

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Christopher B. Saxman

3. **Committee** House Finance

4. **Title** Income Tax: Tax Credit for Waste Motor
Oil / Fluids Reclamation Systems

2. **Bill Number** HB 1470

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would add waste motor oil/fluids reclamation systems to the existing credit against individual and corporate income taxes for purchases of waste motor oil burning equipment. This bill would provide that the credit would equal 50% of qualifying purchases, not to exceed \$5,000 annually.

The effective date for this bill would be for taxable years beginning on or after January 1, 2007.

6. Fiscal Impact Estimates are: Not available. (See Line 8.)

7. Budget amendment necessary: No.

8. Fiscal implications:

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

This bill would result in a General Fund revenue loss in an unknown amount. There are 1,160 registered collection sites in Virginia, of which 760 have claimed a credit for purchasing a waste oil burner. Approximately 50 sites in Virginia are believed to put waste oil through a reclamation process. TAX cannot predict how many collection sites will purchase waste oil reclamation equipment, but understands that most waste oil is presently burned for heating purposes.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Environmental Quality

10. Technical amendment necessary: Yes.

The Department of Environmental Quality must certify the equipment that would be used to qualify for this credit. DEQ has suggested that reclamation equipment be defined as follows:

Line 24, after facility.

Insert: A reclamation system means a system used to capture a recyclable material consisting of a unique waste stream that processes the material into an item of tangible personal property, within the Commonwealth, for sale that would be considered equivalent to the commercial virgin product. For the purpose of this section, reclamation includes the act of re-refining the material into a product or filtering and recovering the material for use as a lubricant. Recyclable means capable of being diverted or reclaimed from the waste stream and prepared for further beneficial use through the recycling process.

Tax returns filed electronically cannot include attachments. In order to allow returns claiming this credit to be filed electronically, the Department suggests the following technical amendment:

Line 30, after also

Strike: submit with his income tax return

Insert: obtain

In order to ensure that the same expenses cannot be used for more than one Virginia tax credit, the Department suggests the following technical amendment:

Line 38, after corporation.

Insert: D. A taxpayer may not use the purchases, expenses, or equipment for which a credit is claimed under this section as the basis for claiming any other credit provided under the Code of Virginia.

11. Other comments:

Current Law

A credit against individual and corporate income tax exists for those taxpayers who operate businesses in Virginia that accept waste motor oil from the public. The amount of the credit is equal to 50% of the purchase price paid for equipment used exclusively for burning waste motor oil. The credit may be used only for the taxable year in which the purchase price was paid for the equipment.

The Department of Environmental Quality must certify that the equipment is used to burn waste motor oil. The taxpayer must submit receipts, invoices or other documentation to substantiate the credit claimed.

Proposal

This bill would add waste motor oil/fluids reclamation systems to the existing credit against individual and corporate income taxes for purchases of waste motor oil burning equipment. This bill would provide that the credit would equal 50% of qualifying purchases, not to exceed \$5,000 annually.

It is possible that some of the reclamation equipment also could qualify for credit for purchases of machinery and equipment for processing recyclable materials if the reclaimed oil is sold as a lubricant. In other cases where a purchase or activity could qualify for more than one Virginia tax credit the taxpayer has been allowed to choose which credit to receive, but has not been allowed to claim more than one credit for the same expense. An amendment is suggested to prevent multiple tax credits for purchases of the same reclamation equipment.

The effective date for this bill would be for taxable years beginning on or after January 1, 2007.

cc : Secretary of Finance

Date: 02/02/2006 CHC
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