



MULTISTATE INCOME/FRANCHISE TAX

## Arkansas adopts market-based sourcing

### Tax Alert

### Overview

On April 16, 2025, Arkansas [Senate Bill 567](#) (S.B. 567) was enacted into law. S.B. 567, among other changes, adopts market-based sourcing of receipts from sales other than tangible personal property and allows a transition period for certain telecommunication, internet, and television related businesses, by allowing them to elect to utilize the cost of performance sourcing method until December 31, 2035. Additionally, S.B. 567 adds a bright-line nexus threshold of \$250,000 in receipts for nonresident corporations and partnerships and adds statutory provisions for alternative apportionment. These changes are effective for tax years beginning on and after January 1, 2026.

This Tax Alert summarizes some of the relevant provisions in S.B. 567.

### Market-based sourcing approach

- For tax years beginning on and after January 1, 2026, S.B. 567 changes the sourcing of receipts from sales of other than tangible personal property from a cost of performance method (“COP”) to a market-based approach.
- Specifically, S.B. 567 provides that receipts from sales of other than tangible personal property are sourced to Arkansas if the taxpayer’s market for the sales is in Arkansas. The receipts subject to market-based sourcing include, among others, receipts from the sale of services; licenses or leases of intangible property; and intangible property.
- S.B. 567 also provides for the exclusion of certain receipts from the sale of intangible property from the numerator and the denominator of the receipts factor.

### Election for certain taxpayers to use COP sourcing

- S.B. 567 allows taxpayers primarily engaged in the sale of “telecommunications service, mobile telecommunications service, internet access service, cable television service, community antenna television service, or direct-to-home satellite television programming service” to elect to utilize the COP sourcing method for receipts from

sales of other than tangible personal property for tax years beginning on or after January 1, 2026, but before December 31, 2035.

- The election to use the COP method must be made on the taxpayer's return for the first tax year they are eligible for the election. Once made, the election cannot be changed for subsequent years without written approval from the Secretary of the Arkansas Department of Finance and Administration (the "Secretary").

## Nexus provisions for nonresident corporations

- S.B. 567 provides that a nonresident corporation or partnership without a physical presence in Arkansas will have nexus for income tax purposes if the business has Arkansas receipts exceeding \$250,000 for the current or immediately preceding tax year.

## Alternative allocation and apportionment methods

- S.B. 567 adds statutory language providing that if the standard apportionment method does not fairly represent the taxpayer's business activity in Arkansas, then the Secretary may establish alternative allocation and apportionment methods, including a provision allowing the taxpayer to petition for or the Secretary to require adjustments from the statutory apportionment under certain circumstances.

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