

Department of Finance and Administration

Legislative Impact Statement

Bill: SB941

Bill Subtitle: TO CREATE AN INCOME TAX EXEMPTION FOR QUALIFIED DROP-IN BIOFUELS MANUFACTURERS.

Basic Change :

Senator B. Sample

Representative McLean

This bill creates an income tax exemption for qualified drop-in biofuels manufacturers. To qualify, the manufacturer must invest at least \$20,000,000 in a new or expanded facility, create at least 100 new jobs, locate the facility in Arkansas between January 1, 2013 and June 30, 2023, and sign a financial incentive agreement with the Arkansas Economic Development Commission between January 1, 2013 and June 30, 2023.

The number of years that the income tax exemption is allowed is based on a calculation using variables that include the average hourly wage paid by the manufacturer, the number of new jobs created, and the amount of the proposed investment to be made by the manufacturer. However, the exemption allowed under this Act shall not exceed 20 years. The Act becomes effective for tax years beginning on or after January 1, 2013, and no company may qualify for the exemption after June 30, 2023.

Revenue Impact :

No impact on current state tax revenues.

Taxpayer Impact :

Qualifying manufacturers will receive an income tax exemption for up to 20 years.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Education of staff personnel in the change in the law.

Other Comments :

Clarification should be included in the Act to insure that the exemption granted to a subsidiary cannot be applied to the income of the parent or other subsidiaries that are part of a consolidated tax return.

Legal Analysis :

SB941 amends Subchapter 3 of Chapter 51 of Title 26, concerning income tax exemptions and reduced rates, to create an income tax exemption for qualified drop-in biofuel manufacturers. A qualified manufacturer is one that: manufactures drop-in biofuels (essentially defined as liquid motor

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fuel that is a substitute for conventional petroleum based fuel and that can be utilized in conventional engine fuel systems without modification and can be delivered through existing fuel distribution systems), invests at least 20 million dollars in a new or expanded drop-in biofuels manufacturing facility, creates at least 100 new jobs, locates its facility in the state between January 1, 2013 and June 30, 2023, and signs a financial incentive agreement with AEDC between January 1, 2013 and June 30, 2023. The bill provides that subsidiaries of existing companies must establish a new or expanded facility as a separate legal entity in order to qualify for the exemption. The number of years a manufacturer is eligible for the exemption is calculated through the use of a complex formula using variables for production, wages, payroll, and investment; however, the exemption shall not exceed 20 years.

To date, at least 5 other states (Montana, Hawaii, Maine, Michigan and Mississippi) have introduced bills that considered exempting producers, distributors, and operators of biomass or biofuel facilities from taxes. The act will be effective for tax years beginning on and after January 1, 2013.