

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1132

Bill Subtitle: TO MODIFY THE ALLOCATION OF RECYCLING TAX CREDIT AMONG OWNERS IF AN ARKANSAS PUBLIC RETIREMENT SYSTEM IS AN OWNER; AND TO DECLARE AN EMERGENCY.

Basic Change : Sponsor: Rep. M. Hodges

Current law provides an income tax credit for the purchase of waste reduction, reuse, or recycling equipment used for the commercial purpose of reducing, reusing, or recycling solid waste. To earn the tax credit, a taxpayer must obtain a certification from the Director of the Arkansas Department of Environmental Quality certifying to the Revenue Division of the Department of Finance and Administration that the taxpayer qualifies for the credit. The income tax credit established is equal to 30% of the cost of the waste reduction, reuse, or recycling machinery and equipment. For credits earned by business entities organized as partnerships and limited liability companies, the credit is apportioned to each partner in proportion to the income from the entity which the partner is required to report as gross income. In the case of a Sub S corporation, the amount of credit is apportioned among the shareholders based on the percentage of ownership of each shareholder as of the last day of the tax year. Unused credits may be carried forward for a period of 3 tax years.

The bill amends current law to allow tax credits to be apportioned among the investors as provided in the applicable ownership or operating agreement if a proprietor, partner, member, shareholder, or other owner of the business organization is a public retirement system of the State of Arkansas. The proposal contains an emergency clause and becomes effective on passage and approval.

Revenue Impact :

None - no additional tax credits are created by this proposal.

Taxpayer Impact :

Public retirement systems do not have taxable income and do not file state income tax returns; therefore, income tax credits can be apportioned to other taxable entities of the business.

Resources Required :

None.

Time Required :

Adequate time is allowed in the proposal.

Procedural Changes :

Education of staff and a revision of the rules for the change in the law.

Other Comments :

None.

Legal Analysis :

Current law provides an income tax credit for a portion of the cost of recycling equipment purchased by the business. The credit is allocated among the owners of closely held business organizations based upon their proportion of ownership or income. The bill expands the options for allocating the tax credit by allowing the credit to be allocated as otherwise agreed upon by the owners if one of the owners is an Arkansas public retirement system.

The bill has a standard emergency clause making it effective upon the date of its approval.