

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1911**

**Amendment Number: H1**

**Bill Subtitle: TO CLARIFY THE APPLICATION OF THE INCOME TAX CREDIT FOR WASTE REDUCTION, REUSE, OR RECYCLING EQUIPMENT USED FOR WOOD AND WOOD-RELATED MATERIALS.**

---

### Basic Change :

#### **Sponsor: Representative Bragg**

This bill amends § 26-51-506, which provides an income tax credit for waste reduction, reuse, or recycling equipment. Approval for these credits falls under the authority of the Arkansas Department of Environmental Quality (ADEQ). This proposal adds a provision to allow eligible taxpayers engaged in the business of reducing, reusing, or recycling wood or wood related material that is diverted from becoming solid waste to qualify for the thirty percent (30%) income tax credit on the purchase of qualifying machinery and equipment.

Under existing law, the product produced from recycled solid waste must contain at least fifty percent (50%) recovered materials, with at least ten percent (10%) of the recovered materials being post-consumer waste. The eligible wood products taxpayers under this proposal will not be subject to this requirement.

Under existing law, the income tax credit may be used by the taxpayer in an amount not to exceed the amount of state income tax due, and any unused tax credit may be carried over for 3 tax years. A 14-year carryover period is allowed to qualified manufacturers of steel; and for projects under a qualified Amendment 82 project, the carry forward period is extended until all tax credits have been used. The eligible taxpayers under this proposal will be allowed a 14-year carryover period for unused credits.

For any wood products company to qualify under this proposal, that taxpayer must have made, or will make upon the completion of the construction of the taxpayer's facilities, in excess of seventy-five million dollars (\$75,000,000) for facilities to be used for reducing, reusing, or recycling wood or wood fiber. The machinery or equipment purchased for the facility must have a production capability to prevent at least twenty-five (25,000) tons of wood or wood related materials from becoming solid waste annually. An application for the income tax credits allowed eligible wood products companies shall be filed with ADEQ within eighteen (18) months of the completion of the construction of the taxpayer's facilities.

If a taxpayer has made, or will make upon completion of the construction of the taxpayer's facilities, an investment in the state in excess of two hundred million dollars (\$200,000,000), the taxpayer may sell or transfer the tax credits if a public retirement system of the State of Arkansas is an equity investor that owns at least twenty percent (20%) of the taxpayer's facilities. Otherwise, the income tax credits would be used by the wood products company earning the tax credits.

The total amount of tax credits that can be claimed in a tax year is limited to the total amount of state general revenue generated directly or indirectly from the taxpayer's facilities during the previous tax year. The amount of taxes generated from the taxpayer's facilities shall be certified by the Department of Finance and Administration (DFA) at the end of each tax year upon application by the taxpayer. DFA would obtain from the Arkansas Economic Development Commission (AEDC) the IMPLAN report created using the taxpayer's data for the tax year for which the certification is being sought.

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1911**

**Amendment Number: H1**

**Bill Subtitle: TO CLARIFY THE APPLICATION OF THE INCOME TAX CREDIT FOR WASTE REDUCTION, REUSE, OR RECYCLING EQUIPMENT USED FOR WOOD AND WOOD-RELATED MATERIALS.**

---

The total amount of credits allowed, including any transferred credits, that may be claimed in a tax year shall not exceed eight million dollars (\$8,000,000). No credits shall be allowed under this proposal for construction completed before July 1, 2017.

This act will be effective for tax yeas beginning on and after January 1, 2017.

### **Revenue Impact :**

**FY2018** and after of \$8M per year reduction to General Revenue.

[ \$8,000,000 in income tax credits could be issued in FY2018 dependent on the completion of an eligible project being completed after July 1, 2017 and before year end. Completed projects would earn significant income tax credits which could be used annually in the amount of \$8,000,000 until used or their expiration after 14 years. If the project costs exceed \$200,000,000 and if an Arkansas public retirement system has a 20% ownership interest in the project, the tax credits could be sold. ]

### **Taxpayer Impact :**

Qualifying taxpayers may claim credit for wood recycling if conditions are met.

### **Resources Required :**

None for projects with no ownership interest by an Arkansas public retirement system. For qualifying projects with at least 20% investment by an Arkansas public retirement system, as part of the certification process of credits that may be claimed, DFA shall obtain from AEDC the IMPLAN report created using the taxpayer's data. Resources may be required in order for an analysis of the report for accuracy and completeness.

### **Time Required :**

Six months in order to promulgate any necessary rules.

### **Procedural Changes :**

Education of staff of the law change. Training of staff personnel and auditors to assist in the review of the IMPLAN report if required for the project.

### **Other Comments :**

It is unclear whether sold credits would be subject to the same annual credit limit of the facility. DFA would have to obtain a waiver of the Privacy Act from the qualifying facility if credits are sold in order to allow the buyer of credits to know how much credit can be claimed.

### **Legal Analysis :**

None.