

Reducing Multistate Tax Liability

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On April 16, 2026, the Arkansas Supreme Court (the “Court”) issued its decision in *Hudson v. United States Beef Corporation*, 2026 Ark. 63, affirming that gain from a complete business liquidation can qualify as “nonbusiness income” under the pre-2026 version of Arkansas’s Uniform Division of Income for Tax Purposes Act. The ruling has significant implications for multistate businesses that liquidated or sold substantially all of their assets in recent years.

In *Hudson*, U.S. Beef Corporation (“U.S. Beef”) – an Oklahoma-incorporated company that owned and operated Taco Bueno and Arby’s franchises across nine states – sold its entire business in two asset sales in December 2018, generating approximately \$176.7 million in gain from intangible assets alone. U.S. Beef treated this gain as nonbusiness income and allocated it to Oklahoma, its state of commercial domicile, rather than apportioning it across the states in which it had operated. The Arkansas Department of Finance and Administration (“DFA”) denied this treatment and classified the gain as apportionable business income. The Court disagreed with DFA, holding that the gain failed the “functional test” under the statute because U.S. Beef was in the business of operating restaurant franchises – not regularly disposing of them. The Court emphasized that the statute’s language is conjunctive, requiring that “the acquisition, management, and disposition of the property constitute integral parts of the taxpayer’s regular trade or business operations,” and a one-time, business-ending liquidation does not satisfy that standard.

If your business has a corporate domicile outside of the State of Arkansas and underwent a complete or substantial liquidation involving assets located in the State of Arkansas during tax years prior to 2026, this decision may present an opportunity to reduce your Arkansas state income tax liability on the gain recognized on sale. Under the Court’s reasoning, gains from a one-time sale of business assets, *particularly intangible assets*, may be properly classified as nonbusiness income and allocated to the taxpayer’s state of commercial domicile rather than apportioned among all states where the business operated. It is worth noting that the Arkansas General Assembly has since amended the statute, effective for tax years beginning on or after January 1, 2026, to broaden the definition of business income to capture gains from property whose “acquisition, management, employment, development, or disposition is . . . or was related to the operation of the taxpayer’s trade or business”. This legislative change underscores that the narrower interpretation confirmed in *Hudson* applies to pre-2026 tax years and that the window to take advantage of this ruling is limited. We encourage any business that completed a liquidation or substantial asset sale within the applicable statute of limitations period to consult with tax counsel promptly to evaluate potential refund claims or amended return filings.

SUMMARY

The Arkansas Supreme Court’s recent decision in *Hudson v. United States Beef Corporation* clarifies that, under prior law, gains from a one-time, complete business liquidation may be treated as nonbusiness income and allocated to a company’s state of commercial domicile rather than apportioned across multiple states. This interpretation could significantly reduce Arkansas income tax liability for multistate businesses that liquidated or sold substantially all assets before 2026. However, a statutory amendment effective January 1, 2026 broadens the definition of business income, limiting the applicability of this favorable treatment to earlier tax years and creating a narrow window for potential refund opportunities.

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