Department of Finance and Administration

Legislative Impact Statement

Bill: SB10
Bill Subtitle: TO AMEND THE INCOME TAX CREDIT FOR WASTE REDUCTION, REUSE, OR RECYCLING EQUIPMENT.

Basic Change :

Sponsors: Sen. D. Wallace and Reps. Jett, M. Hodges, Rye

Arkansas law currently provides an income tax credit for 30% of the purchase price of waste reduction, reuse, or recycling equipment for a qualified manufacturer of steel. The Division of Environmental Quality determines whether the purchases of equipment qualify for the tax credit.

There are three different types of steel manufacturing projects that qualify for the tax credit and each have different requirements and laws that control how the tax credits can be redeemed on the taxpayer's tax return or sold to the State of Arkansas. The different types of projects are as follows:

- Qualified Amendment 82 Project
- Qualified Expansion Project
- Qualified Steel Specialty Products Manufacturing Facility

SB10 creates a new project type for qualified manufacturers of steel, a Qualified Growth Project, which project will have the following requirements to qualify for the tax credit:

- Common ownership with, and be located on the site of or adjacent to, an existing qualified manufacturer of steel;
- A total investment of at least $2 billion;
- Creation of 700 new direct positions with an average annual wage of $120,000;
- Creation of 200 new independent direct positions with an average annual wage of $60,000;
- A positive cost-benefit analysis determined by AEDC and DFA;
- An incentive agreement with AEDC with performance and clawback provisions;
- A commencement date on or after January 1, 2021; and
- A closing date for necessary debt and equity financing before July 1, 2023.

A Qualified Growth Project that has a public retirement system as an owner or shareholder will divide their tax credits between the tax credits that can be sold to the State of Arkansas (monetized credits) and the tax credits that will be claimed on the taxpayer's return (non-monetized credits). AEDC's incentive agreement will provide the amount of monetized credits that will be authorized.

Monetized Credits --- The public retirement system will have possession of the monetized credits. $11 million of the monetized credits may be sold to the State of Arkansas at 80% of face value ($8.8 million per year). If the State of Arkansas does not purchase the credits, the taxpayer may sell the $11 million in credits to another taxpayer.

Non-monetized Credits --- The taxpayer making the purchase of the equipment will have possession of the remaining tax credits that can only be claimed on the taxpayer's return. The bill places a $27.5 million cap on the amount of credits that can be claimed on the taxpayer's return per year. Unused credits do not expire.

If a Qualified Growth Project does not have a public retirement system of the State of Arkansas as a

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member, the bill provides that no more than $11 million of income tax credits can be used in any tax year. Earned and unused tax credits may be carried forward past the normal carry forward period one additional year at a time to preserve the ability of the taxpayer to use the credit against future tax liabilities.

There is no limit to the amount of tax credits that may be issued for a Qualified Growth Project.

Revenue Impact :

If Public Retirement System is an Owner --- 80% of $11 million, or $8.8 million, per year impact to state general revenues for the sale of the income tax credits from the public retirement system to the State of Arkansas. Additionally, if a Qualified Growth Project qualifies for additional tax credits, up to $27.5 million in credits may be claimed against income tax liability each year until exhausted.

If Public Retirement System is Not an Owner --- Income tax credits reducing general revenues of up to $11 million per year could be redeemed by a Qualified Growth Project on the taxpayer's return.

Taxpayer Impact :

A common ownership interest of a qualified manufacturer of steel who develops a "qualified growth project" may qualify for tax credits under SB10.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Computer programs, tax forms and instructions and training manuals will need to be updated. Department employees will need to be educated as well as the tax community.

None.

Other Comments :

None.

Legal Analysis :

None.