

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** John C. Watkins

2. **Bill Number** SB 870

House of Origin:

☐ **Introduced**

☐ **Substitute**

☐ **Engrossed**

3. **Committee** Passed House and Senate

4. **Title** Income Tax; Credit for the Purchase of Machinery and Equipment for Processing Recyclable Materials

Second House:

☐ **In Committee**

☐ **Substitute**

☒ **Enrolled**

5. **Summary/Purpose:**

This bill would extend the sunset date from January 1, 2007 to January 1, 2015 for the corporate income tax credit for the purchase of machinery and equipment used to produce personal property from recyclable materials. In addition, this bill would make this credit available for use against the individual income tax as well as the corporate income tax.

This bill would also specify that, in the event that a corporation converts to a partnership, limited liability company, or electing small business corporation (S corporation), the new business entity would be entitled to any unused credits that were earned by the corporation. In addition, this bill would require that credits earned by a partnership, limited liability company, or electing small business corporation (S corporation) be allocated to the individual partners, members, or shareholders, respectively, in proportion to their ownership or interest in the business entity.

This provision of this bill advancing the sunset date of this credit would be effective for taxable years beginning on or after January 1, 2007. The remaining provisions of this bill would be effective for taxable years beginning on or after January 1, 2008.

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

6b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	\$0	GF
2007-08	\$0	GF
2008-09	(\$498,000)	GF
2009-10	(\$498,000)	GF
2010-11	(\$498,000)	GF
2011-12	(\$498,000)	GF
2012-13	(\$498,000)	GF

7. **Budget amendment necessary:** No.

8. Fiscal implications:

Administrative Costs

TAX considers the implementation of this bill as routine, and does not require additional funding.

Revenue Impact

The extension of the sunset date of this credit would have no impact on General Fund revenues, as the official forecast assumes the extension of any expiring provisions. The portion of this bill that would make the credit available for use against the individual income tax would have a negative revenue impact of \$498,000 per year beginning in FY 2009.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Environmental Quality

10. Technical amendment necessary: No.

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. The Department of Environmental Quality ("DEQ") must certify that the equipment is integral to the recycling process before the taxpayer is entitled to claim 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 credits 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 corporate income tax credit expired on December 31, 2006.

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

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Similar Legislation

House Bill 3044 is identical to this bill.

cc : Secretary of Finance

Date: 2/27/2007 AMS
SB870FER161