

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1429

As Engrossed: 3/20/2015

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

Basic Change : Sponsor: Representative Jett

Engrossment 03/20/15 --- House Amendment 1---The amendment removes the proposed changes to the Consolidated Incentive Act (as outlined in #1 below) and removes the proposed sales and use tax exemption (as outlined in #3). The amendment would maintain the proposed changes to the Steel Mill Tax Incentives (as outlined in # 2) including the reviving of tax credits that previously expires. However, the proposed changes would be effective for tax years beginning on or after January 1, 2017 (previously January 1, 2015) and the use of the reinstated credits would be limited to 20% of the established tax credit amount per tax year.

Original Bill ---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 total 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

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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.

Revenue Impact :

FY 2016 None

FY 2017 None

FY 2018 None

FY 2019 \$20M

Taxpayer Impact :

Qualified manufacturers of steel will have additional years to use Recycling Equipment income tax credits.

Resources Required :

None

Time Required :

Adequate time is provided for implementation..

Procedural Changes :

Education of staff of change in law.

Legal Analysis :

HB1429 as amended removes the provisions of the bill that dealt with the income tax credit for job retention under the Consolidated Incentive Act and the sales and use tax exemption expansion for replacement and repair of machinery and equipment.

HB1429 as amended 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.

HB1429 as amended intends to revive previously expired credits. Credits that were not used and expired would be given new life and new usage under the provisions proposed in HB1429. These previously expired and unused credits would be given the new 14 year carry forward period and could be used against income tax liability beginning on tax years starting January 1, 2017 and thereafter.