

## DEPARTMENT OF TAXATION 2007 Fiscal Impact Statement

1. **Patron** Harry B. Blevins

2. **Bill Number** SB 990

3. **Committee** Senate Finance

**House of Origin:**

  X   **Introduced**

      **Substitute**

      **Engrossed**

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 change the procedure for qualifying for this credit. Taxpayers would be required to submit to the Department of Environmental Quality ("DEQ") purchase receipts, invoices, and other documentation necessary to confirm the taxpayer's statement of the purchase price paid for the recycling machinery and equipment. If DEQ found that the machinery and equipment were integral to the recycling process, it would also determine the purchase price paid for the machinery and equipment and would issue a certificate to the taxpayer. The taxpayer would then be required to attach the certificate to the Virginia income tax return.

This bill would also specify that credits earned by a partnership, limited liability company, or electing small business corporation (S corporation) would be allocated to the individual partners, members, or shareholders, respectively, as the partners, members, or shareholders mutually agree as provided in an executed document. If such a document were not executed, the credits would be allocated to the individual partners, members, or shareholders, respectively, in proportion to their ownership or interest in the business entity.

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

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

**6b. Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2006-07	\$0	GF
2007-08	(\$498,000)	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:** Yes.

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**8. Fiscal implications:**

Administrative Costs

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.

The role of the Department of Environmental Quality ("DEQ") would be expanded. In addition to certifying that the equipment for which a credit is claimed is integral to the recycling process, DEQ would have to review purchase invoices, receipts, and other documentation and certify the purchase price on which the credit would be based.

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 2008.

**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 must certify that the equipment is integral to the recycling process before the taxpayer is entitled to claim the credit. The taxpayer must also submit to TAX purchase receipts, invoices, and other documentation necessary to confirm the taxpayer's statement of purchase price paid, with the income tax return in order to verify the amount of purchase price paid for the recycling machinery and equipment.

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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partners, members, or shareholders, respectively, as the partners, members, or shareholders mutually agree as provided in an executed document. If such a document were not executed, the credits would be allocated to the individual partners, members, or shareholders, respectively, in proportion to their ownership or interest in the business entity.

The form of the executed document used by taxpayers to allocate this credit would have to be as prescribed by the Director of DEQ. The Director of DEQ, in consultation with the Commissioner of TAX, would be required to develop and make publicly available the form for the executed document by no later than October 1, 2007.

#### Similar Legislation

**House Bill 3044** would extend the sunset date for this credit from January 1, 2007 to January 1, 2010.

**Senate Bill 870** would also extend the sunset date of this credit from January 1, 2007 to January 1, 2015 and make the credit available for use against the individual income tax as well as the corporate income tax.

cc : Secretary of Finance

Date: 1/26/2007 AMS  
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