Department of Finance and Administration

Legislative Impact Statement

Bill: HB1429
Bill Subtitle: TO EXTEND TAX INCENTIVES AND PROVIDE COMPETITIVE TAX EXEMPTIONS TO QUALIFIED MANUFACTURERS OF STEEL.

Basic Change : Sponsor: Representative Jett
This bill provides three tax reduction benefits to qualified manufacturers of steel:

(# 1) This bill amends the Consolidated Incentive Act of 2003 (CIA) to extend the carry forward period from 5 years to 9 years for Investark sales and use tax credits earned by qualified manufacturers of steel for projects approved by the Arkansas Economic Development Commission (AEDC). To qualify, the taxpayer must have obtained certification from AEDC acknowledging that at least $120,000,000 had been invested in a steel mill or that at least $500,000,000 had been invested in a steel mill through an Amendment 82 project. The extended carry forward period will apply to both new credits earned after the effective date of the act and to existing credits that were earned prior to the effective date of the act, but those earned prior to the effective date of the act can only be used for reporting periods beginning on or after January 1, 2015. Any credits that previously expired before they were used are revived and may be used against future tax liability for a total of 9 years. The bill also amends current CIA law to allow new and existing Investark sales and use tax credits earned by a qualified manufacturer of steel to be used by another qualified manufacturer of steel located on the same or an adjacent manufacturing site.

(# 2) This bill amends the Steel Mill Tax Incentives provided in current law to extend the income tax credit carry forward period from 3 years to 14 years for income tax credits earned by qualified manufacturers of steel for the purchase of waste reduction, reuse, or recycling equipment. To qualify, the taxpayer must have obtained certification from AEDC acknowledging that at least $120,000,000 had been invested in a steel mill or that at least $500,000,000 had been invested in a steel mill through an Amendment 82 project. The extended carry forward will apply to both new credits earned after the effective date of the Act and to existing credits that were earned prior to the effective date of the act, but those credits can only be used for tax years beginning on or after January 1, 2015. Any credits that previously expired before they were used are revived and may be used against future tax liability for a tital of 14 years. The bill also amends current law to allow new and existing recycling equipment credits earned by a qualified manufacturer of steel to be used by another qualified manufacturer of steel located on the same or an adjacent manufacturing site.

The bill increases the amount of post-consumer waste a steel mill must use to qualify for the recycling credit from 10% to 25% and eliminates the requirement that at least 50% of the raw materials be recovered materials. Businesses other than qualified steel mills remain subject to the current 50% limit for recovered materials and the current 10% post-consumer waste requirement.

(# 3) This bill amends the Steel Mill Tax Incentives to add a new sales and use exemption for machinery and equipment purchased by a qualified manufacturer of steel to modify, replace or repair existing manufacturing machinery and equipment. Services relating to the initial installation, alteration, addition, cleaning, refinishing, replacement, or repair of manufacturing machinery and equipment would also be exempt from sales and use tax. To qualify, the taxpayer must have obtained certification from AEDC acknowledging that at least $120,000,000 had been invested in a steel mill or that at least $500,000,000 had been invested in a steel mill through an Amendment 82 project; or be located on the same or an adjacent manufacturing site as a qualified manufacturer of steel that has obtain certification from AEDC. The bill is effective ninety days after final adjournment of the 90th General Assembly.

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Revenue Impact :

FY2016

-$6,378,610 Loss to State Revenues

Use of expired InvestArk Sales and Use Tax Credits	- $1,620,925
State Sales and Use Tax Exemption	-$ 4,757,685

FY2017

-$11,382,468 Loss to State Revenues

Use of expired Recycling Income Tax Credits	-$ 6,624,783
State Sales and Use Tax Exemption	-$ 4,757,685

FY2018

-$14,883,412 Loss to State Revenues

Use of expired Recycling Income Tax Credits	-$10,125,727
State Sales and Use Tax Exemption	-$ 4,757,685

Taxpayer Impact :

Qualified manufacturers of steel will have additional years to use Investark sales and use tax credits and Recycling Equipment income tax credits, and will have a sales and use tax exemption for purchases of replacement machinery and equipment and related service.

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.

Legal Analysis :

HB1429 makes changes to the Recycling Tax Credit with respect to qualified manufacturers of steel. The provisions of HB1429 with respect to the recycling tax credits mirror the language in Act 1084 and Act 1476 of 2013. The 2013 provisions were passed in conjunction with the approval of an Amendment 82 superproject for a qualifying manufacturer of steel.

It is unclear whether HB1429 intends to revive all previously issued but unused recycling equipment tax credits. Page 4, Lines 6-9 is unclear regarding the extension of tax credits that had expired by the effective date of the act being able to be used again over a period of 14 years. HB1429 also will extend the carry forward for any unused retention tax credits authorized by § 15-4-2706 up to 9 years for a qualified manufacturer of steel.