Arkansas Advocates for Children & Families
State Fiscal Analysis Initiative

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INTRODUCTION & SUMMARY POINTS

In May 2001, Judge Collins Kilgore issued a historic ruling in the *Lake View School District v. Huckabee et al* – the state's current school funding formula is unfair to poorer school districts and provides inadequate funding for education. The case is expected to have major implications on education funding, other programs serving children and families, tax equity and fairness, and state and local tax systems.

This brief from the Arkansas State Fiscal Analysis (SFAI) is the fourth in a series devoted to the Lake View School District case, and examines business incentives and their impact on state tax revenues. Upcoming briefs will examine lotteries and gambling, property taxes, early childhood financing and low-income tax issues.

- The state offers at least 20 different tax credits and incentives designed to promote business and economic development.
- In 2000, business tax credits and incentives cost the state $44 million in lost tax revenue.
- State tax revenue lost from business tax credits and incentives is far smaller than the amount of revenue lost from "discretionary" sales tax exemptions ($582 million annually, $374 million of which is from exemptions targeted to business). Together, sales tax exemptions and other incentives targeted to business cost the state $418 million ($374+ $44).
- The great unknown in the debate over business tax incentives is how much local property tax revenue is lost from Act 9 bonds. The state does not ensure companies adequately compensate school districts for lost property tax revenue.
- Sales tax exemptions are generally not covered under a new law that requires the Arkansas Department of Economic Development to report annually on the effectiveness of incentives offered as part of their projects (Act 1282 of 2001).

What's the Potential for Funding Education?

Business Tax Incentives

By Richard Huddleston

The need for new tax revenue to fund state government services is at a critical stage. A stagnate economy over the last two years has produced less-than-anticipated revenue collections, and state budget cuts were enacted for the 2002 and 2003 fiscal years. Also on the horizon are a growing Medicaid-funding crisis (both short and long term), and a likely ruling by the Arkansas Supreme Court in the Lake View school funding case later this year or early 2003 that will almost assuredly require a significant new investment in public education.

A previous issue of *Paycheck$ and Politics* examined sales tax exemptions as a potential funding source for public education and other critical services for children and families. Sales tax exemptions, however, represent just one form of tax benefit for businesses. Arkansas has adopted various financial incentives designed to reduce business tax liability and promote new economic development. The most common types of incentives include

- state sales tax refunds/credits;
- state income tax credits; and
- business incentive payments.

Business tax incentives usually reduce the tax liability of business or provide a financial payment to a company that meets certain economic development targets (such as creating new permanent jobs).

Unlike sales tax exemptions, which typically are available to all qualifying businesses at the time of purchase (usually using some tax identification number), business tax incentives are more complex in their structure. They tend to be more targeted to specific types of industries; involve extra paperwork, such as filing special applications or certifications to receive a refund or filing a business tax return to receive a credit against income taxes; or impose special conditions for eligibility, such as a certain number of new permanent jobs must be created before a credit or refund will be issued.

Another unique feature of business tax incentives, especially income and sales tax credits, is the ability to carry the credit forward into future years. If the full amount of a credit is not needed in a particular tax year, such as might be the case if a business has no business tax liability during the year, the company may be allowed to carry forward any or all of the credit into future years. In effect, they can save part of the credit for years they might have tax liability. Carryover terms vary depending on the particular credit used. Some credits may be carried forward for nine years.

Revenue Lost

In determining how much state revenue Arkansas actually loses each year because of business tax breaks, two issues are often raised. One issue is whether it is appropriate to count the value of a given tax credit as lost state tax revenue, especially in cases involving new firms that locate in Arkansas.

Consider the following hypothetical example: the Arkansas General Assembly passes a law establishing a new tax credit for companies that produce electric motors. After the legislation is passed, a new company locates in Arkansas and begins production. The company uses the tax credit to write off or reduce its tax liability by $1 million. Does the $1 million tax break represent lost state tax revenue and a loss to the state treasury? Some would say yes. Without the credit, the company would have paid $1 million in state taxes. Supporters of the credit, however, might argue the opposite. Were it not for the existence of the credit, the company would not have located in Arkansas and the resulting economic activity would not have taken place and there never would have been $1 million in taxes to write-off.

Unfortunately, there is simply no way to know, at least with any certainty, whether a company would have made the investment without the tax credit. Most of the research, however, suggests that relative tax burdens have only a marginal impact on the location decisions for new plants. Other factors, such as an educated workforce, are believed to more important.

A second issue is how to measure the value or revenue loss of each incentive. The Arkansas Department of Finance and Administration (DF&A) tracks the costs of most state-level business tax incentives. DF&A uses two measures when tracking the cost of such incentives: the amount of credits "issued" and the amount of credits actually "used." The distinction is an important one. Many credits, when issued to a company, can be carried over to later years if the credit is not fully used in a given year.

Why wouldn't a company use a tax credit fully in a given year? Companies generally use credits only to the extent they reduce or eliminate the company's tax liability for the year. If a company does not need to use the full value of credit in a given year to avoid having to pay taxes, it will save the value of the rest of the credit for another year when it may be needed. If a company has found other ways to eliminate its tax liability, it may never use all of a tax credit it has been issued. Because not

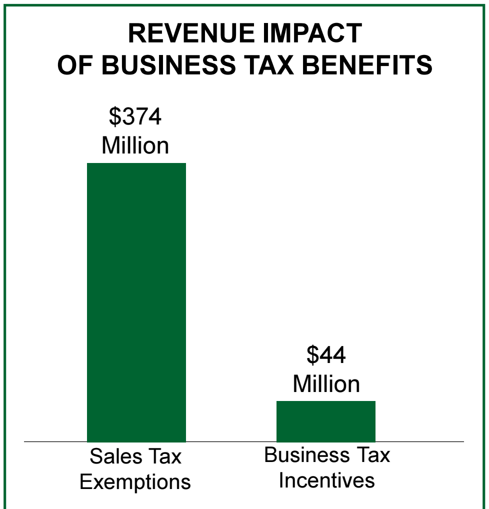
USE OF ARKANSAS' BUSINESS TAX INVENTIVES[1]

Dollar Value of Credits Used[2]

	1996	1997	1998	1999	2000	TOTAL
INCOME TAX CREDITS						
Enterprise Zone Program - Old	$2,308,175	$559,323	$617,071	$2,964	$0	$3,487,533
Enterprise Zone Program - New	$669,340	$1,329,321	$1,786,135	$2,687,658	$2,132,025	$8,604,389
Economic Development Act	$0	$0	$0	$440,309	$1,430,891	$1,871,200
Water Resource Conservation Credit - Old	$123,102	$116,073	$69,803	$66,282	$0	$375,260
Water Resource Conservation Credit - New	$0	$128,878	$201,497	$227,212	$26,288	$583,855
Recycle and Waster Reduction Credit	$17,353,811	$17,473,323	$9,778,834	$6,724,872	$3,271,738	$54,602,578
County-Regional Industrial Development Credit	$76,162	$63,233	$91,471	$228,369	$0	$459,235
Youth Apprenticeship Training Program	$0	$34,399	$32,181	$30,950	$14,292	$111,822
Research Equipment Donation, Sales Below Cost Credit	$82,227	$56,340	$0	$0	$0	$138,567
Private Wetland/Riparian Zone Creation	$0	$0	$0	$0	$0	$0
SUBTOTAL	$20,612,817	$19,760,800	$12,576,992	$10,408,616	$6,875,214	$70,234,439
SALES TAX CREDITS AND REFUNDS						
Economic Investment Tax Credit	$38,356,948	$34,945,072	$35,709,876	$30,129,310	$30,061,587	$169,202,793
Enterprise Zone Program - Old	$1,114,769	$33,547	$1,246,987	$0	$0	$2,395,303
Enterprise Zone Program - New	$3,623,896	$1,923,973	$4,071,586	$4,774,537	$2,715,092	$17,109,084
Economic Development Act	$0	$0	$0	$38,232	$310,227	$348,459
SUBTOTAL	$43,095,613	$36,902,592	$41,028,449	$34,942,079	$33,086,906	$189,055,639
INCENTIVES PAYMENTS						
Economic Development Incentive Program	$302,858	$1,737,431	$3,516,215	$1,490,066	$3,972,314	$11,018,884
Motion Picture Incentive Act	$0	$0	$25,024	$0	$0	$25,024
Motor Carriers Incentives	$0	$0	$61	$0	$0	$61
SUBTOTAL	$302,858	$1,737,431	$3,541,300	$1,490,066	$3,972,314	$11,043,969
GRAND TOTAL	**$64,011,288**	**$58,400,823**	**$57,146,741**	**$46,840,761**	**$43,934,434**	**$270,334,047**

1. Excludes sales tax exemptions.
2. Data is based on credits used, not credits issued. Since not all credits issues are used, credits used more accurately reflects dollar loss to the state treasury. All data is calculated on the calendar year.

Source: AACF calculations from DF&A data, August 8, 2001



Source: AACF calculations from DF&A data

all credits issued are in fact used, the value of credits issued is almost always larger than that used. Thus, the value of credits used is a more accurate reflection of how much a given credit or incentive costs the state in lost revenue each year.

Another example illustrates why a company might not use all of a given tax credit or carry it forward into future years. Suppose at the end of the tax year, Company A has $2,000 in income tax liability. Suppose the company qualifies for a $5,000 state income tax credit under one of Arkansas' business tax incentive programs. What would be the impact of the credit on the company state tax liability at the end of the year? Even though the company qualified for a $5,000 credit, the company would only use $2,000 of the credit to reduce its tax liability to zero. The remaining $3,000 of the tax credit would be available for use in future years.

Income Tax Liability *(before credit)*	$2,000
Tax Credit of $5,000	-$2,000
Taxes due after Credit	$0
Unused Tax Credit *(available to Company A in the future)*	$3,000

Incentives with most Impact on State Revenue
According to AACF calculations of DF&A data, business tax incentives other than sales tax exemptions cost the state about $44 million during 2000. From 1996 to the end of 2000, business tax incentives cost about $270 million in lost revenue.

The largest business tax incentive program by far is the Economic Investment Tax Credit, formerly called the Manufacturer's Investment Credit (Act 529 of 1985). In 2000, companies claimed or "used" approximately $30 million in sales tax credits under the program.

The next largest business tax incentive program is the Economic Development Incentive Program (Act 851 of 1993). Under this program, the state awarded nearly $4 million in incentive payments to companies during 2000. Other expensive credits include the Recycling and Waste Reduction Credit (Act 748 of 1991) at $3.3 million in state business income tax credits annually; and the Enterprise Zone Program (Act 947 of 1993) at $2.7 million. Some incentives, such as those for motion picture productions, are seldom used (the credit was not used during 2000).

Sales Tax Exemptions vs. Business Tax Incentives
The amount of state tax revenue lost because of business tax incentives is small compared to state sales exemptions that benefit businesses. A previous edition of *Paycheck$ and Politics* showed that discretionary sales tax exemptions cost the state about $582 million in lost tax revenue annually (excluding the value of various services, such as attorney or accounting fees, which are not taxed). Sales tax exemptions targeted to businesses represent about 64.3 percent of that amount, or $374 million annually. In contrast, other state business tax incentives cost the state about $44 million annually. Together, sales tax exemptions and business tax incentives targeted to business cost the state about $418 million in lost state tax revenue.

The Great Unknown: Act 9 Bonds
The great unknown in the debate over incentives is the amount of local property tax revenue lost annually because of industrial revenue bonds, commonly known as "Act 9 bonds." Act 9 bonds offer favorable financing to manufacturers to purchase land, buildings and equipment to locate or expand their operations. When Act 9 bonds are issued, local governments generally maintain ownership of the property for the life of the bonds, often 20-30 years. The property is then leased or sold to the company. Companies are exempted from paying local property taxes if they agree to develop the land for industrial purposes. In many cases, companies make negotiated payments to local governments in lieu of property tax payments.

A major problem with Act 9 bonds is that companies are exempted from paying local property taxes, much of which would go to funding for public schools. While companies may negotiate payments in lieu of property taxes in some cases, the payments are often lower than the replaced property taxes. This, in turn, reduces the amount of revenue for local schools.

There are no estimates of how much local property tax revenue (and funding for public schools) is lost annually because of the issuance of Act 9 bonds. Many assessors don't even bother to assess the property involved in Act 9 bond issues because they know it is exempt from local property taxes. The state has no data system for tracking the property tax revenue lost because of Act 9 bond issues.

During the 2001 session, the Arkansas General Assembly passed temporary legislation that partially addresses this problem. Act 1629, which sunsets June 30, 2003, requires any city or county entering into a lease, contract or sale of property to a private entity for industrial or economic development purposes to negotiate in payments in lieu of property taxes. The amount of the payment cannot be less than 35 percent of the property taxes that would have been paid if the property were on the tax rolls.

However, the law contains several loopholes. A major loophole is that a lesser in-lieu-of-propert tax payment can be levied if approved by the director of the Arkansas Department of Economic Development (ADED) and the chief fiscal sfficer of the state. The law also excludes the following:

- Agreements existing or entered into prior to July 1, 2001;
- Agreements entered into on or after July 1, 2001, pertaining to a project covered by a financial incentive proposal from ADED or by resolution of the governing body of a city or county;
- Any reissue or refinancing of bonds subject to an existing in-lieu-of-tax agreement; and
- Any contract for sale with a qualified steel manufacturer.

Act 1629 also requires several interim legislative committees to conduct studies of the impact of in-lieu-of-property-tax payments on the state funding of public schools. The studies have not yet been completed.

More Would Be Needed

Business tax incentives result in the loss of millions of dollars in state tax revenue each year. This is money that could be used to fund a major new investment in public education or other critical services, such as health care, vital to Arkansas children and families. Tax incentives, along with other potential revenue sources such as property taxes, severance taxes, income taxes and sales taxes, must all be on the table for discussion as the state considers new ways to fund public education and other state services.

It is important to note, however, the revenue impact from business tax incentives is relatively small compared to discretionary sales tax exemptions. Sales tax exemptions cost the state about $582 million annually in forgone tax revenue. Of this, about $374 million is lost because of exemptions targeted to business or economic development. The known revenue lost from other business tax incentives, such as corporate income tax credits, sales tax refunds or credits or incentive payments, etc., is much smaller (only $44 million in 2000). Together, sales tax exemptions and other business tax incentives cost the state about $418 million annually.

The elimination of business tax incentives is unlikely to generate enough funding to meet the court's ruling in the Lake View school funding case. Early estimates from the Lake View trial and the Blue Ribbon Commission suggest that close to $1 billion in new education funding will be needed annually to meet new court mandates resulting from Lake View. Other sources will be needed to generate "adequate" funding for education.

The great unknown in the debate over business tax incentives, of course, is how much local property tax revenue is lost because of the issuance of tax-exempt Act 9 Bonds or other industrial development bonds. While there is reason to believe the tax revenue lost because of Act 9 Bonds is significant, there is no easy or quick way to estimate their potential revenue loss.

Greater Accountability

Before deciding whether to reduce or eliminate an existing business tax incentive, the state needs real data about its effectiveness. After all, the revenue gained from reducing or eliminating any incentive must be considered in light of any impacts on company or industry competitiveness or the ability of the state to promote economic development. In the past, little accountability has accompanied these incentives, and virtually no data has been shared about the costs and benefits associated with funded projects. Most project specific information has been protected by exemptions to the Freedom of Information Law and has been unavailable to the general public.

Two major developments during the 2001 session of the Arkansas General Assembly could provide greater information with which to assess business tax incentives. Act 757 appropriated $150,000 for an independent study of Arkansas' economic development programs. The first draft of this study should be available in April. At this point, it is unknown what the report will contain. Given the statutory language authorizing the study, it will likely focus more on how Arkansas' incentives compare to other states' and their strengths and weaknesses rather than an assessment of actual economic costs and benefits of projects funded by existing incentives.

A potentially more important legislative development during the 2001 session was the passage of Act 1282. Beginning in May 2002, Act 1282 requires an annual report to the Arkansas General Assembly on the programs, goals and strategies of ADED. As part of the annual report, ADED must provide an accounting of all projects completed by the department during the year, including the number of jobs created by each project, average annual salaries or hourly wages for each project, and which incentive programs were used.

It is important to note, however, that Act 1282 contains a major loophole in reporting on the impacts of economic development incentives. The new law only requires an assessment of incentives which are part of ADED's work or projects during the year. It does not require any reporting on incentives not part of ADED projects, such as most sales tax exemptions generally available to all qualifying business. The impact of sales tax exemptions generally will not be included in the annual report because they are not part of ADED projects.

This loophole in Act 1282 is very important. Sales tax exemptions for business, most of which are not part of ADED incentive projects, represent $374 million in lost tax revenue annually. In contrast, other business tax incentives cost only $44 million. This loophole must be corrected to promote greater accountability with business tax incentives. Unless this loophole in the law is changed, the state will not have the information it needs to assess which incentives, if any, should be reduced or eliminated to free up revenue for funding public education.

MAJOR ARKANSAS BUSINESS TAX INCENTIVES

Programs Administered by DF&A

Name and Reference	History	Description
Economic Invest Tax Credit or "InvestArk," formerly the Manufacturer's Investment Tax Credit [A.C.A. § 26-52-701 et seq].	Act 529 of 1985, as amended by Act 907 of 1997, 995 of 1999, and 737 & 1065 of 2001	This incentive gives manufacturers a sales and use tax credit of seven (7) percent of total project expenditures. The credit also may be used to reduce monthly sales and use tax liability by 50% for a maximum of seven years. To be eligible, a company must have been operating continuously within the state for at least 2 years. Only projects involving the construction or expansion of manufacturing plants costing more than $5 million or $6million for projects involving multiple locations are eligible.
Manufacturer's Investment Tax Credit Act [A.C.A. § 26-51-2001 et seq.]	Act 1661 of 2001	Allows an alternative to the Economic Investment Tax Credit Act for eligible businesses. Eligible businesses include those that manufacture paper and allied products, have been in continuous operation in Arkansas for at least 2 years prior to the initial application to the Arkansas Department of Economic Development. Qualified projects include any construction, expansion or modernization in Arkansas that exceed $100,000,000 between August 13, 2001 and December 31, 2004. A credit may be allowed against state income tax liability of 7% of the total project cost, may be carried forward for six years. The credit claimed on the tax return may not exceed of the total state income tax liability.
Enterprise Zone Program - Advantage Arkansas [A.C.A. § 15-4-1701 et seq.]	Act 947 of 1993, as amended by Acts 394 and 1250 of 1995, 807 of 1997, 1103 of 1999, and 807,1065, & 1401 of 2001	Authorizes sales/use tax refunds and income tax credits for businesses located in Arkansas and for projects involving the construction of a new plant/facility, the expansion of an establishing plant/facility, or the replacement of production or processing equipment. Businesses do not have to be located within a designated enterprise zone, but must fit into specific industry classifications.For companies certified prior to April 6, 1999 the maximum income tax credit is equal to 100 times the average hourly wage paid per net new permanent employee. The credit is doubled, up to a maximum of $2,000, if the business is located in a county that had an average unemployment rate greater than 10% or greater than 3% of the state average unemployment rate for the preceding calendar year. For companies certified on or after April 6, 1999, the maximum credit is $3,000 per net new full-time permanent employee. If the business is located in a high unemployment rate county, the credit allowed can be increased to 400 times the average hourly wage paid per net new permanent employee up to a maximum of $6,000. For projects approved after March 25, 1997, the credit may be applied against income tax liability for nine years. The sales and use tax refund is allowed on purchases of materials used in the construction of a building and/or improvements, and machinery/equipment located in or connected to the building.
Economic Development Incentive Program - Create Rebate [A.C.A. § 15-4-1601 et seq.]	Act 851 of 1993, as amended by Acts 590 and 820 of 1995, 807 of 1997, 584 of 1999, and 737,1054, & 1065 of 2001	Authorizes the Arkansas Economic Development Department (AEDD) to negotiate proposals with prospective businesses considering locating a new facility or expanding an existing facility within the state. Only businesses within certain industrial classifications are eligible. The negotiated financial incentive plan may be up to 3.9% of the company's annual payroll for new permanent employees, or up to 5% if the business locates in an area of high unemployment. The term of the financial incentive plan cannot exceed 126 months.
Arkansas Economic Development Act of 1995 [A.C.A. § 15-4-1901 et seq.]	Act 831 of 1995, as amended by Act 907 of 1997, 575 of 1999, and 975 of 2001	Authorizes AEDD to negotiate proposals with prospective businesses that are considering locating a new facility or expanding an existing facility that would employ at least 100 new permanent employees and expend at least $5 million on the project. To qualify, a business must fall within certain industrial classifications. For projects before June 1, 2000, an income tax credit may be granted based on the business's annual debt service (loan plus interest) paid to a lender in conjunction with the project. The amount of the credit depends on the average hourly wage of the new permanent employees associated with the project. For projects after June 1, 2000, the annual income tax credit is based on the total investment in land, building and equipment, divided by the term of the financial investment plan. Unused credits may be applied against the income tax for 9 years or until the financial plan expires. A sales and use tax refund may also be granted for purchases of materials used in project construction or expansion or for machinery to be located in connection with the building.
Tourism Project Development Credit [A.C.A. § 15-11-501 et seq.]	Act 291 of 1997, as amended by Act 1135 of 1999 and Act 899 of 2001	Allows a sales tax and income tax credit for a tourism project approved by ADED. For approved projects costing between $500,000 and $1 million, a sales tax credit equal to 10% of the approved is allowed. If the costs exceed $1 million, an additional credit equal to 25% of the costs in excess of $1 million is allowed. The income tax credit is equal to 100 times the average hourly wage paid per net new permanent employees with a maximum credit of $3,000 per new employee. In high unemployment counties, the credit may be up to 400 times the average hourly wage up to $6,000 per new employee. Unused credits may be carried forward up to 9 years or until the credit is entirely used.
Water Resource Conservation and Development Incentives [A.C.A. § 26-51-1001 et seq.]	Act 341 of 1995, as amended by Act 421 of 1997, Acts 765 & 1050 of 1999, and Act 727 of 2001	For projects approved after January 1, 1996, provides various incomes tax credits, ranging from 10 to 50% of the costs incurred for projects designed for water resource conservation and development. Generally speaking, the maximum credit in any taxable year is $9,000. Depending on the provision used, credits may be carried over 2-9 years flowing the taxable year the credit began.
Waste Reduction and Recycling Equipment Credit [A.C.A. § 26-51-506]	Act 748 of 1991, as amended by Act 654 of 1993 and Act 541 of 2001	Authorizes an income tax credit equal to 30% of the cost of waste reduction, reuse or recycling equipment, including the cost of machinery and equipment installation. Only companies involved in the business of reducing, reusing or recycling solid waste material for commercial purposes are eligible. The credit used for a taxable year may not exceed the individual or corporate income tax due. Unused credits may be carried over for a maximum of three consecutive years. For qualified steel mills that have invested more than $200,000,000, the carry-forward period is 14 years.
Youth Apprenticeship/Work-Based Learning Program [A.C.A. § 26-501-1601 et seq.]	Act 1168 of 1997	Provides an income tax credit of up to $2,000 for each qualified youth apprentice. This is similar to Act 1103 of 1995, but it allows a credit for training apprentices not in occupations eligible under Act 1103 (Youth ApprenticeshipTraining Program).

MAJOR ARKANSAS BUSINESS TAX INCENTIVES
Programs Administered by DF&A

Name and Reference	History	Description
County and Regional Industrial Development Company Credit [A.C.A. § 15-4-1201 et seq.]	Act 1029 of 1991, as amended by Acts 363 & 1044 of 1995, and Act 37 of 1999	Contains different provisions for purchases before and after January 1, 1999. For purchases after January 1, 1999, provides a tax credit to the original purchaser of common stock of a corporation or a unit of interest of a limited liability company. The stock must have been purchased and retained sometime during calendar years 19999 through 2003 (no credit allowed after 1996). The credit is limited to 33.3% of the actual purchase price paid for the stock, including fees and commissions not exceeding 15% of purchase price. The credit allowed in any one tax year may not exceed 50% of the net state income tax liability after all credits/reductions have been calculated. Any remaining credit may be carried forward for 3 years.
Youth Apprenticeship Training Program [A.C.A. § 26-51-509]	Act 1103 of 1995	Provides an income tax credit for taxpayers who train a youth apprentice in a registered youth apprenticeship program. The amount of the income tax credit may be up to $2,000 for each qualified youth apprentice, or 10% of the wages earned by the apprentice, whichever is less. The credit used in a given year may not exceed the amount of individual or corporate income tax liability in that year. Any unused credits may be carried over for a maximum of two years.
Equipment Donation or Sale Below Cost Credit [A.C.A. § 26-51-1101 et seq.]	Act 759 of 1985	Provides a tax credit to taxpayers who donate or sell below cost new machinery or equipment to a qualified educational institution. A credit is allowed for taxpayers who have expenditures under a qualified research program approved by the Arkansas Science and Technology Authority and the Department of Higher Education. The credit is equal to 33% of the donation, reduction in cost, or research expenditures. The credit cannot be more than 50% of the total tax due and any unused credits may be carried forward for three years or until exhausted.
Biotechnology Development Credit [A.C.A. § 2-8-101 et seq.]	Act 1117 of 1997, as amended by Act 1369 of 1999 and Act 900 of 2001	Allows income tax credits for the development of biotechnology. The credits available are equal to: 5 percent of the cost for construction, expansion, improvement, renovation, or purchase of a biotechnology facility; 30 percent of the cost for training employees in biotechnology and higher education partnerships; 20 percent of the amount of the cost of research exceeding the cost of research in a base year; and 30 percent of the costs of buildings, equipment, higher ed partnerships, and licenses for intellectual property rights. The credits allowed shall be used to offset the first $50,000 of income tax liability arising during the credit year, and 50 percent of any remaining tax liability. Unused credits may be carried forward for 14 years.
Arkansas Emerging Technology Development Act [A.C.A. § 15-4-201 et seq.]	Act 976 of 1999, as amended by Act 1284 of 2001	Provides an income tax credit for companies that design, develop, or produce qualified emerging technologies such as photovoltaic devices, fuel cells, electric vehicle equipment, etc. The credit is equal to 50% of the amount spent to purchase, construct, or improve the facility, land, or equipment. Any unused credits may be carried forward 14 years.
Tourism Project Development Credit [A.C.A. § 15-11-501 et seq.]	Act 291 of 1997, as amended by Act 1135 & Act 899 of 2001	Authorizes a sales and income tax credit for tourism attractions approved by the Director of Parks and Tourism. For projects costing between $500,000 and $1 million, a sales tax credit equal to 10 percent of the approved cost is allowed. If the costs exceed $1 million, then an additional credit equal to 25% of the costs in excess of $1 million is allowed. An income tax credit is equal to 100 times the average hourly wage paid per net new permanent employee with a maximum credit up to $3,000 per net new full-time permanent employees. In high unemployment counties, the credit can be increased up to 400 times average hourly wage with a maximum of $6,000 per employee. For both sales & income tax credits, any unused credits may be carried forward for up to 9 years.
Tuition Reimbursement Tax Credit Program [A.C.A. § 26-51-1901 et seq.]	Act 1036 of 1999	Provides an income tax credit for companies that reimburse full-time employees for the cost of tuition or books and fees at an accredited undergraduate or post-graduate program in Arkansas. The credit is equal to 30% of the reimbursement, not to exceed 24% of the business' income tax liability in a given year. Only manufacturing companies in certain industrial classifications are eligible.
Motion Picture Industry Incentives [A.C.A. § 15-4-201 et seq.]	Act 625 of 1997	Provides incentives for motion picture and television industries in the State of Arkansas. To be eligible, projects must spend $500,000 within 6 months or in excess of $1 million within a 12-month period. Projects that qualify are entitled to a tax refund of 100% of the sales or use tax paid on the purchase of property and services related to filming/production projects.
Employer Provided Early Childhood Program [A.C.A. § 26-51-508]	Act 987 of 1993, as amended by Act 850 of 1995	Allows an income tax credit of 3.9% of payroll costs for providing child care services to the business's employees, or a $5,000 income tax credit for the first year a business provides a child care facility for its employees. Unused credits may be carried forward two years. The incentive also allows a refund of sales and use taxes paid on the purchase of construction materials and furnishings for a business with a child care center with an approved early childhood education program.
Existing Workforce Training Act [A.C.A. § 6-50-701 et seq.]	Act 791 of 1995, as amended by Act 1134 of 1999	Provides financial assistance, in the form of grants or credits, for upgrading workforce skills. Amount of assistance is determined by ADED. To qualify, business must be in certain manufacturing classifications. The grant or income tax credit may for the lesser of one-half of the amount paid by the company to the educational institutional or the hourly instructional rate (not to exceed $50 per hour) times the number of instructional hours.
Private Wetland/Riparian Zone Creation and Restoration Incentive [A.C.A § 26-51-1501 et seq.]	Act 561 of 1995	Provides state income tax credits equal to the cost incurred in the development or restoration of private wetlands and riparian zones. The amount of the credit used in any one year may not exceed $5,000 and may be carried over for nine years following the year the credit originated.

Source: Adapted from material provided by DF&A, March 9, 2002