25 million must be invested, and the project must be completed within 6 years. While job creation is not required, existing employment must be maintained. Utilization is capped at \$2,000,000 per year, and the carryforward is 5 years. Effective October 1, 2025.
- K. Act 944:** Part of the Department of Commerce IMPACT package, it spins off the Arkansas Development Finance Authority (“ADFA”) as an agency separate from the Department of Commerce. ADFA originally was an independent agency and had been merged into Department of Commerce in the state government consolidation of 2019. The spun-off ADFA is still a part of state government but exempt from many of the restrictions and procedures applicable to state government and will provide increased confidentiality for applicants. Effective July 1, 2025.
- L. Act 1012:** Part of the Department of Commerce IMPACT package, this legislation to attract the lithium industry includes amending the 30% recycling equipment income tax credit (administered by the Arkansas Department of Environmental Quality) to include electronic waste and lithium-ion battery cells and packs as examples in the definition of solid waste. Effective October 1, 2025. See above in parts IV.J and VI.D for additional provisions.
- M. Act 1017:** This restricted reserve funding law included incentive funding of \$50,000,000 for AEDC Site Infrastructure Grants, and \$25,000,000 for the Quick Action Closing Fund. Effective April 22, 2025.
- N. SJR15:** Part of the Department of Commerce IMPACT package, this is an economic development constitutional amendment that the General Assembly has referred to the voters for the 2027 ballot. It would allow creation of Economic Development Districts, property in which would be exempt from property tax but could be subject to district fees or taxes. It is intended to give Arkansas similar tools to TIF-type districts in other states, allowing for tax abatements or funding of infrastructure. See SB647 of 2025 for what might be adopted if SJR15 is approved by voters.

VIII. Tax Procedure

- A. **Act 128:** Expands the definition of “debt” for purposes of claimant agency setoffs against state tax refunds to include any state retirement system administered by the Arkansas Public Employees’ Retirement System, and adds the Arkansas Judicial Retirement System and State Police Retirement System as additional claimant agencies.
- B. **Act 211:** Repeals the law (Ark. Code Ann. § 22-6-101) allowing the Commissioner of State Lands to issue deeds to state or local governments for land listed on the Commissioner’s records as having been forfeited for nonpayment of taxes.
- C. **Act 277:** Allows a court to intercept a defendant’s state income tax return and offset income tax refunds against unpaid court fines, fees, or costs, effectively giving courts the same claimant agency rights as state governmental agencies against tax return refunds.
- D. **Act 411:** Expands the definition of “debt” for purposes of claimant agency setoffs against state tax refunds to include any fines imposed for nonjudicial military punishment including courts-martial, and adds the Department of the Military as an additional claimant agency.
- E. **Act 457:** Mandates the creation and inclusion of fiscal impact statements for statewide initiatives, referenda, and legislatively referred constitutional amendments. These statements, prepared by the Department of Finance and Administration, must objectively estimate financial effects—such as changes in taxes, state revenues, expenditures, and public debt—and be presented on ballots if they exceed 200 words. The act aims to enhance voter transparency regarding the economic implications of proposed measures.
- F. **Act 464:** Repeals the Arkansas Tax Advisory Council annual report to the House and Senate Committees on Revenue and Taxation.
- G. **Act 465:** Repeals the DFA annual report of activities of the Multistate Tax Commission to the President Pro Tempore of the Senate and Speaker of the House.
- H. **Act 557:** Requires owners of virtual currency kiosk, upon the completion of a virtual currency transaction, to provide the customer a receipt containing, among other information, any tax collected for the transaction.
- I. **Act 616:** Requires third-party payroll companies to file withholding reports electronically if the employer is otherwise required to file the same. Effective January 1, 2026. Lowers the threshold requirement for electronically filing the annual income tax withholding statement from 125 to 75 employees. Effective January 1, 2025.
- J. **Act 617:** Amends the Independent Tax Appeals Commission Act with technical changes including adding small claims of \$10,000 or less that are eligible for streamlined proceeding process, changing Commissioners’ salary from district court judge equivalent to standard state employee appropriation by the General Assembly, and loosening the Commissioner licensure requirements to allow nominees not licensed as an attorney or CPA and having at least 5 years’ experience related to Arkansas state taxes even if.
- K. **Act 680:** Adopts the Uniform Trust Decanting Act, allowing trustees to modify irrevocable trusts without court approval, provided certain conditions are met, and ensures that any modifications to a trust do not jeopardize existing tax advantages. For instance, if the original trust qualifies for federal or state tax deductions, exemptions, or exclusions—such as income, marital, charitable, gift, or GST deductions—the new trust must preserve these benefits. This provision safeguards the trust’s tax-favored status during restructuring.
- L. **Act 720:** Requires DFA to notify quorum courts, city councils, or other levying entities at least 120 days before the expiration of a sales and use tax, including the expiration date and method of extension.
- M. **Act 810:** Authorizes state or local governments to accept payment of taxes, fees, or debts in specie or legal tender, among other provisions amending the law on specie or legal tender.



National reach.
Local market presence.

The experience you need,
and the bench strength
you want.

An enduring
value proposition.

For more than 50 years, Kutak Rock has served business and governmental clients across the United States. Our national footprint positions us wherever legal needs arise, and our local market presence helps us understand the business and civic communities we share.

With over 550 attorneys serving clients in the full range of transactional and litigation services, Kutak Rock is well-equipped to assist with virtually any legal matter or project, regardless of scope or scale. We represent clients in transactions of all types in venues across the country, and our litigators appear in state, federal and appellate courts and before administrative tribunals. Our cumulative experience, paired with a focus on innovation and creativity, inspires client confidence.

Kutak Rock is differentiated by a fundamental commitment to delivering high-quality legal service at a fair price. Committed to being intelligent about your business, mindful of your ever-evolving business objectives and focused on meeting the unique challenges and opportunities you face, our goal is to deliver true value and earn your loyalty through high-quality client experiences, one matter at a time.

Celebrating 125 years of service in 2025, Wright Lindsey Jennings is one of the premier law firms in the state, representing the businesses, organizations and industries that make up the fabric of the Arkansas and regional economies. WLJ supports businesses across a full range of litigation, corporate and transactional service areas.

Our experienced, knowledgeable attorneys strive to address the legal aspects of each matter we handle with a focus on the individual needs of the clients we serve. Our clients are based in Arkansas and throughout the region, the nation and the world, and many of our attorneys are consistently recognized by their peers as among the best in their areas of practice.

The firm's attorneys are also committed to excellence beyond the practice of law – serving and leading in local, regional and national professional and community organizations. WLJ received the Olivia Farrell Gender Equity Leadership Award from the Women's Foundation of Arkansas and the Smart Corporate Giving Award from the Arkansas Community Foundation. WLJ has been named one of the “Best Places to Work” in Arkansas every year since 2018 and was the Arkansas Business “Best of Biz” winner in the legal category in 2024.

Today, Wright Lindsey Jennings has 75 attorneys practicing in Little Rock and Rogers. Visit www.WLJ.com to learn more.

The background of the right side of the page is a faded, high-angle photograph of a modern office. It shows a white desk, a white ergonomic office chair with a five-star base and casters, and large windows in the background that look out onto a city skyline. The lighting is bright and even.

Representing businesses
across a full range of practices.

Focused on the needs of the
individuals we serve.

Committed to community.