





EY Payroll NewsFlash Workforce Tax Services

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Arkansas law prohibits localities from levying a tax on income

Governor Sarah Huckabee Sanders signed into law [HB 1026](#), which prohibits counties, municipalities and other local governments from levying a tax on income. Under prior law, an Arkansas locality could impose an income tax if approved by a majority of its voters.

There are currently no local income taxes in Arkansas.

Ernst & Young LLP insights

Currently, 16 states (including Washington, which has no state income tax) have localities that impose local payroll taxes that are paid by employees, employers or both.

Local taxes add complexity to the payroll administration process and increase costs for employees. Many states are currently lowering their state income tax rates to attract residents. Controlling local taxes is increasingly gaining focus as another prong in the drive to maintain and/or increase a state's resident population. For instance, Alabama introduced legislation ([SB 65](#)) in March 2023 that would reduce the rate of municipal license fees. In addition, a Pennsylvania bill ([SB 671](#)) would prohibit imposing the local earnings tax on nonresidents working for employers within a city if the nonresidents perform all of their duties outside of the city.

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