

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** Lacey E. Putney

2. **Bill Number** HB 1744

3. **Committee** Senate Finance

House of Origin:

 Introduced

 Substitute

 Engrossed

4. **Title** Income tax credit; purchase of machinery and equipment for processing recyclable materials

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would extend the carryover period for individual and corporate income tax credit for purchase of machinery and equipment for processing recyclable materials from 10 years to 20 years. The bill also revives the individual income tax credit that expired on January 1, 2004 and extends the carryover period to 20 years from the date that the individual was first allowed to take the credit.

In addition, this bill would allow unused portions of both the individual and the corporate credits to be transferred for use by another taxpayer on a Virginia income tax return. Taxpayers who utilized this provision would be required to file a notification of the transfer with the Department.

Finally, this bill would require that the amount of a credit earned by a pass-through entity be allocated to the owners in proportion to their ownership or interest in the entity.

The effective date of this bill is not specified.

6. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2004-05	\$0	GF
2005-06	\$201,870	GF
2006-07	\$38,150	GF
2007-08	\$39,150	GF
2008-09	\$40,200	GF
2009-10	\$41,300	GF
2010-11	\$42,400	GF

7. **Budget amendment necessary:** Yes.

ITEM(S): 284 and 286, Department of Taxation

8. Fiscal implications:

The negative revenue impact associated with this bill is unknown, but could result in a significant revenue loss in FY 2006. This bill would allow an estimated \$13 million in unused credits to be transferred to others, creating the possibility that all of the credits will be transferred to taxpayers with sufficient income tax liability to use them in the first fiscal year or two. In addition, the provisions of this bill restoring the individual credit and extending carryovers to 20 years would decrease General Fund revenue by \$183,720 in FY 2006, \$143,340 in FY 2007, \$177,660 in FY 2008, \$236,880 in FY 2009, \$296,100 in FY 2010, and \$355,320 in FY 2011 assuming that no credits are transferred. To the extent that unused credits are transferred instead of being carried forward, some of this revenue loss would be accelerated.

The Department would incur administrative costs of \$201,870 for FY 2006, \$38,150 for FY 2007, \$39,150 for FY 2008, \$40,200 for FY 2009, \$41,300 for FY 2010, and \$42,400 for FY 2011 for forms and systems modifications.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Environmental Quality

10. Technical amendment necessary: None.

11. Other comments:

Current Law

The credit for recyclable materials processing equipment is an income tax credit that is claimed for purchases made during the taxable year for machinery and equipment used exclusively in or on the premises of manufacturing facilities or plant units that manufacture, process, compound or produce items of tangible personal property from recyclable materials within the Commonwealth for sale. The credit is 10% of the qualifying expenditures and cannot exceed 40% of the Virginia income tax liability for the year, computed prior to computing the credit.

Corporations earning credit for recyclable materials processing equipment may claim the credit for the taxable year in which the qualifying purchase was made. Unused credit may be carried over for the next 10 succeeding taxable years from the date that the credit was first allowable, until the total credit is used.

The credit for individuals expired in 2003. Individuals having unused credit for recyclable materials processing equipment from a qualifying year will continue to carry unused credits forward for the next 10 succeeding taxable years from the date that the credit was first allowable, until the total credit is used.

Proposal

This bill would extend the carryover period for corporate income tax credits for the purchase of machinery and equipment for processing recyclable materials from 10 years to 20 years.

This bill also revives the individual income tax credit that expired on January 1, 2004 and extends the carryover period to 20 years succeeding the date that the individual was first allowed to take the credit. Individual taxpayers would be allowed to claim a credit for recycling equipment retroactively to January 1, 2004, until January 1, 2007. This provision restores a capability that existed for numerous years and ceased to exist for taxable years beginning on and after January 1, 2004.

This bill would require that credits earned by pass-through entities be allocated to the owners of the entity in proportion to their ownership or interest in such entity.

This bill would also allow individual and corporate taxpayers to transfer unused credit amounts for use by another taxpayer on a Virginia income tax return. Taxpayers who take advantage of this would be required to file a notification of the transfer to the Department in accordance with procedures and forms prescribed by the Tax Commissioner. "Unused credits" would be defined to include both new credits and carryover credits from previous years.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 2/11/2005 AMS
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