



# Assorted Tax Credits

Arkansas Tax Reform and Relief Legislative Task Force

September 27, 2018

Arkansas Department of Finance and Administration



# Assorted Tax Credits

---

- Excludes Tax Credits from the Consolidated Incentive Act, administered by AEDC.
- Serve to reduce the tax due by a taxpayer who claims a credit.
- May be Income or Sales Tax.
- Underlying programs administered by different Agencies. DFA provides Tax Credit administration when the recipient claims the credit against a tax administered by DFA.

# Assorted Tax Credits

---

- Waste Reduction & Recycling Equipment Credit
- Waste Reduction & Recycling Credit for Qualified Steel Manufacturers
- Tourism Development Act
- Equity Investment Incentive Act
- Historic Rehabilitation Tax Credit
- Water Resource Conservation Tax Credit
- Low Income Housing Credit

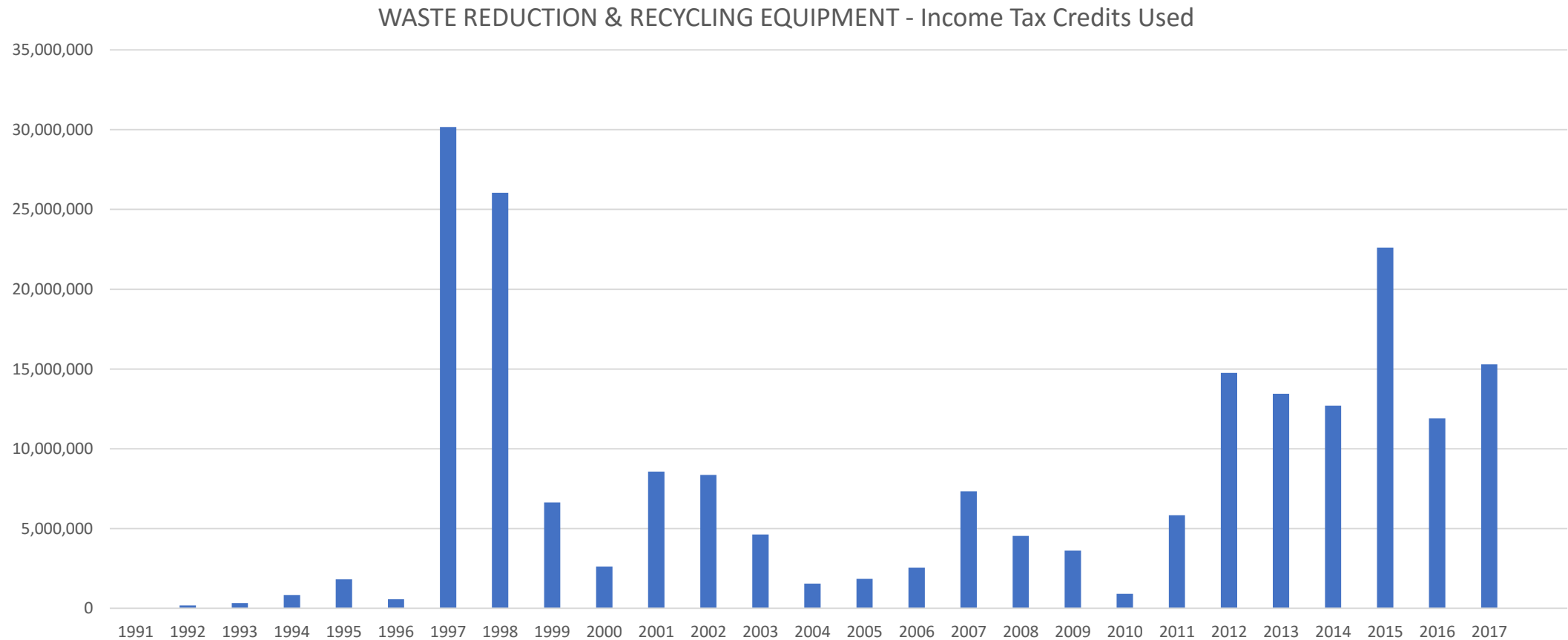
# Waste Reduction & Recycling Equipment

# Waste Reduction & Recycling Equipment

---

- Income Tax credit equal to 30% of the cost of machinery and equipment used to reduce, reuse, or recycle raw materials.
- Ark. Code Ann. § 26-51-506.
- Originally enacted in 1991 by Act 748.
- Three (3) year carry forward period.
- Arkansas Department of Environmental Quality certifies the machinery and equipment meet the definition under the rules promulgated pursuant to Ark. Code Ann. § 26-51-506(k).
- Qualified Manufacturers of Steel and Qualified Expansion Projects have different carry forward and redemption procedures.

# Waste Reduction & Recycling Equipment



# Waste Reduction & Recycling Equipment

---

## ❖ Qualified Manufacturers of Steel Recycling Credits

- State Buyback Provisions
  - Only comes into play if a Public Funded Retirement System of the State is an investor or owner of a Qualified Manufacturer of Steel.
  - If the Public Retirement System has the ownership and control of the credits, each fiscal year, the State has the right to purchase up to \$20 Million of the credits at 80% value, or \$16M.
- Indefinite Carryforward Provisions
  - When a credit would expire for a Qualified Manufacturer of Steel, the expiration extends an additional year providing an effectively unlimited carry forward until used.

# Waste Reduction & Recycling Equipment

---

## ❖ Qualified Expansion Projects

- State Buyback Provisions

- Only comes into play if a Public Funded Retirement System of the State is an investor or owner of a Qualified Expansion Project to a Qualified Manufacturer of Steel.
- If the Public Retirement System has the ownership and control of the credits, each fiscal year, the State has the right to purchase up to \$6.5 Million of the credits at 80% value, or \$5.2M.

- Indefinite Carryforward Provisions

- When a credit would expire for a Qualified Manufacturer of Steel, the expiration extends an additional year providing an effectively unlimited carry forward until used.



# Arkansas Tourism Development

# Tourism Development Credit

---

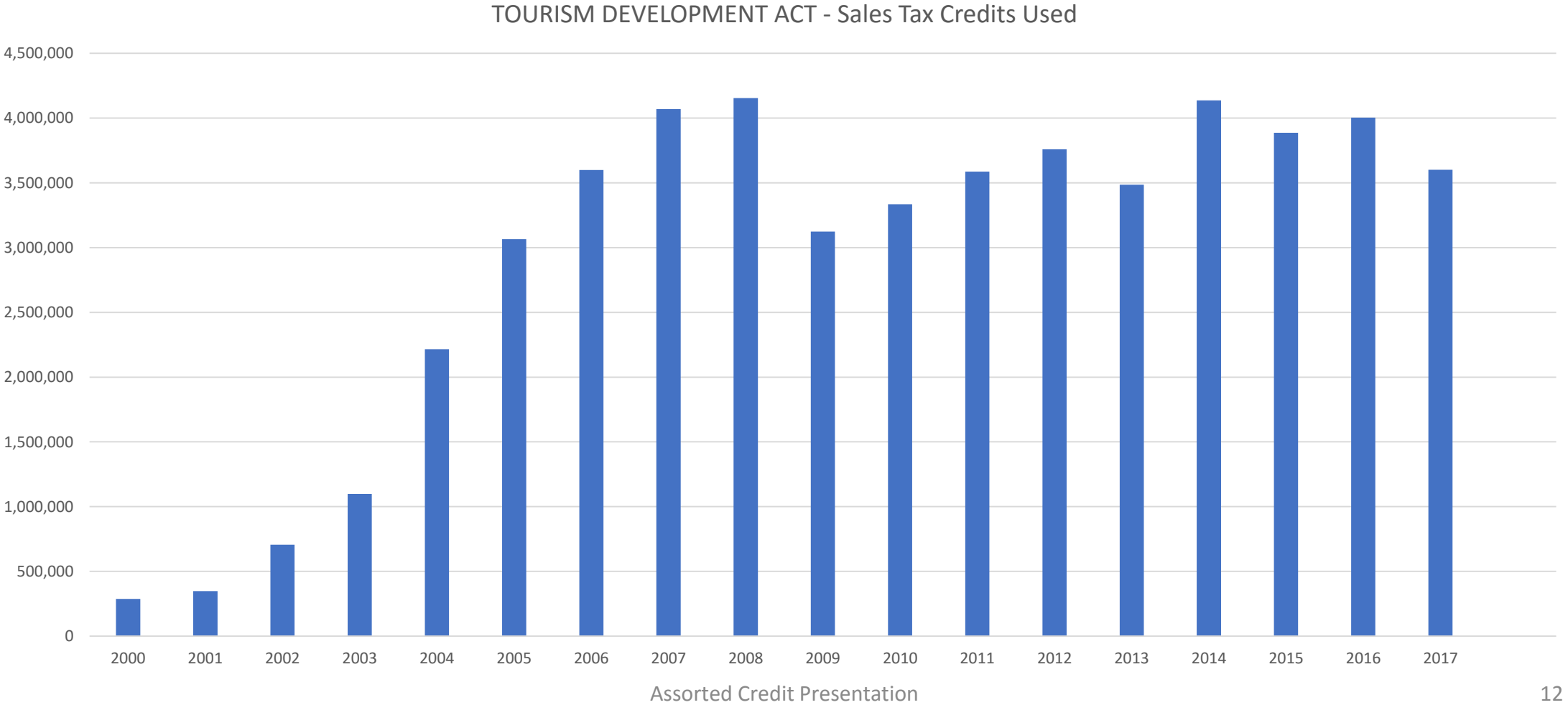
- Sales Tax credit of 15% of all approved cost or 25% of all approved costs if in a high unemployment county.
- Tourism Project Development Credit Program overseen by AEDC.
- Sales Tax Credit may offset increased Sales Tax if the tax is equal to or greater than the credit amount.
- Unused credits carry forward for nine (9) years.
- Enacted in 1997 by Act 291, with amendments in Act 1135 of 1999 and Act 2308 of 2005 codified at Ark. Code Ann. § 15-11-501 through -511.

# Tourism Development Credit

---

- Investment minimum of \$1M, or \$500,000 in high unemployment counties
- There is also an Income Tax credit of 4% of the payroll of new full time permanent employees, but the Sales tax credit is claimed at a substantially higher rate.
- The eligible company must create or expand a tourism attraction as approved by AEDC which includes cultural or historical sites, recreational and entertainment facilities, theme parks, amusement or entertainment parks, and botanical gardens but excludes hotels, retail establishments, facilities not open to the general public, and facilities owned by the State.

# Tourism Development Credit



# Equity Investment Incentive Credit

# Equity Investment Incentive Credit

---

- Income Tax Credit of 33 1/3% of the purchase price for equity interests in a business.
- The credit may offset up to 50% of the state income tax or insurance premium tax liability of the holder.
- Overseen by AEDC and awarded at the discretion of the Director of AEDC
- Unused credits carryforward for 9 years.
- Enacted in 2007 by Act 566, codified at Ark. Code Ann. § 15-4-3301 *et seq.*

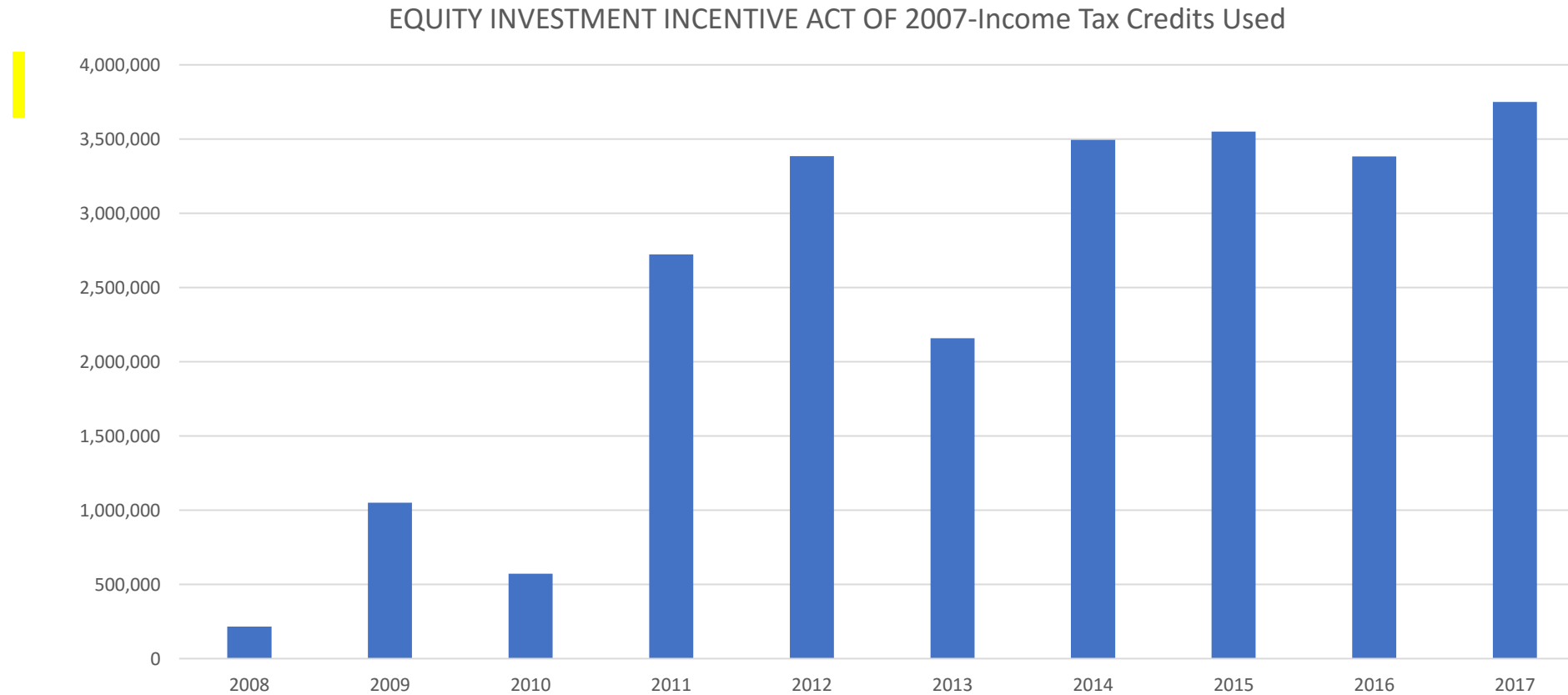


# Equity Investment Incentive Credit

---

- Qualifying businesses for the investment incentive must be:
  - Early-stage businesses and start-up business;
  - Businesses paying wages in excess of the prevailing wages in the State or county; and
  - Invested in by venture capital funds and regional or community-based alliance funds.
- This standard is met by reference to Targeted businesses in the Consolidated Incentive Act or by other requirements set forth in Ark. Code Ann. § 15-4-3303 such as 150% of the prevailing local wage and two or more of the following:
  - Targeted by a local or regional economic development plan;
  - Supported by resolution of city council or quorum court;
  - Supported by federal small business innovation research grants;
  - Supported by certified business incubators; or
  - Supported by technology development or seed capital investments by State instrumentalities.

# Equity Investment Incentive Credit





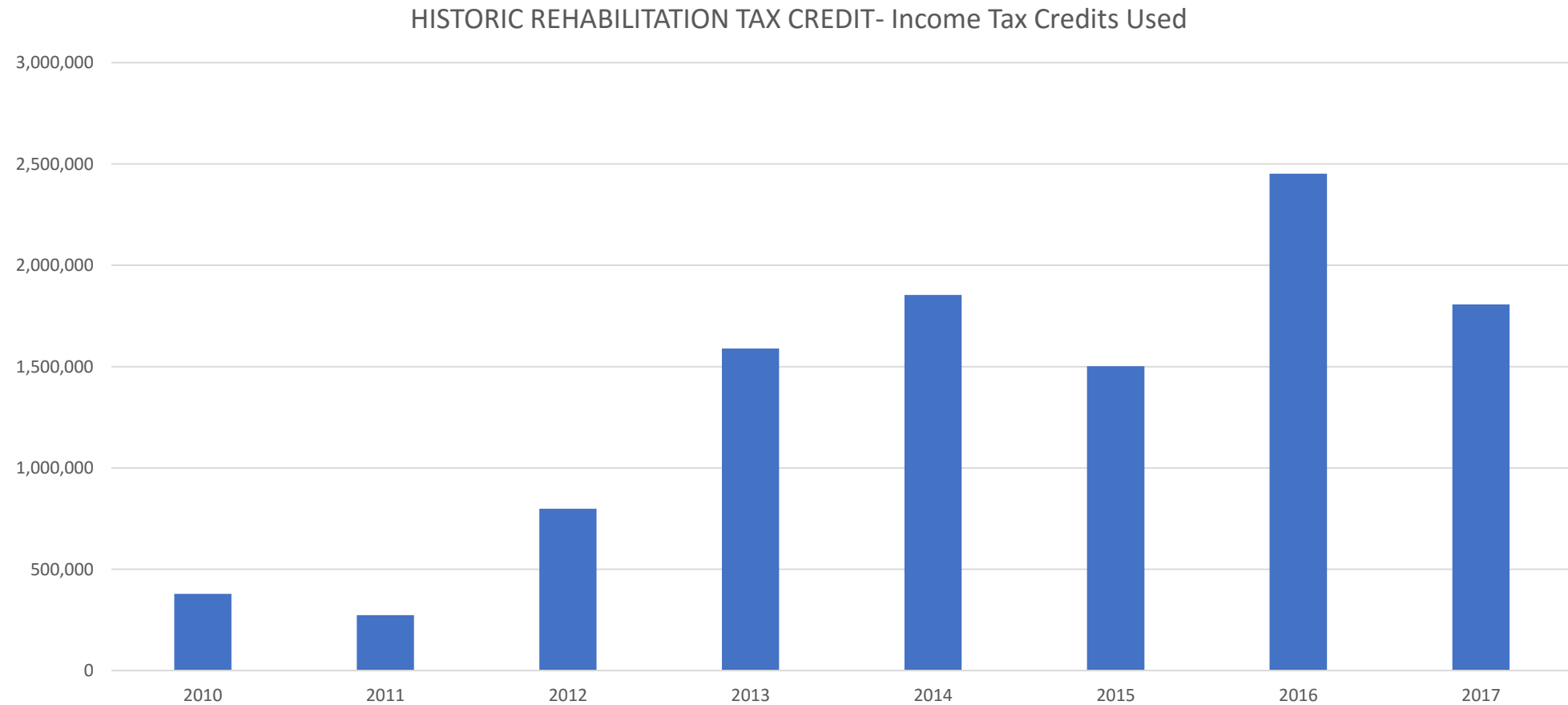
# Historic Rehabilitation Tax Credit

# Historic Rehabilitation Credit

---

- Income Tax credit of 25% of all approved rehabilitation expenses up to the first \$1.6M in expenses for income producing property and the first \$100,000 for non-income producing property.
- Historic Rehabilitation program is overseen by the Department of Heritage.
- A maximum of \$4M Credits may be issued each year.
- Unused credits carry forward for 5 years.
- Credits may be transferred or sold.
- Enacted in 2009 by Act 498, with amendments in Act 567 of 2015 and Act 393 of 2017, codified at Ark. Code Ann. § 26-51-2201 *et seq.*

# Historic Rehabilitation Credit



# Water Resource Conservation Tax Credits

# Water Resource Conservation and Development

---

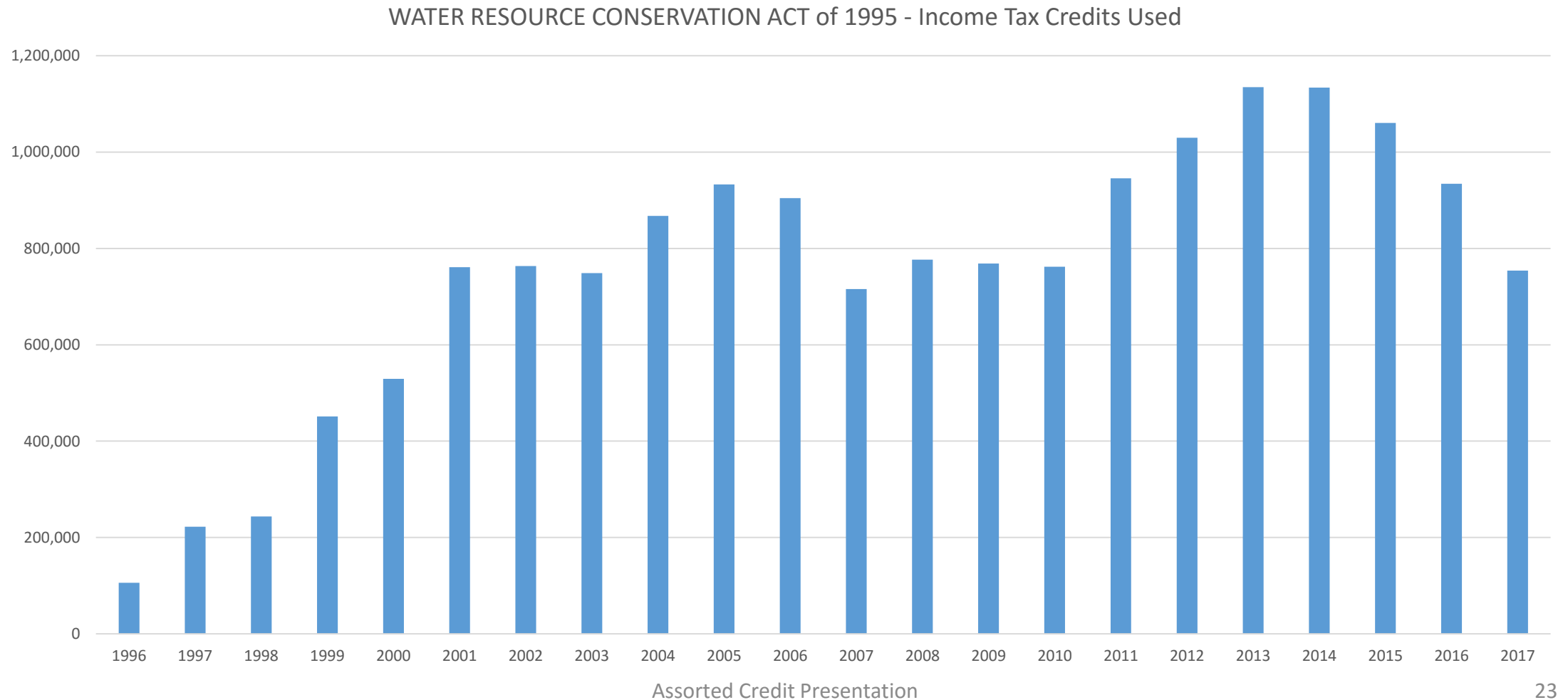
- Income Tax credit of 10% of the project cost to reduce ground water use by substitution of surface water for industrial, commercial, agricultural or recreational purposes. 50% Credit if the project is in a critical groundwater area.
- Water Resource Conservation and Development program is overseen by the Arkansas Natural Resources Commission.
- A maximum of \$9,000 per project may be claimed. Unused credits carry forward for 2 years.
- Projects for industrial and commercial purposes in critical groundwater areas may receive up to \$200,000 per project. Unused credits carry forward for 4 years.

# Water Resource Conservation and Development

---

- Income Tax credit of 50% of the cost of construction and installation or restoration of water impoundments primarily for agricultural, commercial, or industrial use.
- Water Resource Conservation and Development program is overseen by the Arkansas Natural Resources Commission.
- A maximum of \$9,000 per project may be claimed.
- Unused credits carry forward for 9 years.
- Enacted in 1995 by Act 341, with amendments in Act 421 of 1997, Acts 765 and 1050 of 1999, and Act 727 of 2001, codified at Ark. Code Ann. § 26-51-1001 *et seq.*

# Water Resource Conservation and Development



# Low Income Housing Credit



# Low Income Housing Credit

---

- Income Tax credit of 20% of the allowable Federal Low Income Tax Credit.
- Approval for the tax credit and the ownership interest in a qualified low income building is through the Arkansas Development Finance Authority.
- The credit is nonrefundable and unused credits carry forward for 5 years.
- Insurance companies eligible for the Low Income Tax Credit will apply the credit to the Insurance Premium Tax administered by the Insurance Department.
- Originally enacted in 1997 by Act 1332 with amendments in Act 787 of 2011, codified at Ark. Code Ann. § 26-51-1702.

# Low Income Housing Credit

