

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1706

Bill Subtitle: TO CREATE THE LOGGING AND WOOD FIBER TRANSPORTATION JOB CREATION INCENTIVE ACT; AND TO CREATE THE ARKANSAS WOOD ENERGY PRODUCTS AND FOREST MAINTENANCE INCOME TAX CREDIT.

Basic Change :

Sponsors:

Reps. Wardlaw, Beaty Jr., Bentley, M. Berry, Bragg, Brown, Deffenbaugh, Dotson, Eaves, Evans, Fielding, V. Flowers, Fortner, Gonzales, M. Gray, Hillman, Holcomb, Jean, Jett, L. Johnson, Love, Lowery, Lynch, Maddox, Magie, McClure, M. McElroy, Richmond, Rye, Scott, Tollett, Tosh, Vaught, Watson, and Womack

Sens. J. Dismang, Beckham, L. Chesterfield, J. English, T. Garner, Gilmore, Hill, Rapert, B. Sample, and D. Wallace

HB1706 creates the "Logging and Wood Fiber Transportation Job Creation Incentive Act," which creates a new tax credit for wood energy product and forest maintenance projects. The credit is equal to 30% of the purchase price of qualifying equipment with a required minimum investment of \$50,000,000 for the project. Up to \$5,000,000 of the credits may be redeemed each year. The credits will carry forward in perpetuity until used and the credits may be sold by the taxpayer. If the credits are sold or transferred for value to a third party, the purchaser's credits shall not expire before the end of the third taxable year following the year in which the credits were sold. A qualifying project must certify that its closing date for all facilities will be by December 31, 2023, but there is no limit to the number of projects or maximum amount of credits that may be issued.

To qualify for this credit, the taxpayer must apply with the Arkansas Economic Development Commission (AEDC), demonstrate the minimum \$50,000,000 investment, and sign an economic incentive agreement. The taxpayer will also be required to create at least 100 new full-time permanent jobs with an average salary of \$60,000 per year. The project must show a positive economic benefit based on an evaluation by AEDC and the DFA Office of Economic Analysis and Tax Research. The economic incentive agreement will include performance criteria and claw back provisions to evaluate the capital investment, employment criteria, and cost-benefit analysis.

If the wood energy project is partially owned by a public retirement system of the State of Arkansas, the \$5,000,000 of credits per year may be purchased back by the State of Arkansas at 80% of the face value of the credits each year.

The bill will be effective for tax years beginning on or after January 1, 2021.

Revenue Impact :

Each qualifying project would result in up to \$5,000,000 in tax credits redeemed per year beginning in FY2022. The State of Arkansas may elect to purchase the tax credits at 80% of face value, which would reduce the impact to general revenue to \$4,000,000 in the event a project is approved. No tax credits would be issued to a taxpayer unless the project is determined to have a positive cost benefit analysis as certified by AEDC in consultation with DFA and an incentive agreement with specified performance criteria and claw back provisions is signed by the taxpayer and AEDC.

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Taxpayer Impact :

A taxpayer would be eligible to apply for an income tax credit based on qualified purchases for qualified wood energy products machinery and equipment. The taxpayer will need to apply for the credit with AEDC and document qualifying costs to earn the credit. If credits are sold to another taxpayer, the sale must be registered with DFA.

Resources Required :

Computer programming, manual updates, and employee training will be required. The Tax Credits Section of the Department of Finance and Administration (DFA) would require additional staff to review applications and to determine limitation amounts available for later years. Anticipated staff needed are as follows (total additional personnel cost of \$465,000 per year):

- One DFA Revenue Manager 2 or higher to monitor tax credits established and claimed for purposes of allocating the \$5 million per year per project tax credit established in future years, and to supervise other personnel needed to administer the program and coordinate with the Arkansas Economic Development Commission. - \$90,000 per year.
- One Audit Supervisor to supervise audit staff. - \$75,000 per year
- Three Auditors to review audits of eligible applicants. - \$200,000 per year.
- Two Fiscal Support Analysts to help with any extra duties and support audit staff members. - \$100,000 per year.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Department employees will need to be educated on changes as well as the taxpayer community.

Other Comments :

None.

Legal Analysis :

None.