

A Message to Arkansas Taxpayers

There are several tax law changes for 2005. Some of those that impact the greatest number of taxpayers are:

- Repeal of the 3% Income Tax Surcharge
- Increase the income exemption for military enlisted personnel from \$6,000 to \$9,000
- Federal tax treatment of Health Savings Accounts was adopted
- For a complete list of changes made during the 2005 Legislative Session see pages 6 and 7 of this booklet.

Other Important information for 2005:

Your state return is due on April 15, 2006 the same as your federal return. Since the due date is on a weekend, returns must be postmarked by Monday, April 17th.

This booklet contains an Arkansas Use Tax form for taxpayers to report and pay Arkansas tax on out of state purchases made from catalogs or the Internet, or other transactions where Arkansas tax is due and has not been paid.

Arkansas continues to be one of the more successful states for Electronic Filing. Last year, over 50% of all Arkansas returns were filed electronically. Arkansas is now a member of the Free E-File Alliance. Many qualifying Arkansas taxpayers may file free over the Internet. Visit our web site at: www.state.ar.us/dfa/ for information about on-line e-file opportunities. If you elect not to e-file from home, your tax preparer can e-file for you

For your convenience, the Arkansas Voter Registration Application is included in this booklet. This form can be used for new voter registrations or to update current registration information. If needed, complete the form and send it to the Secretary of State's office. **Please do not mail it to the Revenue Division or enclose it with your tax return.**

We appreciate your suggestions and constructive criticism. We want to provide you the best service possible. Please mail your suggestions and comments to: Manager, Individual Income Tax Section, P.O. Box 3628, Little Rock, Arkansas 72203-3628. Thank you.

Sincerely,



Tim Leathers
Commissioner of Revenue

Important addresses for additional information and assistance:
Internet: www.arkansas.gov/dfa/
E-Mail: individual.income@rev.state.ar.us



Governor Mike Huckabee

ARKANSAS 2005

Full Year / Part Year / Nonresident Individual Income Tax Booklet

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TAX FORMS	FORM NUMBER
Full Year Resident	AR1000
Nonresident/Part-Year Resident	AR1000NR
Schedule of Other Adjustments	AR1000ADJ
Capital Gains Schedule	AR1000D
Political Contribution Credit Schedule ..	AR1800
Voter Registration Application	

YOU MUST FILE BY APRIL 17, 2006

397207
State of Arkansas
State Income Tax
P. O. Box 1000
Little Rock, AR 72203-1000

PRESORTED
STANDARD
U.S. POSTAGE
PAID
STATE OF
ARKANSAS

ELECTRONIC FILING

Last year over 593,800 taxpayers used an electronic filing option to file their Arkansas Individual Income Tax Return. Electronic filing allows you to file your Arkansas Tax Return with a tax professional or by computer.

FEDERAL/STATE ELECTRONIC FILING

The State of Arkansas participates in the Federal/State Electronic Filing Program for Individual Income Tax. The benefits of Electronic Filing are:

- *Simultaneous Federal/State filing* Both your Federal and State of Arkansas Income Tax Returns are filed electronically in one transmission.
- *Processing* If you file a complete and accurate return, your refund will be issued within ten (10) days **after acknowledgment**. Taxpayers with Tax Due Returns will be sent billing notices on unpaid balances as of April 17th.
- *Accuracy* Computer programs catch 98% of tax return errors before your return is received and accepted.
- *Acknowledgment* The State of Arkansas notifies your transmitter within two (2) days that your return has been received and accepted.

This program is available to full year residents, certain qualifying nonresidents and part-year residents filing a 2005 Arkansas Individual Income Tax Return. However, filers claiming business and incentive tax credits are not eligible to file electronically. Electronic filing is available whether you prepare your own return or use a preparer. In addition to tax preparers, other firms are approved to offer electronic filing services. Please check with your tax preparer or electronic filing service to see if they are participating in the Federal/State program.

ON-LINE FILING

Over 76,500 taxpayers took advantage of On-Line Filing last year. The same advantages are obtained through On-Line Filing as through electronic filing but it does not require a preparer. For a nominal fee your federal and state returns are prepared and filed electronically.

TELEFILE

This service is no longer available.

PAYING YOUR TAXES BY CREDIT CARD

Taxpayers who file an Arkansas Individual Income Tax Return may now pay their tax due by credit card. Credit card payments may be made by telephone, by calling 1-800-2PAY-TAXSM (1-800-272-9829), or over the Internet by visiting www.officialpayments.com and clicking on the "Payment Center" link.

Both options will be processed by Official Payments Corp, a private credit card payment services provider. A convenience fee will be charged to your credit card for the use of this service. The State of Arkansas does not receive this fee. You will be informed of the exact amount of the fee before you complete your transaction. After you complete your transaction you will be given a confirmation number to keep with your records.



Cards



OFFICIAL PAYMENTS CORP.



IMPORTANT NOTICE FOR 2005

NOTICE OF POSSIBLE REFUND

TO: (1) ALL FEDERAL RETIREES WHO PARTICIPATED IN THE CIVIL SERVICE RETIREMENT SYSTEM OR FEDERAL EMPLOYEES RETIREMENT SYSTEM AND THAT FILED ARKANSAS STATE INCOME TAX RETURNS SINCE JULY 27, 1999; (2) ALL PERSONS REPORTING INCOME TO THE STATE, SINCE JULY 27, 1999, FROM NON-DEDUCTIBLE INDIVIDUAL RETIREMENT ACCOUNTS; AND (3) ALL OTHER PERSONS REPORTING INCOME TO THE STATE, SINCE JULY 27, 1999, FROM A RETIREMENT PLAN TO WHICH THEY MADE AFTER-TAX CONTRIBUTIONS.

The Department of Finance and Administration has been ordered to refund illegally exacted taxes to all federal retirees who participated in the Civil Service Retirement System or Federal Employees Retirement System and who filed Arkansas state income tax returns since July 27, 1999; all persons reporting income to the state, since July 27, 1999 from non-deductible individual retirement accounts, and all other persons reporting income to the state from employer-sponsored retirement plans; in which they made after tax contributions. The court ordered the State to refund all illegally exacted taxes by recalculating each class member's respective tax liability since July 27, 1999, and mail the refund, less attorney's fees and costs, directly to the taxpayer. The State shall include a Notice of Calculation with the refund setting forth the taxpayer's name, address, social security number, the income adjustments, tax adjustments, amount of tax and interest refunded for each tax year since July 27, 1999, the amount of refund net of attorney's fees and costs, the right to request verification or correction of information contained therein, and enclosing a separate claim form to correct errors.

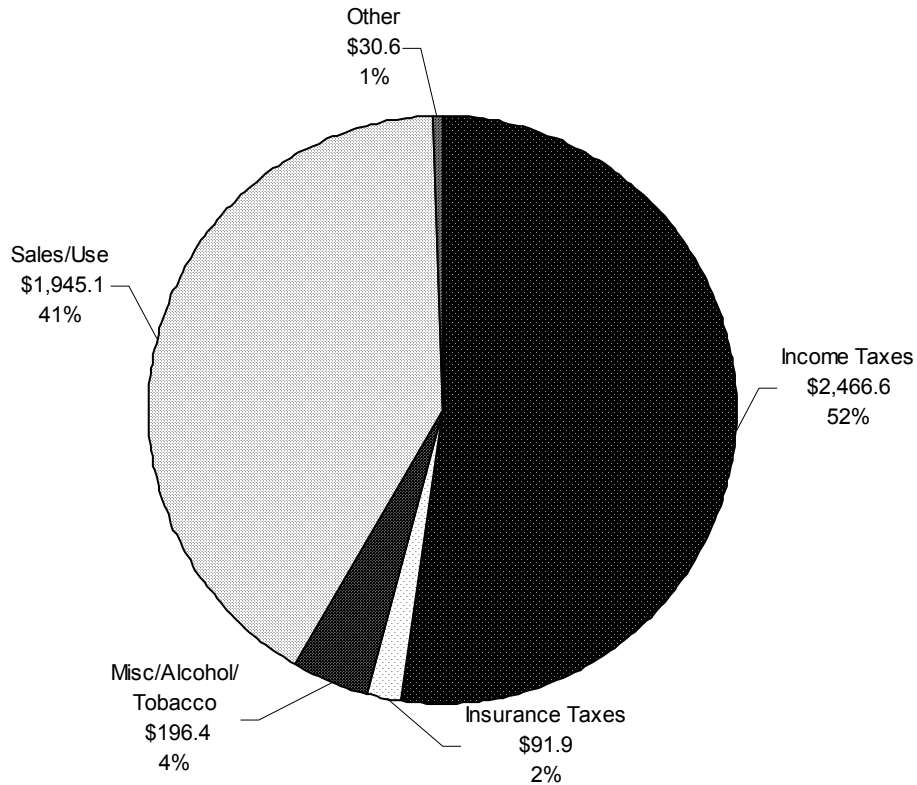
The court ruled that these class members are entitled to a refund of the tax paid on their after-tax contributions to the extent of the net retirement income reported on line 18 of the tax returns filed since July 27, 1999, plus interest of 10% from the due date of the tax return, less attorneys fees and costs. This refund arises from Orders of the Honorable Collins Kilgore in the Circuit Court of Pulaski County, Arkansas, 13th Division in the case of McFadden, et al. v. Weiss, No. OT-99-3939. Information regarding the Court ordered refund is available on the Department of Finance and Administration website at <http://www.arkansas.gov/dfa/>.

FOR TAXPAYERS' INFORMATION

Individual and Corporation Income Taxes Are The Largest Source of State General Revenues.

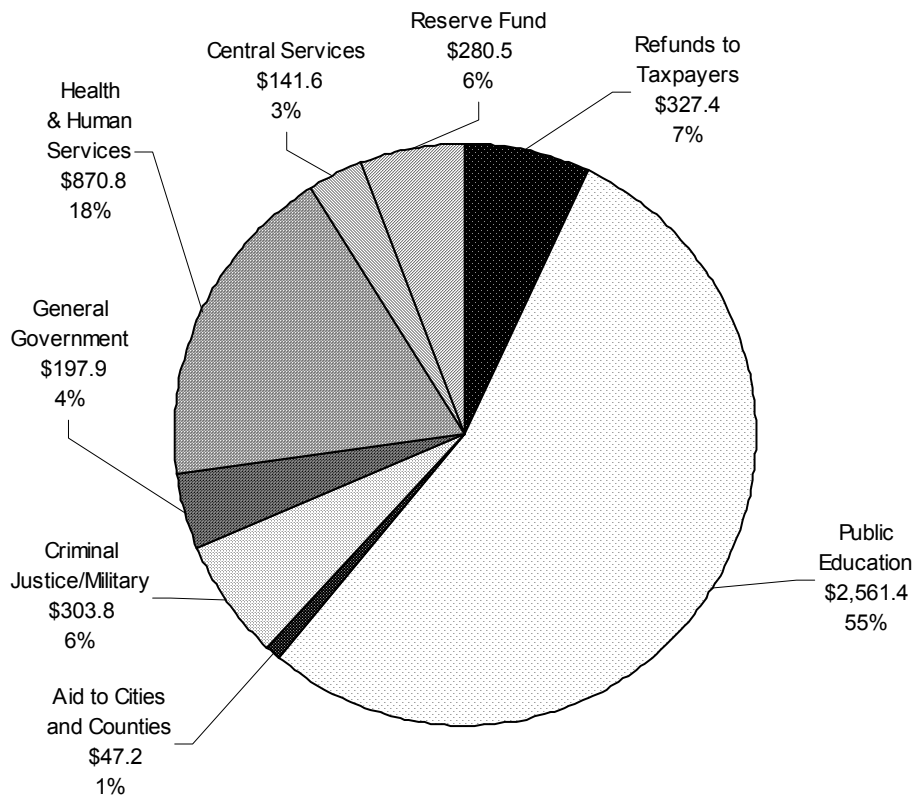
\$4,730.6 MILLION GENERAL REVENUE TAX

Where It Comes From:



\$4,730.6 MILLION GENERAL REVENUE TAX

Where It Is Spent:



WHAT'S NEW FOR 2005

NOTE: THE FOLLOWING IS A BRIEF DESCRIPTION OF EACH ACT AND IS NOT INTENDED TO REPLACE A CAREFUL READING OF THE ACT IN ITS ENTIRETY.

Due Date April 17, 2006

If April 15 falls on a Saturday, Sunday, or a legal holiday, the return shall be considered timely filed if it is postmarked on the next succeeding business day which is not a Saturday, Sunday, or legal holiday.

This year April 15th falls on a Saturday; therefore the return is not due until the next business day which is April 17th.

Personal Tax Credit Increased Pursuant to Act 1819 of 2001

Act 1819 of 2001 authorized the indexing of the personal tax credit if certain budget requirements are met. The requirements have been met; therefore the personal tax credit has been increased to \$21.

Treatment of Combat Pay Clarified (Act 29 of 2005)

This act adopts Sections 112 and 692 of the Internal Revenue Code as in effect on January 1, 2005 to clarify that combat zone compensation is exempt from Arkansas individual income tax and that the income tax of a member of the armed forces is exempt in the year of the person's death.

This act applies to tax years beginning on or after January 1, 2005.

Indian Ocean Tsunami Relief Contributions (Act 53 of 2005)

This act allows a taxpayer who made charitable cash contributions in January 2005 for the relief of Indian Ocean tsunami victims to treat the contributions as though they were made on December 31, 2004 and take the charitable contribution deduction on the 2004 Arkansas income tax return. Contributions taken on the 2004 tax return cannot be taken on the 2005 return also.

Income Tax Surcharge Repealed (Act 63 of 2005)

For tax years beginning on or after January 1, 2005, this act repeals the 3% Income Tax surcharge imposed by Ark. Code Ann. §26-51-207.

Health Savings Accounts Adopted and MSAs Extended (Act 94 of 2005)

This act adopts specific subdivisions of IRC §223 as in effect January 1, 2005, concerning Health Savings Accounts. Health Savings Accounts are exempt from Arkansas income tax as long as the account meets the requirements of §223. The act amends the definition of "gross income" to exclude from the employee's gross income, contributions by an employer to a Health Savings Account.

The act also adopts the following IRC sections as in effect on January 1, 2005:

1. §129 (exclusion of dependent care assistance from income),
2. §§72, 219, 401-404, 406-416, and 457 (deductibility from income of contributions made to deferred compensation plans), and
3. §220 (deductibility from income of contributions made to a Medical Savings Account by the taxpayer or the taxpayer's employer).

This act is effective on February 10, 2005 and applies to tax years beginning on or after January 1, 2004.

Extension of Time to File Clarified (Act 686 of 2005)

This act allows the Director to grant an extension of time for filing an Arkansas income tax return of not more than 120 days, and in extraordinary circumstances, an additional extension of 60 days.

Cost Recovery Clarified (Act 189 of 2005)

This act clarifies current law regarding cost recovery for annuitants under the state income tax law. The act provides that IRC §72 as in effect on January 1, 2005 is the sole method by which a recipient of retirement benefits from an employment related retirement plan may recover cost of contribution for purposes of computing state income tax. The taxpayer cannot recover any portion of the cost of contribution that has already been recovered **or** that the taxpayer would have been allowed to recover under any law or court decision.

Income Tax Technical Corrections Act (Act 675 of 2005)

This act amends Arkansas Code to adopt changes to the Internal Revenue Code (IRC). The act adopts or readopts the following IRC Sections:

1. Readopts IRC §2(b) regarding the definition of Head of Household;
2. Readopts IRC §1033 relating to the exclusion of gain from the involuntary conversion of a taxpayer's property;
3. Readopts IRC §121 relating to the gain on the sale of property owned and used as a taxpayer's principal residence;
4. Readopts IRC §129 regarding the exclusion from income for dependent care assistance;
5. Adopts IRC §134 regarding the exclusion from income of child care benefits provided to members of the United States military;
6. Readopts Subchapter S of the Internal Revenue Code regarding small business corporations;
7. Readopts IRC §§453, 453A, and 453B regarding the installment method of accounting;
8. Readopts IRC §§72, 219, 401-404, 406-416, and 457 relating to annuities, retirement savings, and employee benefit plans;
9. Readopts IRC §162 regarding trade or business expenses;
10. Readopts IRC §170 regarding deductions for charitable contributions;
11. Readopts IRC §274 regarding the deductions of expenses for entertainment, amusement, recreation, business meals, travel, et cetera;
12. Readopts IRC §198 regarding the deduction of costs paid or incurred for the cleanup of certain hazardous substances;
13. Adopts IRC §194 regarding the amortization of qualified reforestation expenses;
14. Readopts IRC §§611-613, 613A, 614, 616, and 617 regarding computing the depletion allowance deduction for natural resources;
15. Adopts IRC § 470 regarding leasing transactions between taxpayers;
16. Readopts IRC § 248 regarding capitalization and amortization of a corporation's organizational expenses;
17. Adopts IRC §709 regarding amortization of partnership organizational expenses;
18. Readopts IRC §530 relating to educational Individual Retirement Accounts;
19. Readopts IRC §152 regarding the definition of Dependent;
20. Readopts IRC §21 for the purpose of determining the allowable credit for household and dependent care services;
21. Readopts IRC §2(a) regarding the definition of Head of Household and qualifying widow or widower with a dependent child.

This act applies to tax years beginning January 1, 2005 and after.

Sub-S Election Clarified (Act 261 of 2005)

The act requires a corporation to have elected Subchapter S treatment for federal income tax purposes if electing Subchapter S treatment for Arkansas income tax purposes for the same tax year.

The act is effective for tax years beginning on or after January 1, 2005.

WHAT'S NEW FOR 2005

(Continued)

NOTE: THE FOLLOWING IS A BRIEF DESCRIPTION OF EACH ACT AND IS NOT INTENDED TO REPLACE A CAREFUL READING OF THE ACT IN ITS ENTIRETY.

Two New Check Offs Added for 2005 (Acts 1028 and 1821 of 2005)

This act adds the Office of Personnel Management of the Department of Finance and Administration as a claimant agency for purposes of recovering debts by obtaining a setoff of State Income Tax refunds.

Military Pay Exemption Changes (Act 2187 of 2005)

This act exempts from Arkansas income tax the first \$9,000 of military pay of enlisted personnel. Officers are exempt on only the first \$6,000 of military pay.

This act applies to tax years beginning on or after January 1, 2005.

Organ Donor Deduction Established (Act 668 of 2005)

This act allows a taxpayer to take an income tax deduction of up to \$10,000 for unreimbursed expenses incurred by the taxpayer or one of his dependents related to the donation of an organ (part of a liver, pancreas, kidney, intestine, lung, or bone marrow) to another human being. The deduction must be claimed for the taxable year in which the transplantation of the organ occurs. Allowable expenses include travel, lodging, and medical expenses and lost wages that are related to the organ donation. An individual may claim the deduction only once in his or her lifetime. This deduction does not apply to organs harvested from a deceased donor.

This act is effective for tax years beginning on or after January 1, 2005.

Two New Check Offs Added for 2005 (Acts 1028 and 1821 of 2005)

Military Family Relief (Act 1028) - This act creates the Military Family Relief Check-off Program on Arkansas income tax returns. Taxpayers will be able to designate a portion of their Arkansas income tax refunds to go to the program or make a contribution to the program. The check-off program is effective for tax years beginning on or after January 1, 2005 and for donations made on or after August 1, 2005.

Area Agencies on Aging (Act 1821) - This act creates an income tax check-off for contributions of all, or a part, of the taxpayer's income tax refund to the Area Agencies on Aging. This act is effective for tax returns filed for tax year 2005 and thereafter.

Payment of Interest Clarified (Act 262 of 2005)

This act clarifies that interest on overpayments of tax is to be calculated from the due date of the return or the date the return was filed, whichever occurs later. The act allows the Director 90 days from the return due date or the date the return was filed, whichever occurs later, to refund an overpayment of tax without interest.

Certain Contributions to Deferred Tuition Savings Plan allowed as Deduction (Act 1973 of 2005)

This act allows a deduction from the taxpayer's adjusted gross income for contributions to a tuition savings account established under the Arkansas Tax-Deferred Tuition Savings Program. Deductible contributions cannot exceed \$5,000 per taxpayer per tax year.

This act is effective for tax years beginning on or after January 1, 2005.

Unpaid Leave Time for Donors Authorized (Act 2235 of 2005)

This act requires private employers with one or more employees to grant an employee an unpaid leave of absence of up to 90 days, or more, if the employee serves as an organ or bone marrow donor and requests the leave in writing. The act does not apply if the employee is eligible for leave under the Family Medical Leave Act.

Withholding from Payments of Deferred Income Required (Act 1309 of 2005)

This act adopts IRC §3405, with certain modifications, to require withholding from certain periodic and lump sum payments of deferred income. For state purposes, withholding from non-periodic payments will be at the rate of 3%. Withholding from rollover distributions will be at the rate of 5%.

This act applies to tax years beginning on or after January 1, 2006.

Rice Straw Credit Established (Act 2247 of 2005)

This act allows an income tax credit in the amount of \$15.00 for each ton of rice straw in excess of 500 tons that is purchased by an Arkansas taxpayer who is the end user of the straw (person who purchases and uses the straw for processing, manufacturing, generating energy or producing ethanol). The amount of the credit is limited to 50% of the income tax due for the tax year. Unused credit may be carried forward for 10 consecutive tax years following the year in which the credit is earned.

This act is effective for tax years beginning on or after January 1, 2006

Withholding Required By Pass Thru Entities on Certain Distributions (Act 1982 of 2005)

This act requires pass-through entities to withhold income tax on the applicable distributions to nonresidents that are attributable to income from sources within the state. A pass-through entity is a business entity (corporation treated as a Subchapter S corporation, a general partnership, limited partnership, limited liability partnership, limited liability company, or a trust) that is not taxed as a corporation for federal or Arkansas income tax purposes.

The pass-through entity is required to file an annual return in electronic format and remit any tax due. The annual return should show the total amount of income distributed or credited to its nonresident members and the amount of tax withheld.

A pass-through entity is not required to withhold tax for a nonresident member if:

1. The member's share of income is less than \$1,000;
2. The member's income is not subject to withholding;
3. The member elects to have the tax paid as part of a composite return filed by the pass-through entity as allowed by the act;
4. The entity is a publicly traded partnership as defined by IRC §7704(b) that is treated as a partnership for federal tax purposes and has agreed to file an annual information return reporting the name, address, and taxpayer identification number of each member with Arkansas income greater than \$500;
5. The entity has filed the member's signed agreement to file and pay Arkansas nonresident income tax; **or**
6. The member's income is exempt from Arkansas income tax pursuant to Ark. Code Ann. §26-51-202(e) (investment partnership income).

This act is effective for tax years beginning on or after January 1, 2006.

SPECIAL INFORMATION FOR 2005

IMPORTANT INFORMATION FOR MILITARY PERSONNEL AND THEIR DEPENDENTS

In 2003 there were two important pieces of federal legislation that protected taxpayers that are serving in the military. The two acts and the provisions that change Arkansas individual income taxation are as follows:

The Servicemembers Civil Relief Act of 2003:

Following is the text of the law dealing with income tax issues;

Section 510 - Income taxes

- (a) DEFERRAL OF TAX- Upon notice to the Internal Revenue Service or the tax authority of a State or a political subdivision of a State, the collection of income tax on the income of a servicemember falling due before or during military service shall be deferred for a period not more than 180 days after termination of or release from military service, if a servicemember's ability to pay such income tax is materially affected by military service.
- (b) ACCRUAL OF INTEREST OR PENALTY- No interest or penalty shall accrue for the period of deferment by reason of nonpayment on any amount of tax deferred under this section.
- (c) STATUTE OF LIMITATIONS- The running of a statute of limitations against the collection of tax deferred under this section, by seizure or otherwise, shall be suspended for the period of military service of the servicemember and for an additional period of 270 days thereafter.

Section 511 - Residence for tax purposes

- (a) RESIDENCE OR DOMICILE- A servicemember shall neither lose nor acquire a residence or domicile for purposes of taxation with respect to the person, personal property, or income of the servicemember by reason of being absent or present in any tax jurisdiction of the United States solely in compliance with military orders.
- (b) MILITARY SERVICE COMPENSATION- Compensation of a servicemember for military service shall not be deemed to be income for services performed or from sources within a tax jurisdiction of the United States if the servicemember is not a resident or domiciliary of the jurisdiction in which the servicemember is serving in compliance with military orders.
- (d) INCREASE OF TAX LIABILITY- A tax jurisdiction may not use the military compensation of a nonresident servicemember to increase the tax liability imposed on other income earned by the nonresident servicemember or spouse subject to tax by the jurisdiction.

The Military Family Tax Relief Act of 2003:

The provisions of this act which include the sale of your principle residence, deduction for overnight travel expenses of National Guard and Reserve members and exclusion from income of certain benefits must be adopted by the Arkansas Legislature before they become effective.

MISSISSIPPI GAMBLING WINNINGS TAX NOT ALLOWED AS A CREDIT

The State of Mississippi has enacted a special tax that applies exclusively to gambling winnings. The Department has determined that this tax is separate and distinct from Mississippi's income tax. As such, an Arkansas taxpayer would not be able to claim a credit against his Arkansas income tax liability for payment of the gambling winnings tax to the State of Mississippi.

COLORED PEEL OFF LABEL

As a security measure, the colored peel off label containing your personal information no longer includes your Social Security Number(s). YOU MUST ENTER YOUR SOCIAL SECURITY NUMBER(S) ON YOUR RETURN IN THE SPACE PROVIDED OR YOUR RETURN CANNOT BE PROCESSED AND WILL BE RETURNED TO YOU.

EXTENSION TO FILE

Arkansas recognizes all valid Federal extensions. If you have filed an Application for Automatic Extension of Time to File, Federal Form 4868, it is not necessary to attach this form to your Arkansas return. When the return is complete and ready to file, simply check the box on the face of your Arkansas Return and mail the return prior to the final date stated on the latest Federal Extension. **Do not mail in an incomplete AR1000 to claim the extension to file.**

PAYMENTS REQUIRED ON EXTENDED RETURNS

If you owe a tax due and the due date of your Arkansas return has been extended, you must pay at least ninety percent (90%) of the tax due by April 17, 2006 or be subject to a Failure to Pay Penalty of one percent (1%) of the unpaid tax per month. Payments made on extension should be made on Form AR1000ES, Voucher 5.

FEDERAL RETURN MUST BE ATTACHED TO AR1000NR

NONRESIDENTS AND PART-YEAR RESIDENTS FILING ON FORM AR1000NR **MUST** ATTACH A COPY OF THEIR COMPLETE FEDERAL RETURN OR YOUR ARKANSAS RETURN CANNOT BE PROCESSED AND WILL BE RETURNED TO YOU.

SET OFF REFUNDS

If you owe a debt to one of the agencies listed below or if you have filed jointly with a spouse or former spouse who owes, all or part of your refund may be withheld to satisfy the debt. Agencies and other entities that may claim your refund are:

Dept. of Finance & Administration	Dept. of Human Services
State of Arkansas Supported Colleges, Universities & Technical Institutes	Dept. of Higher Education
Arkansas Circuit, County, District and City Courts	UAMS and Affiliated Clinics
DFA Office of Personnel Management	Employee Benefits Division
	Child Support
	Housing Authorities

If your refund is withheld, you will receive a letter stating which agency claimed your refund and the appropriate telephone number. You must contact the agency claiming the refund to resolve any questions or differences. Income Tax personnel will be unable to assist you regarding these matters.

If you owe a debt for Arkansas income tax, your federal refund may be captured to satisfy this state debt.

NOTICE TO MARRIED TAXPAYERS

If only one of the married taxpayers owes the debt, the taxpayer who is not liable can avoid having his/her refund applied to the debt if both taxpayers file status 5, married filing separately on different returns. (See Instructions for filing Status 5).

The State of Arkansas' automated telephone information system allows taxpayers to listen to recorded messages about general filing information. It is recommended that you have your tax information on hand as well as a pencil to write down important information. The different services and telephone numbers are listed below.

AUTOMATED REFUND INQUIRY

(501) 682-0200 or 1-800-438-1992 (In Arkansas only)

This service allows taxpayers with a touch-tone telephone to check the current status of their refund. The system will ask for information from your tax return so have a copy of your return with you when you call. If you electronically filed your return, your refund will be mailed within two (2) weeks. The average time to process a paper return is approximately six (6) to eight (8) weeks. This time could vary based on how early you file your return or if there is a mistake in preparing the return.

This service is available 24 hours a day, 7 days a week and is updated weekly.

TAX INFORMATION HOT-LINE

(501) 682-1100 or 1-800-882-9275 (In Arkansas only)

This system is designed to allow taxpayers to access 24 hours a day general information about filing. Personal assistance will be available during our normal business hours (Monday through Friday - 8:00 a.m. to 4:30 p.m.). The areas that can be reached by this system are as follows:

Taxpayer Assistance Branch Audit and Examination Branch	Refund Group Delinquent Income Tax Group	Amended Group Forms Group
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Hearing Impaired Access for Information, Assistance and Forms (501) 682-4795
(This number can only be reached by use of a Text Telephone Device)

TELE-TAX

(501) 682-0200 or 1-800-438-1992 (In Arkansas Only)

In addition to the Tax Information Hot-Line for recorded general filing information, the State of Arkansas has a Tele-Tax information service to access more specific information. Listed below are topics of additional information or explanation. Using a touch-tone telephone, you can enter the three-digit code to access additional information.

This service is available 24 hours a day, 7 days a week.

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102	When, where and how to file	405	Intergenerational trusts	702	How to request copies of tax returns
103	Which filing status?	406	Moving expenses	703	Extensions of time to file
104	Dependents defined	407	Interest Paid on Student Loans	704	Penalty for underpayment of estimated tax
105	Estimated tax		ITEMIZED DEDUCTIONS	705	W-2 forms - what to do if not received
106	Amended returns	500	Should you itemize?	706	Estate tax
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INSTRUCTIONS

THESE INSTRUCTIONS ARE FOR GUIDANCE ONLY AND DO NOT STATE THE COMPLETE LAW

A. WHO MUST FILE A TAX RETURN

1. IF YOU WERE A FULL YEAR RESIDENT OF ARKANSAS FOR 2005, USE THE CHART BELOW TO SEE IF YOU MUST FILE A RETURN.

To use the chart, first find your marital status at the end of 2005. Then, read across to find your filing status and age at the end of 2005. You must file a return if your gross income was at least the amount shown in the last column. Gross income means any and all income, before deductions, that you receive except the kinds of income specifically described in Section J, items 1 through 8 of these instructions (see Page 13).			
MARITAL STATUS	FILING STATUS	AGE*	GROSS INCOME
Single (including divorced and legally separated)	Single	under 65	\$7,800
		65 or older	\$9,300
Head of Household	Single	under 65	\$12,100
		65 and older	\$13,000
Married	Married filing joint	under 65 (both spouses)	\$15,500
		65 or older (one spouse)	\$15,600
		65 or older (both spouses)	\$16,200
	Married filing separately, same or different returns	any age	\$3,999
Widowed in 2003 or 2004, not remarried in 2005	Qualifying Widow(er) with dependent child	under 65	\$15,500
		65 or older	\$16,000
*If you turned 65 on January 1, 2006, you are considered to be age 65 at the end of 2005.			
If your gross income is less than the amount shown in the last column for your filing status, you are not required to file a return. However, you must file a return to claim any refund due.			

2. IF YOU WERE A NONRESIDENT and you received income from Arkansas sources, you must file an Arkansas Tax Return AR1000NR regardless of your income level. See Section I for additional information. **Attach a copy of your Federal return.**
 - (b) The person was SINGLE (age 65 and older) and earned a gross income of \$9,300 or more between January 1 and the time of death.
 - (c) The person was MARRIED (both under age 65) with a combined gross income of \$15,500 or more.
 - (d) The person was MARRIED (one under age 65) with a combined gross income of \$15,600 or more.
 - (e) The person was MARRIED (both age 65 and older) with a combined gross income of \$16,200 or more.
3. IF YOU WERE A PART-YEAR RESIDENT and you received taxable income while an Arkansas resident or after becoming an Arkansas resident, you must file an Arkansas tax return AR1000NR regardless of income level or source of the income. See Section I for additional information. **Attach a copy of your Federal return.**
4. The EXECUTOR OR ADMINISTRATOR OF THE ESTATE OF SOMEONE WHO DIED LAST YEAR, you must file a tax return for the person who died if any of the conditions listed below apply to that person.
 - (a) The person was SINGLE (under age 65) and earned a gross income of \$7,800 or more between January 1 and the time of death.
5. Even if you do not have to file, you should file to get a refund if Arkansas Income Tax was withheld from any payments to you.

THE ONLY WAY YOU CAN GET YOUR REFUND IS TO FILE AN ARKANSAS TAX RETURN.

B. WHEN TO FILE YOUR TAX RETURN

1. You can file your Calendar Year Tax Return any time after December 31, 2005, but NO LATER THAN **APRIL 17, 2006**, (unless an extension has been granted). PLEASE FILE EARLY. If the State owes you a refund and you wait until APRIL 17th to file, it will take longer for you to receive your refund.
2. If you file a Fiscal Year Tax Return, your return is due NO LATER THAN **three and one-half (3 ½) months following the close of the income year.**

If the due date of your return falls on a Saturday, Sunday, or a legal holiday, the return shall be considered timely filed if it is postmarked on the next succeeding business day which is not a Saturday, Sunday, or legal holiday.

NOTE: The date of the postmark stamped by the U.S. Postal Service is the date you filed your return. Be sure to apply enough postage or your return will not be delivered by the Postal Service. The Income Tax Section does not refuse mail – that is done at the Post Office.

3. Statute of Limitations – Refunds. An amended return or verified claim for refund of an overpayment of any state tax for which the taxpayer is required to file a return shall be filed by the taxpayer within three (3) years from the time the return was filed or two (2) years from the time the tax was paid, whichever of the periods expires the later.

C. MAILING INFORMATION

1. If you owe tax to the State, mail your TAX DUE RETURN and check or money order to:

Arkansas State Income Tax
P.O. Box 2144
Little Rock, AR 72203-2144

Make your check or money order payable to: Department of Finance and Administration. Write your Social Security Number on the check.

2. If you do not owe tax to the State mail your NO TAX DUE RETURN to:

Arkansas State Income Tax
P.O. Box 8026
Little Rock, AR 72203-8026

3. If you are expecting a refund, mail your REFUND RETURN to:

Arkansas State Income Tax
P.O. Box 1000
Little Rock, AR 72203-1000

D. FORMS

The Department of Finance and Administration mails a tax booklet to most taxpayers which includes forms

and instructions for residents, part-year and nonresidents. If you need forms, you may get them at your county revenue office, or on our website at:

www.arkansas.gov/dfa/

You may also obtain forms by writing:

Arkansas State Income Tax Forms
P.O. Box 3628
Little Rock, AR 72203-3628

If you wish to call for forms, the telephone numbers are; (501) 682-1100 and Text Telephone Device (Hearing Impaired Access) (501) 682-4795.

E. PENALTIES & INTEREST

1. If you owe any additional tax, you must mail your tax return by April 17, 2006. Any return not post-marked by April 17, 2006, unless you have a valid extension, will be considered delinquent. A penalty of one percent (1%) per month for failure to pay and five percent (5%) per month for failure to file, with a maximum of thirty-five percent (35%), will be assessed on the amount of tax due. Interest of ten percent (10%) per annum will also be assessed on any additional tax due, calculated from the original due date to the date you filed your return.

An extension to file is not an extension to pay. If you have filed an extension, you must pay at least ninety percent (90%) of the amount due by the original due date or be subject to a failure to pay penalty of 1% per month of the unpaid balance.

2. In addition to any penalty assessed, a penalty of \$500 will be assessed, if any taxpayer files what purports to be a return, but the return does not contain information on which the correctness of the return may be judged, and such conduct is due to a position which is frivolous, or an effort to delay or impede the administration of any State law.

3. If you owe additional tax in excess of \$1,000, penalty for failure to make a declaration of Estimated Tax and pay on any quarterly due date the equivalent of ninety (90%) of the amount actually due, or an amount equal to or greater than the tax liability of the preceding income tax year, a penalty of ten percent (10%) will be assessed.

Exception: Individuals whose income from farming for the income year can reasonably be expected to amount to at least two-thirds (2/3) of the total income from all sources for the income year, may file such declaration and pay the estimated tax on or before the fifteenth (15th) day of the third (3rd) month after the close of the income year.

An Arkansas Underpayment of Estimated Tax Form AR2210 should be used to compute the underpayment penalty or to claim an exception for failure to file a declaration of estimated tax for the income year.

F. DEATH OF TAXPAYER OR DEPENDENT

An Arkansas return should be filed for the taxpayer for the year in which the death occurred, regardless of the

date of death. The word "DECEASED" should appear after the decedent's name along with the date of death. A surviving spouse may file on the same return with the deceased spouse for the year of death if the survivor does not remarry before the end of that year.

If the decedent qualified as your dependent for the part of the year before death, you may claim the full amount of tax credit for such dependent on your tax return, regardless of when death occurred during the year.

In each of these circumstances you do not have to attach a copy of the death certificate to the return.

G. CREDIT FOR TAXES PAID TO ANOTHER STATE

Arkansas residents are required to report and pay taxes on all of their taxable income. This includes the taxable portion of foreign income as well as income from other states. If you are required to report a part of your income to another state, you may take credit for the income tax portion of your out-of-state tax liability on Line 38 of AR1000. **A copy of the out-of-state return must be attached.** The credit claimed cannot exceed what the tax would be if calculated at Arkansas tax rates. **Nonresidents are not entitled to this credit.**

Part-year residents will not be allowed this credit unless they continue to have taxable income from another state and the other state income is included as taxable income in Column C of the AR1000NR.

H. DEVELOPMENTALLY DISABLED INDIVIDUAL

To claim a credit for a developmentally disabled individual you must file a certified AR1000RC5 every five (5) years. If credit was received on a prior year's return, you do not need to file another AR1000RC5 until the Individual Income Tax Section notifies you to recertify.

If tax year 2005 is the first year you claim the developmentally disabled individual credit then you must attach the AR1000RC5 to your 2005 return.

I. DEFINITIONS

1. DOMICILE

This is the place you intend to have as your permanent home, the place you intend to return to whenever you are away. You can have only one domicile. Your domicile does not change until you move to a new location and definitely intend to make your permanent home there. If you move to a new location but intend to stay there only for a limited time (no matter how long), your domicile does not change. This also applies if you are working in a foreign country.

2. FULL-YEAR RESIDENT

You are a full-year resident if you lived in Arkansas all of tax year 2005, or if you have maintained a domicile or Home of Record in Arkansas during the tax year.

3. MILITARY PERSONNEL

U.S. Military Compensation Pay includes wages received from the Army, Navy, Air Force, Marine Corps, Coast Guard, National Guard, Reserve Components, and the U.S. Public Health Service.

If Arkansas is your Home of Record (HOR) and you are stationed outside the State of Arkansas, you are still required to file an AR1000 reporting all your income, including U.S. Military Compensation Pay.

If you are stationed in Arkansas and your Home of Record is another state, Arkansas does not tax your U.S. military compensation Pay. For additional information, see the instructions for Lines 9 and 10 on page 15.

Arkansas **does** tax income from Arkansas sources received by you or your spouse while you are stationed in Arkansas, including pay from non-appropriated funds; i.e., exchange, clubs, commissary, etc. This Arkansas income will be listed in Column C of the Form AR1000NR and taxed based upon your Arkansas percentage of the total tax liability.

4. NONRESIDENT

You are a nonresident if you did not make your domicile (home) in Arkansas. A nonresident receiving income from Arkansas sources must file an Arkansas Tax Return AR1000NR regardless of income level. After the tax has been computed on the total income, it must be prorated to determine the amount of liability apportioned to Arkansas.

5. PART-YEAR RESIDENT

Any person who established a domicile (home) in Arkansas or moved out of the State during the calendar year of 2005 is considered a part-year resident. After the tax has been computed on the total income, it must be prorated to determine the amount of liability apportioned to Arkansas.

NONRESIDENTS OR PART-YEAR RESIDENTS MUST FILE ON FORM AR1000NR AND ATTACH A COPY OF THEIR FEDERAL RETURN.

6. DEPENDENTS.

You may claim as a dependent any person who received over half of his or her support from you, and earned less than \$3,200 in gross income, **and** was your:

Child	Stepchild	Mother
Father	Grandparent	Brother
Sister	Grandchild	Stepbrother
Stepsister	Stepmother	Stepfather
Mother-In-Law	Father-In-Law	Brother-In-Law
Sister-In-Law	Son-In-Law	Daughter-In-Law

Or, if related by blood: Uncle, Aunt, Nephew, Niece

Or, an individual (other than your spouse) who, for the taxable year of the taxpayer, has the same principal place of abode as the taxpayer and is a member of the taxpayer's household.

The term dependent includes a Foster Child if the child has as his principle place of abode the home of the taxpayer and is a member of the taxpayer's household for the taxpayer's entire tax year.

Arkansas has adopted Internal Revenue Code §151(c)(6) regarding the tax treatment of kidnapped children.

The term "dependent" does not apply to anyone who is a citizen or subject of a foreign country UNLESS that person is a resident of the United States, Mexico or Canada.

For death of a dependent during the tax year, refer to Section F for instructions.

If your child/stepchild is under age 19 at the end of the year, the \$3,200 gross income limitation does not apply. Your child may have any amount of income and still be your dependent if the other dependency requirements in paragraph 6 are met.

7. STUDENT

If your child/stepchild is a student under age 24 at the end of the calendar year, the \$3,200 gross income limitation does not apply. The other requirements in paragraph 6 still must be met.

To qualify as a student, your child/stepchild must be a full-time student for five (5) months during the calendar year at a qualified school, as defined by the current Internal Revenue Service directives.

8. GROSS INCOME

Gross income means any and all income (before deductions) that you receive except the kinds of income specifically described in Section J of these instructions.

NOTE: *If all or part of your income is described in Section J, the described portion is exempt. You do not pay tax on it. You must read this very carefully.*

J. INCOME EXEMPT FROM TAX

NOTE: *List exempt income on AR4, Part III and include the total on AR1000, Line 56.*

1. Money you receive from a life insurance policy because of death of the person who was insured is exempt from tax.

NOTE: *You must include any interest payments made to you from the insurer (the insurer is the insurance company that issued the policy) as taxable income.*

2. Money you receive from LIFE INSURANCE, an ENDOWMENT, or a PRIVATE ANNUITY CONTRACT, for which you paid the premiums, is allowed cost recovery pursuant to Internal Revenue Code §72.

3. Amounts you receive as child support payments are exempt.

4. You do not pay taxes on gifts, inheritances, bequests or devises. Scholarships, grants and fellowships are taxed pursuant to Internal Revenue Code §117. Stipends are taxable in their entirety.

5. Interest you receive from direct United States obligations, its possessions, the State of Arkansas, or any political subdivision of the State of Arkansas is exempt from tax. Obligations include bonds and other evidence of debt issued pursuant to a government unit's borrowing power. (Interest due on tax refunds is not exempt income because it does not result from a debt issued by the United States, the State of Arkansas or any political subdivision of the State of Arkansas.) Interest from government securities paid to individuals through a mutual fund is exempt from tax.

6. Social Security benefits, VA benefits, workers' compensation, unemployment compensation, railroad retirement benefits and related supplemental benefits are exempt from tax.

7. The rental value of a home or the housing allowance paid to a duly ordained or licensed minister of a recognized church to the extent that it is used to rent or provide a home. The rental value of a home furnished to a minister includes utilities which are furnished to the minister as part of compensation. The housing allowance paid to a minister includes an allowance for utilities paid to the minister as part of compensation to the extent it is to be used to furnish utilities in the home.

8. Disability Income **may be** exempt from tax pursuant to Internal Revenue Code §104.

9. **The first \$9,000 of U.S. Military Enlisted Compensation is exempt from tax. The first \$6,000 of U.S. Military Officer's Compensation is exempt from tax.**

10. If you received income from an employer sponsored retirement plan, including disability retirement, that is not exempt under IRC §104, the first \$6,000 is exempt from tax. **For tax years 2003 and later**, if you contributed after-tax dollars to your plan, you are allowed to recover your cost (investment) in your retirement plan in accordance with Internal Revenue Code §72, then the first \$6,000 of the balance is exempt from tax. If you receive income from military retirement, you may adjust your figures if the payment includes Survivor's Benefit Payments. The amount of adjustment will have to be listed on the income statement and supporting documentation will have to be submitted with the return.

11. If you received an IRA distribution after reaching the age of fifty-nine and one-half (59 1/2), the first \$6,000 is exempt from tax. Your IRA distribution may be adjusted for nondeductible IRA contributions, if any, by completing federal form 8606 and attaching to your Arkansas return. Premature distributions made on account of the participant's death or disability also qualify for the exemption. All other premature distributions or early withdrawals including, but not limited to, those taken for medical-related expenses, higher education expenses, or a first-time home purchase **do not** qualify for the exemption.

A surviving spouse qualifies for the exemption. However a surviving spouse is limited to a single \$6,000 exemption.

NOTE: *The total exemptions from all plans described under 10 and 11 cannot exceed \$6,000 per taxpayer not including recovery of cost.*

K. IF YOU NEED MORE TIME TO FILE

If you request an extension of time to file your Federal income tax return (by filing Federal Form 4868 with the IRS) you are entitled to receive the same extension on your Arkansas income tax return. In order to take advantage of the Federal Extension for state purposes, you must check the appropriate box on the face of the Arkansas return indicating that you have filed a federal extension.

The Department no longer requires that a copy of Federal Form 4868 be attached to your state tax return as long as the appropriate box is checked on the front of the return.

The federal automatic extension extends the deadline to file until October 15th. When the return is complete and ready to file, simply check the appropriate box on the face of the return.

NOTE: *If the appropriate box on the front of the AR1000 is not checked, you will not receive credit for your federal extension.*

If you do not file a Federal Extension, you must file an Arkansas extension using Form AR1055 before the filing due date of April 17th.

Send your request to:

Manager
ATTN: Extension
Individual Income Tax Section
P.O. Box 3628
Little Rock, AR 72203-3628

NOTE: *The maximum extension that will be granted on an AR1055 is one hundred and twenty (120) days extending the due date until August 15th.*

The date of the postmark stamped by the U.S. Postal Service is the date you filed your return or request for extension.

Attach a copy of your approved AR1055 extension to the face of your tax return WHEN YOU FILE. IF YOU DO NOT ATTACH YOUR EXTENSION, YOUR RETURN WILL BE CONSIDERED DELINQUENT AND PENALTIES WILL BE ASSESSED. **Inability to pay is not a valid reason to request an Arkansas Extension.**

Interest will be due if any tax due is not paid by April 17, 2006.

Failure To Pay Penalty will be due on any unpaid balance if at least ninety percent (90%) of the tax due is not paid by April 17, 2006.

L. HOW TO COMPLETE YOUR ARKANSAS RETURN

Residents of Arkansas need to complete Form AR1000. Nonresidents and Part-Year Residents need to complete Form AR1000NR. The following instructions will apply to both returns unless a specific designation is made.

Please note the instructions marked for Residents only, or Part-Year Residents and Nonresidents only.

STAPLE all required W-2's, 1099's, schedules and explanations to your return. **Use only BLUE or BLACK INK, or TYPE.**

If you received your income tax return through the mail and there is a colored peel off label inside the booklet, use the colored label only if all the information on the label is correct. **As a security measure, the label no longer includes your social security number(s). You MUST enter your social security number(s) on your return, in**

the space provided, or your return cannot be processed and will be returned to you.

Be sure that your name(s) and address are correct. Place the colored label in the identification block of the tax return only if it is correct. If it is not correct or you do not have a label, enter the name, address, and Social Security Number for you and your spouse. Be sure to enter the telephone number for your home and your work.

NOTE: *If you are married filing on the same form and using different last names, you must separate the last names by using a slash.*

*EXAMPLE: John Q. and Mary M.
Doe/Smith or Mary M. and John Q.
Smith/Doe.*

Be sure that the placement of the last name matches placement of the first name. You must be legally married to file in this manner.

FILING STATUS

DETERMINING YOUR FILING STATUS

LINE 1, Filing Status 1

Check this box if you are SINGLE or UNMARRIED and DO NOT qualify as HEAD OF HOUSEHOLD. (Read the section for "Line 3" to determine if you qualify for HEAD OF HOUSEHOLD.) Check the boxes on LINE 7A that describe you.

LINE 2, Filing Status 2

Check this box if you are MARRIED and are filing jointly. IF YOU ARE FILING A JOINT RETURN, YOU MUST ADD BOTH SPOUSES' INCOME TOGETHER. ENTER THE TOTAL AMOUNT IN "COLUMN A" on Line 8 through Line 23 UNDER YOUR INCOME. Check the boxes on Line 7A that describe you.

LINE 3, Filing Status 3

To claim yourself as the Head of Household you must have been unmarried or legally separated on December 31, 2005 and meet either 1 or 2 below. The term "Unmarried" includes certain married persons who live apart, as discussed below.

1. You paid over half the cost of keeping up a home for the entire year, that was the main home of your parent whom you can claim as a dependent. Your parent did not have to live with you in your home, **OR**
2. You paid over half the cost of keeping a home in which you lived and in which one of the following also lived for more than six (6) months of the year (temporary absences, such as vacation or school, are counted as time lived in the home):
 - a. Your unmarried child, grandchild, great-grandchild, etc., adopted child, or stepchild. This child does not have to be your dependent, but your foster child must be your dependent.
 - b. Your married child, grandchild, etc., adopted child, or stepchild. This child must be your dependent.

- c. Any other relative whom you can claim as a dependent.

Check the box on Line 3 and check the two (2) or more boxes on Line 7A that describe you.

MARRIED PERSONS WHO LIVE APART

Even if you were not divorced or legally separated in 2005, you may be considered unmarried and file as Head of Household. See Internal Revenue Service instructions for Head of Household to determine if you qualify.

MARRIED COUPLES READING THIS MAY SAVE MONEY.

If you and your spouse have separate incomes, you will probably want to figure your tax separately.

Couples often save money by figuring their tax this way. Explained below are two different methods to figure your taxes separately. Use the ONE that suits you best.

METHOD A. List your income separately under Column A (Your Income). List spouse's income separately under Column B (Spouse Income). Figure your tax separately and then add your taxes together. See instructions for Filing Status 4, Line 4 below.

If you use Method A, your net result will be either a COMBINED REFUND or a COMBINED TAX DUE.

METHOD B. File separate individual tax returns. See instructions for Line 5, Filing Status 5.

If you use Method B, one of you may owe tax and the other may get a refund. In that case, you will have two different situations. Each one must be handled as a separate transaction. The tax due must be paid with the proper tax return and the refund will be made on the other one. YOU MAY NOT OFFSET ONE AGAINST THE OTHER.

Line 4, Filing Status 4

Check this box if you are Married and filing SEPARATELY ON THE SAME TAX RETURN. This is a method of tax computation which may reduce the tax liability if both spouses have income. The net result will be either a combined refund or a combined tax due.

IF ONE SPOUSE HAS A TOTAL NEGATIVE INCOME, YOU MUST FILE STATUS 2, MARRIED FILING JOINTLY.

LINE 5, Filing Status 5

Check this box if you are married and filing separate tax returns. Check the box or boxes that describe only you on Line 7A.

LINE 6, Filing Status 6

Check this box if you are a QUALIFYING WIDOW(ER). Check the box or boxes that describe you on Line 7A.

You are eligible to claim yourself as a QUALIFYING WIDOW(ER) if your spouse died in 2003 or 2004 and you have not remarried and meet the following tests:

1. You were entitled to file a MARRIED FILING JOINTLY or MARRIED FILING SEPARATELY ON THE SAME RETURN, with your spouse for the year your spouse died. (It does not matter whether you actually filed a joint return.)
2. You did not remarry before the end of the tax year.
3. You have a child, stepchild, adopted child or foster child who qualified as your dependent for the year.
4. You paid more than half the cost of keeping up your home, which is the main home of that child for the entire year except for temporary absences.

PERSONAL TAX CREDITS

THE PERSONAL TAX CREDITS HAVE INCREASED FROM \$20 to \$21 FOR TAX YEARS BEGINNING JANUARY 1, 2005.

LINE 7A. You can claim additional Personal Tax Credits if you can answer "Yes" to any of these questions:

On January 1, 2006, were you age 65 or older?

On December 31, 2005, were you deaf?

On December 31, 2005, were you blind?

Check the box or boxes that apply to you and/or your spouse. You CANNOT claim any of these credits for your children or dependents.

Blindness is defined as any person who cannot tell light from darkness or whose eyesight in the better eye does not exceed 20/200 with corrective lens, or whose field of vision is limited to an angle of 20 degrees. You can claim the Deaf Credit only if the average loss in speech frequencies (500 to 2000 Hertz) in the better ear is 86 decibels, I.S.O., or worse.

Any taxpayer age 65 and older not claiming a retirement income exemption on Line 19, is eligible for an additional **\$21** (per taxpayer) tax credit. Check the block marked "65 Special".

Add the number of boxes you checked on Line 7A. Write the total in the box provided. Multiply the number by **\$21** and write your final answer in the space provided.

LINE 7B. List the name(s) of your dependent(s) in the space provided on this line. DO NOT INCLUDE YOURSELF AND/OR YOUR SPOUSE. The individuals you can claim as dependents are described in Section I, Number 6, of these instructions.

Add the number of boxes you checked on Line 7B. Write the total in the box provided. Multiply the number by **\$21** and write your final answer in the space provided.

LINE 7C. If one or more of your dependents are developmentally disabled individuals, enter the number in the box on Line 7C and multiply by \$500. Enter the total at the end of this line. (See item H of the instructions for additional information.)

LINE 7D. Total the tax credits from Lines 7A, 7B and 7C. Enter the total on this line and on Line 36.

THE FOLLOWING LINE-BY-LINE INSTRUCTIONS REFER TO BOTH THE AR1000 FULL YEAR RESIDENT AND THE AR1000NR NONRESIDENT/PART-YEAR RESIDENT FORMS.

FULL YEAR RESIDENTS MUST USE THE AR1000.

If your filing status is Single, Married Filing Joint, Head of Household, Married Filing Separately on Different Returns, or Qualifying Widow(er), only Column A will be used. Write your income in Column A only. If your filing status is Married Filing Separately on the Same Return both Column A and Column B will be used. Write your income in Column A and your Spouse's in Column B.

NONRESIDENTS AND PART-YEAR RESIDENTS MUST USE THE AR1000NR. **ATTACH A COPY OF YOUR FEDERAL RETURN OR YOUR RETURN WILL NOT BE PROCESSED.**

Complete Column A and Column B of the AR1000NR the same as full year residents listed above. You must list all of your income as if you were a full year resident. List all of your income from all sources for the entire year in these two columns.

The income to be listed in Column C is the total combined income for both spouses earned while Arkansas residents and/or income derived from Arkansas sources.

Use all three columns to calculate the amount of Arkansas Tax Liability. The total tax must be computed on the income totals in Columns A and B. After all allowable tax credits have been subtracted from the total tax, the remaining balance will be prorated. The proration percentage is determined by dividing Column C by the total of Columns A and B.

INCOME

Round off all income figures to the nearest dollar amounts. For example, if your W-2 Form shows \$10,897.50, round to \$10,898. If the amount on the W-2 Form is \$10,897.49, round to \$10,897.

LINE 8. Add the wages, salaries, tips, etc. listed on your W-2(s). Enter the total on this line.

Enter U. S. Military Compensation Pay on Line 9 or Line 10, page AR1 or NR1, and/or U.S. Military Compensation Retired Pay on Line 19, page AR1 or NR1.

Be sure you staple the State copy of each of your W-2(s) and a copy of your 1099-R(s) to the front left margin of the return.

LINE 9A. If you have U.S. Military **Officer's Compensation Pay**, enter gross income in the space provided. You are entitled to a \$6,000 exemption from the gross income. The balance is taxable. **Attach W-2(s).**

LINE 9B. (FILING STATUS 4 ONLY). If your spouse has U.S. Military **Officer's Com-**

pensation Pay, enter gross income in the space provided. Your spouse **is entitled to a \$6,000 exemption** from the gross income. The balance is taxable. **Attach W-2(s).**

LINE 10A. If you have U.S. Military **Enlisted Compensation Pay**, enter gross income in the space provided. You are **entitled to a \$9,000 exemption** from the gross income. The balance is taxable. **Attach W-2(s).**

LINE 10B. (FILING STATUS 4 ONLY). If your spouse has U.S. Military **Enlisted Compensation Pay**, enter gross income in the space provided. Your spouse **is entitled to a \$9,000 exemption** from the gross income. The balance is taxable. **Attach W-2(s).**

If you receive enlisted pay and officers pay in the same year, prorate each exemption by the number of days you received each type of pay divided by total days in the year.

LINE 9 AND 10, FILING STATUS 2 ONLY
If you and your spouse both have U.S. Military Compensation Pay, enter your gross incomes in the appropriate spaces provided on Lines 9 and/or 10. You and your spouse are each entitled to an exemption from your respective gross income depending on whether the income is Officer's pay or Enlisted pay. The balance is taxable. **Attach W-2(s).**

FOR MILITARY PERSONNEL STATIONED IN ARKANSAS WITH STATE OF RESIDENCE OTHER THAN ARKANSAS:

Do not include your military wages on Lines 9 or 10. Your income is reported to your state of residency only and should not be used in the calculation of your Arkansas liability.

Your non-military wages, if any, must be included on Line 8.

LINE 11. If you are a duly ordained or licensed minister receiving a housing allowance from your church and you do not file a Schedule C or C-EZ, complete this line by entering your gross compensation from the ministry less rental value of a home. The balance is subject to tax. **Attach W-2(s) if not using Schedule C or C-EZ.**

LINE 12. If you have interest from bank deposits, notes, mortgages, corporation bonds, savings and loan association deposits, and credit union deposits, enter all interest received or credited to your account during the year on the line provided. If the amount is over \$1,500, complete form AR4.

LINE 13. If you have dividends and other distributions, enter amounts received as dividends from stocks in any corporation in the space provided. If the amount is over \$1,500, complete form AR4.

LINE 14. If you received alimony or separate maintenance as the result of a court order, enter the total amount in the space provided.

LINE 15. If you have business or professional income and file a Federal Schedule C or C-EZ, attach a copy of your Federal Schedule. If you choose

this method, enter the total dollar amount(s), net income (or loss), from your Federal Schedule C or C-EZ in the spaces provided. If you do not attach a copy of your Federal Schedule C or C-EZ as described above, you must submit a similar schedule and enter the net income (or loss) in the space provided. Business income may not be split between you and your spouse unless a partnership is legally established. Report Partnership Income on Form AR1050 and attach K-1's for each partner.

Include any depreciation adjustment that arises from Arkansas not adopting the bonus depreciation and higher Section 179 expense provisions of the Internal Revenue Code on Line 22, Other Income.

LINE 16. If you have gains or losses from the sale of real estate, stocks, bonds, or gains or losses from capital assets from Partnerships, S Corporations or Fiduciaries, enter your taxable share in the space provided. **Be sure to adjust the amount of gain or loss for any federal/state depreciation differences.**

If, after the netting process, you have a capital gain or loss reported on the Federal Schedule D or on Form 1040/1040A, use Arkansas Form AR1000D to determine the taxable amount to enter on AR1000/AR1000NR, Line 16. **Be sure to attach the federal schedule and Form AR1000D to your return.**

The amount of capital loss that can be deducted after offsetting capital gains is limited to \$3,000. If your capital loss is more than the yearly limit on capital loss deductions, you can carry over the unused part to later years until it is completely used up.

The gain on the sale of your personal residence is exempt up to \$250,000 per taxpayer (\$500,000 for Status 2 and 4 filers). The property must, during the 5 year period ending on the day of sale, be owned and used by the taxpayer(s) as the principal residence for periods aggregating 2 years or more.

LINE 17. Enter the ordinary gain or (loss) from Part II of Federal Form 4797. **Adjust for any basis difference due to differences in Arkansas and federal depreciation.** The \$3,000 capital loss limit does not apply.

LINE 18. Use this line to report taxable lump-sum distributions, annuities, and regular IRA distributions. Include early withdrawal of IRA distributions in your gross income on this line. List only the amount of withdrawal and attach the Federal schedule showing the tax on premature distribution. Also, enter ten percent (10%) of the tax from the Federal schedule 5329, Part I and Part II, on Line 34. If you received a distribution which does not qualify for the Lump-sum Distribution Averaging Schedule (AR1000TD), list the total distribution received in 2005. See AR1000TD to determine if you qualify to use the averaging method. **Attach 1099-R(s).**

Premature distributions are amounts you withdraw from your IRA, Deferred Compensation, or Thrift Savings plans you receive from your employer's plan before you are either age 59 ½ or disabled. Rollovers of premature distributions are tax exempt.

LINE 19A. You are eligible for the \$6,000 exemption for retirement or disability benefits provided the distribution is from public or private employment related retirement systems, plans or programs. (The recipient need not be retired.) The method of funding is irrelevant. The exemption may be from either lump-sum or installment payments. The early withdrawal penalty may be applicable even though the exemption is granted.

If you received an IRA distribution after reaching the age of fifty-nine and one-half (59 1/2), the first \$6,000 is exempt from tax. Premature distributions made on account of the participant's death or disability also qualify for the exemption. All other premature distributions or early withdrawals including, but not limited to, those taken for medical-related expenses, higher education expenses, or a first-time home purchase **do not** qualify for the exemption.

If you have income from an Employment Related Pension Plan or a qualified IRA distribution, enter the gross amount from Box 1 of your 1099R(s) in the space provided. Enter the federal taxable amount from Box 2a of your 1099R(s) in the space provided. If Box 2a is blank, then use the Simplified Method Worksheet provided in your federal 1040 Instruction booklet to calculate the taxable amount of your distribution. You are entitled to a \$6,000 exemption from the federal taxable amount, the balance is taxable to Arkansas. Enter the balance on Line 19A, Column A. Attach 1099-R(s).

(FILING STATUS 2 ONLY). If you and your spouse both have income from a retirement plan or a qualified IRA distribution, enter the combined gross income amount from Box 1 of your 1099R(s) in the space provided. Enter the combined federal taxable amount from Box 2a of your 1099R(s) in the space provided. If Box 2a is blank, then use the Simplified Method Worksheet provided in your federal 1040 Instruction booklet to calculate the taxable amount of your distribution. Both you and your spouse are entitled to a \$6,000 exemption from your respective federal taxable retirement plan income. The balance is taxable to Arkansas. Enter the balance on Line 19A. Attach 1099-R(s).

LINE 19B. (FILING STATUS 4 ONLY). If your spouse has income from an Employment Related Pension Plan or a qualified IRA distribution, enter the gross income from Box 1 of his or her 1099R(s) in the space provided. Enter the federal taxable amount from Box 2a of his or her 1099R(s) in the space provided. If Box 2a is blank, then use the Simplified Method Worksheet provided in your federal 1040 Instruction booklet to calculate the taxable amount of his or her distribution. Your spouse is entitled to a \$6,000 exemption from the federal taxable income. The balance is taxable to Arkansas. Enter the balance on Line 19B. Attach 1099-R(s).

Note: If you made nondeductible contributions to your IRA, enter taxable amount from federal form 8606 in the space provided. Attach the federal Form 8606 to your return.

McFadden Claimants Only: If you were entitled to a claim under *McFadden v. Weiss*, your Arkansas basis (cost of contributions) in your retirement plan has changed.

Retirees that retired in 1999 or prior will have zero (0) basis in their retirement, therefore their taxable amount will be the same as their gross distribution regardless what the 1099R indicates. Deduct the \$6,000 exemption from your gross distribution and include this amount on line 19A or 19B.

Retirees that retired in 2000 or later may still have some basis in their retirement. Use the worksheet below to determine the amount of cost recovery you can deduct for 2005.

MCFADDEN CLAIMANT WORKSHEET	
1. Enter your total cost of contributions to your retirement plan.	1 _____
2. Enter the amount of allowable claims under <i>McFadden v. Weiss</i>	2 _____
3. Subtract Line 2 from Line 1 (If zero or less, enter -0-) ...	3 _____
Note: If Line 3 is -0-, you do not have any Arkansas basis in your plan.	
4. Enter amount of cost recovery claimed on your 2003 Arkansas return.	4 _____
5. Enter amount of cost recovery claimed on your 2004 Arkansas return.	5 _____
6. Subtract Line 4 and 5 from Line 3. (If zero or less, enter -0-) ...	6 _____
Note: If Line 6 is -0-, you do not have any Arkansas basis in your plan.	
7. Enter amount of cost recovery for 2005 from your 1099R or by using the Simplified Method.	7 _____
8. Enter the lesser of Line 6 or Line 7	8 _____
Note: This is your allowable cost recovery deduction for 2005. Subtract this amount from your gross distribution to determine your taxable amount before your \$6,000 exemption.	
9. Subtract Line 8 from Line 6. (If zero or less, enter -0-) ...	9 _____
Note: This is your cost of contribution carryover. If Line 9 is -0-, you do not have a carryover.	

LINE 20. If you have income from rents and royalties, an estate or trust, profits (whether received or not) from partnerships, fiduciaries, small business corporations, etc., enter the amount as reported on your Federal Schedule E in the space provided. If you are filing a return on a taxable year that is not the same as the annual accounting period of your partnership or trust, include in the return your distributive share of net profits in the accounting period that ends with your taxable year.

Nonresident beneficiaries pay tax only on Arkansas income.

LINE 21. If you have farm income, enter the amount reported on your Federal Schedule F in the space(s) provided. Farm income may not be split between you and your spouse unless a partnership is legally established. Partnership income must

be reported on Form AR1050, with K-1(s) for each partner.

LINE 22. Enter all taxable income for which no other place is provided on the return. Attach a statement explaining the source and amount of the income. Examples of income to be reported on this line are: prizes, awards, T.V. and radio contest winnings (cash or merchandise), and gambling winnings. You must report reimbursement of medical expenses from a previous year, if you itemized deductions and it reduced your tax.

Include amounts you recovered on bad debts that you deducted in an earlier year.

Include any depreciation adjustment that arises from Arkansas not adopting the bonus depreciation and higher Section 179 expense provisions of the Internal Revenue Code.

Scholarships, fellowships, and stipends:

A scholarship or fellowship is exempt from tax only if:

- 1) You are a **candidate for a degree** at an **educational institution**, and
- 2) The grant is a **qualified scholarship or fellowship**.

A qualified scholarship or fellowship is any amount you receive as a scholarship or fellowship grant that is used under the terms of the grant for:

- 1. Tuition and fees required to enroll in, or
- 2. Fees, books, supplies, and equipment that are required for, the courses at the educational institution. These items must be required of all students in your course instruction.

Foreign students who are exempt from federal taxes because of a tax treaty must file and pay tax on all income including nonqualified scholarship or fellowship income.

Stipends are taxable.

If you had a net operating loss (NOL) in an earlier year to carry forward to 2005, enter it as a negative amount on this line. Attach a statement showing how you calculated the amount of loss and the year the loss occurred. A net operating loss may be carried forward for five (5) years.

LINE 23. Add Lines 8 through 22 and enter the totals in the appropriate columns on this line. This is your **Total Income**.

Full year residents must use the AR1000. Nonresidents and part year residents must use the AR1000NR. Column A is used for Filing Status 1, 2, 3, 5 and 6; Columns A and B are used if Filing Status 4. On the AR1000NR Column C will be the total income earned while an Arkansas resident and/or income derived from Arkansas sources.

ADJUSTMENTS

Use Form AR1000ADJ to report allowable adjustments that are not referred to in these instructions.

LINE 24. To claim the Texarkana exemption, you must file a return and report **all** the Arkansas income you received during the year. Enter the exempted income on Line 24 as an adjustment.

For W-2 income you must attach Form AR-TX **supplied by your employer** with your W-2(s).

The Form AR-TX is not required for non wage income such as Interest, Dividends, Schedule C (sole proprietor), Schedule F (farm), Schedule E (rents, royalties, partnerships, etc.) or retirement, etc. Additional information may be required to verify if an adjustment for these types of income is allowed.

NOTE: Taxpayers who claim this exemption must file using their street address in Texarkana, AR or Texarkana, TX. If you use a P.O. Box, this exemption will not be allowed.

If you live within the city limits of Texarkana, AR, you are allowed a full exemption from Arkansas income taxation. Part-year Texarkana residents should claim the exemption only on the income earned while a resident of Texarkana, AR.

If you live within the city limits of Texarkana, Texas, you are allowed to deduct only the income you earned in the city limits of Texarkana, Arkansas. All other Arkansas income is taxable to you.

LINE 25. If you have other allowable adjustments, use Form AR1000ADJ and include the total on this line. **Attach Form AR1000ADJ.**

IRA PHASE OUT CHART		
IF YOUR FILING STATUS IS:	YOUR ALLOWABLE IRA DEDUCTION	
	Phases Out When AGI Exceeds	Will Be Zero When AGI Is
Single, Head of Household,	\$50,000	\$60,000
Married Filing Joint Return (Status 2 or 4), Qualifying Widow(er)	\$70,000	\$80,000
Married Filing Separate Return	\$0	\$10,000
Nonactive Spouse (Income Computed Jointly)	\$150,000	\$160,000

LINE 26. Add Lines 24 and 25 and enter the total on this line. This is your **Total Adjustments**.

LINE 27. Subtract the total on Line 26, **Total Adjustments**, from the total on Line 23, **Total Income**. Enter the balance on this line. This is your **Adjusted Gross Income (AGI)**.

TAX COMPUTATION

LINE 28. Enter the amounts from Line 27 A and B, page AR1/NR1 (Adjusted Gross Income) on this line.

LINE 29. SELECT THE PROPER TAX TABLE Check the appropriate box. You will fall into one of the categories listed:

- (1) You qualify for the Low Income Table
- (2) You use the Regular Tax Table

• YOU QUALIFY FOR THE LOW INCOME TABLE

If you meet the requirements below and your Adjusted Gross Income falls within the following limits:

- \$0 - \$11,400 Filing Status 1 - (Single)
- \$0 - \$16,200 Filing Status 2 – (Married Filing Joint – all income reported in column A) or Filing Status 6 – (Qualifying Widow(er) with dependent child)
- \$0 - \$16,200 Filing Status 3 – (Head of Household)

NOTE: Taxpayers filing Status 4 or 5 MAY NOT use the Low Income Tax Table 1.

Part-year residents and nonresidents do qualify to use the low income tax table if their income from all sources meets the Low Income Tax Table income requirements.

If you use an exclusion for military compensation pay, the employer sponsored pension income or qualified IRA distribution, you do not qualify for the Low Income Tax Tables. You may elect NOT TO USE the exclusion(s) to which you are entitled and use the Low Income Tax Table if you fall within the income limits.

Caution: If you qualify to use the low income table, enter zero (0) on Line 29A. The Standard deduction is already calculated for you and is built into the low income tax table.

• YOU USE THE REGULAR TABLE

If you do not qualify for the low income table, enter the larger of your itemized deductions or your Standard deduction.

Itemized Deductions.

To compute your itemized deductions, complete form AR3. Please make sure that your total itemized deductions exceed the amount of the standard deduction.

NOTE: If you use filing Status 4 or 5, and one spouse itemizes, then both taxpayers must itemize.

Standard Deduction.

To compute your Standard deduction, find your filing status below:

- Single: \$2,000 or amount of AGI on Line 28 if less than \$2,000.
- Married Filing Joint: \$4,000 or amount of AGI on Line 28 if less than \$4,000.
- Head of Household: \$2,000 or amount of AGI on Line 28 if less than \$2,000.
- Married Filing Separately on Same Return: \$2000 each or amount of AGI on Line 28A and 28B if less than \$2,000.
- Married Filing Separately on Different Return: \$2,000 or amount of AGI on Line 28 if less than \$2,000.
- Qualifying Widow(er): \$2,000 or amount of AGI on Line 28 if less than \$2,000.

NOTE: The \$2,000 Standard Deduction does not apply to taxpayer's dependents.

You must subtract your Standard Deduction from your Adjusted Gross Income to arrive at your Net Taxable Income, just like you do on your Federal return.

LINE 30. Subtract Line 29 from Line 28. This is your **Net Taxable Income**.

LINE 31. IF YOU QUALIFY FOR THE LOW INCOME TAX TABLE, find the amount of your income on Tax Table 1. Locate the tax on your income under the column that describes your Filing Status. Enter the tax you owe on Line 31, page AR2/NR2.

STUDENT LOAN INTEREST WORKSHEET	
1. Enter the total interest you paid in 2005 on qualified student loans.	1 _____
2. Enter the smaller of Line 1 above or \$2,500.	2 _____
3. Enter the amount(s) from AR1000/AR1000NR, Line(s) 23A and 23B	3 _____
4. Enter AGI amount without regard to the Deduction for Interest Paid on Student Loans, Line 4, AR1000ADJ .	4 _____
5. Modified AGI. Subtract Line 4 from Line 3	5 _____
Note: If line 5 is \$65,000 or more and you are filing Status 1, 3, or 6 or \$135,000 or more and filing Status 2 or 4, STOP HERE , you cannot take the deduction.	
6. Enter: \$50,000 if filing Status 1, 3, or 6; \$105,000 if filing Status 2 or 4	6 _____
7. Subtract Line 6 from Line 5. If zero or less, enter -0- here and on Line 9, skip Line 8, and go to Line 10	7 _____
8. Divide Line 7 by \$15,000 (\$30,000 if using filing Status 2 or 4.) Enter the result as a decimal (rounded to at least three places).	8 _____
9. Multiple Line 2 by Line 8	9 _____
10. Allowable Deduction. Subtract Line 9 from Line 2. Enter the result here and on Form AR1000ADJ, Line 4.	10 _____

IF YOU DO NOT QUALIFY FOR THE LOW INCOME TAX TABLE, find the amount of your taxable income on Regular Table 2. After you have found the correct tax, enter the amount on Line 31A if Filing Status is 1, 2, 3, 5 or 6. Use Lines 31A and 31B if Filing Status 4, Married Filing Separately on the same return.

LINE 32. Add Lines 31A and 31B together. Enter total on Line 32.

LINE 33. If you received a lump-sum (total) distribution from a qualified retirement plan during 2005, you may be eligible to use the averaging method to figure some of your tax at a lower rate. Please read the instructions on the back of Form AR1000TD carefully to be sure you are eligible to use this method. Complete the Form AR1000TD and enter the amount on Line 33, Form AR1000. **Attach Form AR1000TD**

LINE 34. Taxpayers subject to IRA, or employer qualified retirement plan penalties and tax on their Federal Return are subject to penalties and tax on their State Return. Enter ten percent (10%) of the Federal penalty amount from Part I of the Federal Form 5329 on this line. Be sure to enter total distributions from Part I Form 5329, on Line 18 or 19, page AR1/NR1.

If you are subject to a penalty on a distribution from a Coverdell education savings account, include ten percent (10%) of the Federal penalty amount from Part II of the Federal Form 5329 on this line. Be sure to include the taxable amount of the Coverdell education savings account distribution on Line 22, page AR1/NR1 (Other Income).

LINE 35. Add Lines 32 through 34. Enter the total on this line.

TAX CREDITS

LINE 36. Enter the total personal tax credits from Line 7D in the space provided.

LINE 37. Enter the amount of allowable State Political Contributions Credit on this line. The allowable credit shall not exceed fifty dollars (\$50) on an individual's return who is filing status 1, 3, 5 or 6; one hundred dollars (\$100) on a joint return filing status 2 or 4. Attach Form AR1800 or you may attach your own schedule which must include the candidate's name, office sought, the amount of the contribution and the total of all political contributions.

LINE 38. If you are an Arkansas resident and included income on your Arkansas Return that was also taxed by another state, you may claim a credit for the income tax portion of taxes paid to the other state on that income.

A tax credit is allowed for a resident shareholder's pro rata share of any net income tax paid by a Sub S Corporation to a state that does not recognize Sub S Corporation status.

The income tax withheld from your wages by another state is NOT the amount of tax you owed the other state. For that reason, YOU MUST ATTACH A COPY OF THE TAX RETURN YOU FILED WITH THE OTHER STATE(S) to your Arkansas Return. Make

sure it is signed. Write the amount of the net income tax liability to the other state(s) in the space provided.

NOTE: *This credit cannot exceed the Arkansas Income Tax on the same income and cannot exceed the total tax you owe Arkansas. Nonresidents cannot claim this credit on their Arkansas Return. Part Year residents see additional instructions on Page 12*

LINE 39. Child Care Credit allowed on the Arkansas Return is computed by taking twenty percent (20%) of the amount allowed on your Federal Return. A copy of the "Credit for Child and Dependent Care Expenses" Federal Form 2441 or a copy of your 1040A, Schedule 2 must be attached to your Arkansas Return. If this credit is for Approved Early Childhood Credit, see instructions for Line 48.

LINE 40. The Adoption Expense Credit is computed by taking twenty percent (20%) of the amount taken on your Federal Return. A copy of Federal Form 8839 must be attached to your Arkansas Return.

LINE 41. Enter the allowable Phenylketonuria Disorder Credit on this line. Attach Form AR1113.

LINE 42. Business and Incentives Credit. From the Business and Incentives Tax Credits summary schedule (AR1020BIC), enter the total allowable credits in the space provided. The various credits available are listed below:

- Biotechnology Development
- Capital Development Corporation
- County & Regional Industrial Development
- Economic Development
- Employer Provided Early Childhood Program
- Enterprise Zone Program
- Equipment Donation or Sale Below Cost
- Family Savings Initiative
- Manufacturing Investment
- Private Wetland & Riparian Zone
- Public Roads Improvement
- Tourism Project Development
- Tuition Reimbursement
- Venture Capital Investment
- Waste Reduction & Recycling Equipment
- Water Resource Conservation
- Workforce Training
- Youth Apprenticeship
- Rice Straw

NOTE: *For details on each of these tax credits, please refer to the Business and Incentive Tax Credit Package which contains forms required for each credit administered by the Division. Business Tax Credit forms may be obtained from the Department of Finance and Administration, Tax Credits Section, P. O Box 1272, Little Rock, Arkansas 72203, telephone number (501) 682-7106.*

LINE 43. Add Lines 36 through Line 42. Enter the total on Line 43.

LINE 44. Subtract Line 43 from Line 35. This is your **Net Tax**. If Line 43 is greater than Line 35, enter zero (0).

IF YOU ARE FILING A FULL YEAR RESIDENT RETURN, please go to the instructions for Line 45.

TAX APPORTIONMENT FOR NONRESIDENTS AND PART-YEAR RESIDENTS

NONRESIDENTS AND PART-YEAR RESIDENTS ONLY, please read the following instructions closely to determine the correct amount of your Arkansas Tax Liability. **You must attach a complete copy of your Federal return.**

The instructions for Line 44A through Line 44D apply only to Nonresidents and Part-Year Residents. Full Year Residents must skip directly to Line 45.

LINE 44A. Enter the total income from Line 27, Column C.

LINE 44B. Add Columns A and B from Line 27. Enter the total in the space provided.

LINE 44C. Divide the amount on Line 44A by the amount on Line 44B to arrive at your Arkansas percentage of income. **Enter your percentage as a whole number, rounding the percentage to the nearest whole percent.**

If your percentage is less than 1%: Do not round to one (1) or zero (0), carry the figure out to six additional places to the right of the decimal.

Example: $\$2,500/\$525,000 = .00476190$
(Enter as 00.476190)

LINE 44D. Multiply the amount on Line 44 by the percentage on Line 44C. This is the amount of apportioned tax liability on your Arkansas income.

PAYMENTS

LINE 45. Enter the amount of Arkansas State Income Tax withheld that is listed on your W-2(s). You have already paid this amount of tax during the year. If you have MORE THAN ONE W-2, be sure to combine the Arkansas Income Tax withheld on all W-2 (s). Write the total in the space provided.

IF YOU AND YOUR SPOUSE ARE FILING ON THE SAME RETURN, add the Arkansas State Income Tax withheld on both your W-2 (s). Enter combined total in the space provided.

WHAT TO DO IF YOU DO NOT HAVE A W-2

If you did not receive (or lost) your W-2(s) and if Arkansas tax was withheld from your income, **ask your employer(s)** for copies of your W-2(s)

If you have made a reasonable effort to get your W-2(s) and you still do not have one, complete a Federal Form 4852. On the Federal Form 4852, write the amount of State Income Tax withheld. You will also need to attach a copy of a check stub or other documentation to support your figures. Attach these items securely to your State return.

CAUTION: You WILL NOT receive credit for tax withheld or receive a tax refund, unless you attach the CORRECT AND LEGIBLE W-2(s) or explanations to your tax return.

DO NOT include FICA, Federal Income Tax, or tax paid to another state in the amount you write on Line 45.

DO NOT try to correct a W-2(s) yourself. Your employer must issue you a corrected W-2 (s).

LINE 46. If you made an Estimated Declaration and paid estimated tax payments on 2005 income OTHER THAN wages, salaries, tips, etc., write the amounts paid in this space. The only amounts you may put on Line 46 are payments you made on a 2005 Declaration of Estimated Income Tax which includes the January 15, 2006 installment and/or credit brought forward from your 2004 tax return.

DO NOT include PENALTIES OR INTEREST as part of the amount paid.

If you and your spouse filed a JOINT declaration and you and your spouse choose to file your annual returns on separate forms this year, the payment made under the joint declaration of estimate will be credited to the primary filer.

NOTE: If you are filing prior year tax returns past the due date of the tax return, the refund/overpayment from those tax returns can not be carried forward as estimated tax. These amounts will be refunded to you. If you were supposed to receive a refund from a prior year return and never did receive it, do not list that amount on the estimated carry forward line of your current year tax return. Contact the Individual Income Tax Section and a member of the staff will research the information concerning the status of the prior year refund.

LINE 47. If you filed an extension request with the State and paid tax with your request, write the amount paid in the space provided.

LINE 48. Enter the **APPROVED** early childhood credit equal to twenty percent (20%) of the Federal Child Care Credit to individuals with a dependent child who is placed in an **APPROVED** Child Care Facility so that the parent or guardian may pursue gainful employment. An approved child care facility is a facility approved by the Arkansas Department of Education as having an appropriate Early Childhood Program as defined by Arkansas law. Enter the certification number on the line where indicated and attach Federal Form 2441 or 1040A and Certification Form AR1000EC. **Contact your child care facility for Form AR1000EC.**

LINE 49. Add amounts on Lines 45, 46, 47 and 48 together. This is your **TOTAL TAX PAID**. Write your total in the space provided.

FIGURE YOUR TAX DUE OR TAX REFUND

LINE 50. If Line 49 is more than Line 44 of the AR1000 or Line 44D of the AR1000NR, you overpaid your tax. Write the difference on Line 50. This is your **Overpayment**. If you want a refund only, skip Lines 51 and 52. Enter the amount of your overpayment on Line 53.

YOUR REFUND INFORMATION IS FURNISHED TO THE INTERNAL REVENUE SERVICE.

If you itemized on your 2004 Federal income tax return and you received a refund for State taxes paid in 2004, you may be required to claim all or part of the refund as income on your 2005 Federal income tax return. Consult the Federal income tax instructions for further information.

LINE 51. You can apply part or all of the tax you OVERPAID in 2005 to your tax in 2006. Write in the amount you want carried forward on Line 51. The overpayment will be applied directly to your 2006 Estimated Account from your 2005 AR1000 or AR1000NR.

NOTE: The amount you carryover to pay 2006 taxes will only be credited to the primary filer. It cannot be divided between you and your spouse.

If you wish to apply only part of Line 50 to pay 2006 tax, you will get a refund for the rest of your overpayment.

LINE 52. If you wish to contribute a portion or all of your overpayment to the Arkansas Disaster Relief Program, the U.S. Olympic Committee Program, the AR Schools for the Blind and Deaf, the Baby Sharon's Children's Catastrophic Illness Program, the Organ Donor's Awareness Education Program, the Area Agencies on Aging Program, or the Military Family Relief Program, complete Schedule AR1000CO and enter the total amount of your donation(s) on this line. **Attach Schedule AR1000CO behind the AR2/NR2.**

LINE 53. Subtract Lines 51 and 52 from Line 50. This is the amount of your **Refund**. If your refund is less than \$1.00, you must write a letter requesting the refund.

SET OFF REFUNDS

If you, your spouse or former spouse owes a debt to the Department of Finance and Administration, State supported colleges, universities and technical institutes, Office of Child Support Enforcement, the Department of Human Services, the Department of Higher Education, Arkansas Circuit, county, district, or city courts, the Employee Benefits Division of the Department of Finance and Administration, to any Housing Authority, or to the Office of Personnel Management of the Department of Finance and Administration and you have filed an Arkansas State Income Tax return, your refund is subject to being withheld in order to satisfy the debt. You may have all or part of your Income Tax Refund withheld.

If your refund has been applied to a debt of one of these agencies, you will receive a letter advising which agency has claimed all or part of your refund. If the debt has already been satisfied, it is the agency's responsibility to refund any Set Off amount paid to the agency in error. Contact the agency at the telephone number furnished to you on your "Adjustment Letter" to resolve any questions or differences.

If you owe a debt for Arkansas income tax, your federal refund may be captured to satisfy your state income tax debt.

NOTICE TO MARRIED TAXPAYERS

If only one of the married taxpayers owes the debt, the taxpayer who is not liable can avoid having his/her refund applied to the debt if both taxpayers file Status 5, married filing separately on different returns.

LINE 54. If Line 44 of the AR1000 or Line 44D of the AR1000NR is more than Line 49, you have additional tax to pay. Subtract Line 49 from Line 44 of the AR1000 or Line 44D of the AR1000NR. Write the amount on Line 54. This is the **TAX YOU OWE**. Attach a check or money order to your return. Write your Social Security Number on the check or money order, and make your check payable to: Department of Finance and Administration, P. O. Box 2144, Little Rock, AR 72203-2144 on or before April 17, 2006.

If the tax you owe is less than \$1.00, no remittance is required.

NOTE: Do not send currency or coin by mail. Postage stamps are not accepted.

You may have to pay a penalty if the tax you owe is more than \$1,000 and you did not file a Declaration of Estimated Tax required by Arkansas Tax Codes, or you did not pay adequate installments on your estimated tax.

LINE 55A. Enter the exception number from Part 3, or the computed penalty from Line 18 of AR2210 in the appropriate box.

NOTE: Form AR2210 must be attached and the exception number entered in the box on Line 55A to claim any exclusion from the underestimate penalty.

LINE 55B. Enter amount of penalty from Line 18, Form AR2210.

LINE 55C. Add Lines 54 and 55B. Enter total on this line.

LINE 56. Enter the total amount from Form AR4, Part III in the space provided.

NOTE: This entry is a memorandum entry only. See Form AR4, Part III for nontaxable income schedule. For additional instructions and a listing of income that is exempt from tax, refer to Section J - Income Exempt From Tax.

DO NOT FORGET TO SIGN YOUR NAME, WRITE THE DATE AND ASSEMBLE YOUR RETURN ACCORDING TO THE INSTRUCTIONS.

Your tax return will not be legal and cannot be processed unless you SIGN IT. Write in the DATE. If you and your spouse are filing a joint tax return or filing separately on the same return, both of you must sign it.

If someone else prepares your return, that person must sign and complete the Preparer Information section on page AR2/NR2. IF YOU PREPARE YOUR OWN RETURN, DO NOT USE THIS SECTION.

IN CASE THE IRS AUDITS YOU

If the Internal Revenue Service examines your return for any tax year and changes your net taxable income, you must, within thirty (30) days from the receipt of the notice and demand for payment by the Internal Revenue Service, report to the Arkansas Department of Finance and Administration on an amended Arkansas income tax return the corrected federal tax, taxable income, or taxable estate for the taxable period covered by the change.

File an amended return for the year(s) involved using Form AR1000A or AR1000ANR. Attach a copy of the federal changes to your amended return.

If you fail to notify this Department in thirty (30) days and do not file the required amended return, the Statue of Limitations will remain open for eight (8) years on the year(s) in question. Additional interest will be figured on any tax you owe the State of Arkansas.

IF YOU HAVE QUESTIONS ABOUT YOUR TAX RETURN OR REFUND

If you have any questions when you fill out your Individual Income Tax Return, please let us know.

Here are some addresses and phone numbers you can use:

TAX OR REFUND INFORMATION

IF YOU LIVE IN PULASKI COUNTY:

Call (501) 682-0200

IF YOU LIVE OUTSIDE PULASKI COUNTY:

Call 1-800-438-1992

Correspondence about your AR1000 must be addressed to P.O. Box 3628, Little Rock, AR 72203-3628. Include your Social Security Number when making any inquiry about your return.

INSTRUCTIONS FOR ITEMIZED DEDUCTIONS (FORM AR3)

MEDICAL AND DENTAL EXPENSES

List only amounts that you paid and for which you were not reimbursed.

LINE 1. Enter the total of your medical and dental expenses, after you reduce these payments by any reimbursements received from insurance or other sources. Include amounts you paid for doctors, dentists, nurses, hospitals, prescription medicine and drugs and for insulin. Also include the total amount you paid for insurance premiums for medical and dental care, amounts paid for transportation and lodging and other expenses such as hearing aids, dentures, eyeglasses and contact lenses.

LINE 2. Enter amount from Form AR1000/AR1000NR, Line 28A and 28B. Enter the total on this line.

LINE 3. Multiply Line 2 by 7.5% (.075). Enter the total on this line.

LINE 4. Subtract Line 3 from Line 1. Enter the total on this line.

TAXES

LINE 5. You may deduct taxes you paid on property you own that was not used for business. Do not include any special assessment or levy taxes.

You cannot deduct Arkansas Income Taxes, Sales Tax, Federal Income Taxes, Estate Taxes, Improvement Taxes, Federal Social Security Taxes, Hunting and Fishing Licenses, Dog Licenses, Cigarette and Beverage Taxes or car tags.

LINE 6. You may deduct Personal Property Taxes, taxes paid to a Foreign Country on income taxed on this return, and City Income Tax on this line.

LINE 7. Add the amounts on Lines 5 and 6. Enter the total on this line.

INTEREST EXPENSE

LINE 8. You may deduct the home mortgage interest paid to a bank or other financial institution on this line.

The deduction is generally limited to interest attributable to a debt for not more than the cost of the principal, and/or second residence, plus improvements.

LINE 9. Deduct home mortgage interest paid to individuals on this line and list that person's name and address.

LINE 10. Enter the amount of deductible points on this line. Deductible points are determined by these requirements:

1. Incurred in the purchase or improvement of the taxpayer's principal residence;
2. The charging of points must reflect an established business practice in the geographical area where the loan is made; and
3. The deduction allowed cannot exceed the number of points generally charged for the type of transaction. Points paid in refinancing a mortgage must be amortized over the life of the loan.

NOTE: *In order to deduct the full amount of the points paid, payment of the points must be made from separate funds brought to the loan closing.*

LINE 11. Enter deductible investment interest on this line. The amount of the deduction is limited to the amount of investment income. Interest that is disallowed because of the limitation can be carried forward to the next year and is deducted to the extent of the limitation in the carryover year. Attach Federal Form 4952.

LINE 12. Add Lines 8, 9, 10 and 11. Enter the total on this line.

CONTRIBUTIONS

LINE 13. Enter your total contributions made in cash or by check. If you gave \$3,000 or more to any one organization, list the donee and amount you gave. If you have non-cash contributions of \$500, please attach Federal Form 8283.

LINE 14. In addition to other contributions, a deduction is allowed for the value donated in artistic, literary, and musical creations. The following qualifications must be met in order for the deduction to be deductible:

1. The taxpayer making the donation must derive at least fifty percent (50%) of his/her current or prior year income from art related profession.
2. If fair market value of the art work exceeds \$1,000, it must be verified by an approved independent appraiser.
3. Donation receipt, with estimated value or appraisal document must be attached to contributor's tax return.
4. Museum, Art Gallery, or Non Profit Charitable Organizations receiving art work must be qualified under Section 501(C)(3) of the Internal Revenue Code and located in Arkansas.
5. Deduction for donated art work cannot exceed fifteen percent (15%) of taxpayer's gross income for calendar year of donation.

LINE 15. If you made a check-off contribution to the Arkansas Disaster Relief Program, the U.S. Olympic Committee Program, the AR Schools for the Blind and Deaf, the Baby Sharon's Children's catastrophic Illness Program, or the Organ Donor Awareness Education Program on your 2004 Arkansas

Tax Return by applying a part of your refund, or by sending a check, you may deduct the contribution here.

LINE 16. Other deductible contributions:

1. Unreimbursed amounts spent to maintain an elementary or high school student (other than a dependent or relative) in a taxpayer's home under a program by a charitable organization.
2. A gift of property to a non-profit organization. Attach a description of the property, date of gift and method of valuation. For each gift in excess of \$500, list any conditions attached to the gift, manner of acquisition and cost or basis if owned by you for less than five (5) years, and attach a signed copy of appraisal.

NOTE: *Payments to private academies or other schools for the education of dependents are not deductible as contributions.*

LINE 17. If you made contributions in excess of fifty percent (50%) of your adjusted gross income, you may carry the excess deduction over for a period of five (5) years.

If you are deducting an excess contribution from a previous year, enter the amount and year of the original contribution.

LINE 18. Add lines 13, 14, 15, 16 and 17. Enter the total on this line.

CASUALTY AND THEFT LOSSES

LINE 19. The method of computing casualty or theft losses is the same as Federal method with the \$100 exclusion. Attach Federal form or supporting documents. The amount of each loss must exceed ten percent (10%) of your adjusted gross income.

If you had a Disaster Loss in 2006 on property located in an area designated by the President of the United States as a disaster area, you may elect to deduct the loss as an itemized deduction in 2005.

Please attach a Federal schedule listing the disaster loss. If you elect to report the loss on your 2005 return, do not report the loss on your 2006 return.

A disaster loss is the only loss which may be carried back. You may amend your 2004 return to report a disaster loss incurred in 2005. If you elect to amend your 2004 return, do not report the loss on your 2005 return.

LINE 20. Attach AR1075 for Post-Secondary Education Tuition Deduction and enter amount on this line.

MISCELLANEOUS DEDUCTIONS SUBJECT TO THE 2% AGI LIMITATIONS

LINE 21. Unreimbursed employee business expenses are listed on this line. Be sure to attach a Federal Form 2106 to your return. The State recognizes the Federal mileage allowance for computing business travel expenses.

LINE 22. Other deductions. If deductions are itemized, you can deduct authorized expenses for which no other place is provided on the tax return such as (a) union or professional dues, (b) tax return preparation fees, (c) expenses for safety equipment, (d) entertaining customers, etc. (e) tools, supplies, or (f) fees paid to employment agencies. Attach supporting schedule or statements.

LINE 23. Add Lines 21 and 22 and enter the total amount on this line.

LINE 24. Enter amount from Form AR1000/AR1000NR, Line 28A and 28B. Enter total on this line.

LINE 25. Multiply Line 24 by 2% (.02). Enter the total on this line.

LINE 26. Subtract Line 25 from Line 23. Enter the total on this line. This is your allowable miscellaneous deductions.

OTHER MISCELLANEOUS DEDUCTIONS

LINE 27. Enter the amount of miscellaneous deductions not subject to the 2% AGI limit on this line. Attach a detailed schedule of each deduction.

LINE 28. Add Lines 4,7,12,18,19,20,26 and 27. Enter the total on this line. If the amount(s) on AR1000/AR1000NR Line 28A and 28B are greater than \$145,950 (\$72,975 if married filing separately on separate returns), you must complete the itemized deduction worksheet to figure the amount you may deduct.

PRORATED ITEMIZED DEDUCTIONS

LINE 29. If you are filing separately, Status 4 or 5, you must prorate your itemized deductions. Enter your AGI from Line 28, Column A and your spouse's AGI from Line 28, Column B of the AR1000/AR1000NR.

LINE 30. Add Lines 29A and 29B and enter the total here.

LINE 31. Divide Line 29A by Line 30 and enter the percentage here. Round to the nearest whole percent.

LINE 32. Multiply the total itemized deductions reported on Line 28 by your percentage in Line 31. Enter the result here and on AR1000/AR1000NR, Line 29, Col. A.

LINE 33. Subtract Line 32 from Line 28. Enter the result here and on AR1000/AR1000NR, Line 29, Col. B. If you and your spouse are using Filing Status 5, this is the amount of the total itemized deductions your spouse is allowed to claim on his/her tax return.

Worksheet for Self-Employed Health Insurance Deduction - Form AR1000ADJ, Line 7 (Keep for your records)

1. Enter the amount paid in 2005 for health insurance for you, your spouse and your dependents. 1 _____
2. Enter your net profit and any other income* from the business under which the insurance plan is established, minus any deductions you claim on **Form AR1000ADJ, Line 8**. 2 _____
3. Enter the smaller of Line 1 or Line 2 here and on **Form AR1000ADJ, Line 7**. Do not include this amount in figuring your medical expense deduction on the itemized deduction schedule. 3 _____

* Earned income includes net earnings and gains from the sale, transfer, or licensing of property you created. It does not include capital gain income. If you were a more than 2% shareholder in a S Corporation, earned income is your wages from that corporation.

Worksheet for Total Itemized Deductions

(Keep for your records)

Page AR3, Line 28

People with higher incomes may not be able to deduct all of their itemized deductions. If the amount of their joint AGI on Form AR1000/AR1000NR, Lines 27A and 27B is more than \$145,950 (\$72,975 if filing status 1, 3, 5 or 6), use the worksheet below to figure the amount you may deduct.

1. Add the amounts on page AR3, Lines 4, 7, 12, 18, 19, 20, 26, and 27.
Enter the total 1. _____
2. Add the amounts on page AR3, Lines 4, 11, 19, plus any gambling losses included on Line 27.
Enter the total 2. _____
3. Subtract Line 2 from Line 1. (If the result is zero, **STOP HERE**; enter the amount from Line 1 above on page AR3, Line 28 and see **Note** below) 3. _____
4. Multiply the amount on Line 3 above by 80% (.80).
Enter the result 4. _____
5. Enter the amount from AR1000/AR1000NR, Line 27.
(Total columns A and B, if filing Status 4) 5. _____
6. Enter \$145,950 if Filing Status is 1, 2, 3, 4, or 6
(\$72,975 if Filing Status is 5). 6. _____
7. Subtract Line 6 from Line 5. (If the result is zero or less, **STOP HERE**; enter the amount from Line 1 above on page AR3, Line 28 and see **Note** below) 7. _____
8. Multiply the amount on Line 7 above by 3% (.03).
Enter the result 8. _____
9. Compare the amounts on Line 4 and Line 8 above.
Enter the **SMALLER** of the two amounts here. 9. _____
10. Total Itemized Deductions. Subtract Line 9 from Line 1.
Enter the result here and on page AR3, Line 28 and see **Note** below. 10. _____

NOTE: Also enter on Form AR1000/AR1000NR, Line 29, the larger of the amount you enter on page AR3, Line 28, or your standard deduction.

Mileage and Depletion Allowances

1. Business:
 - from Jan. 1, 2005 to Aug. 31, 2005 40.5 cents a mile
 - from Sept. 1, 2005 to Dec. 31, 2005 48.5 cents a mile
2. Charitable 14 cents a mile
3. Mail Carrier (rural) Reimbursement received
4. Medical and Moving:
 - from Jan. 1, 2005 to Aug. 31, 2005 15 cents a mile
 - from Sept. 1, 2005 to Dec. 31, 2005 22 cents a mile
5. Depletion (gas and oil) Same as Federal
(15% for most gas and oil production)

Other Useful Telephone Numbers

- Corporate Income Tax Information (501) 682-4775
- Franchise Tax Information, Corporate (501) 682-3409
- Internal Revenue Service
 - Assistance 1-800-829-1040
 - Forms 1-800-829-3676
- Sales and Use Tax Information (501) 682-7104

Individual Income Tax Information Hot-Line

(501) 682-1100 or 1-800-882-9275 (In Arkansas Only)

This system is designed to allow taxpayers to access general information about filing 24 hours a day. Personal assistance will be available during our normal business hours (Monday through Friday - 8:00 a.m. to 4:30 p.m.). The areas that can be reached by this system are as follows:

- | | |
|------------------------------|------------------------------|
| Taxpayer Assistance Branch | Forms Branch |
| Refund Branch | Amended Branch |
| Audit and Examination Branch | Delinquent Income Tax Branch |

Hearing Impaired Access for Information,
Assistance and Forms (501) 682-4795
This number can only be reached by use of a Text Telephone Device.

Other Individual Income Tax Section Telephone Numbers

- Estate Tax Information (501) 682-7230
- Estimated Tax Branch (501) 682-7272
- Withholding Tax Branch (501) 682-7290