

DEPARTMENT OF TAXATION

2015 Fiscal Impact Statement

1. **Patron** Daniel W. Marshall, III

3. **Committee** Senate Finance

4. **Title** Recyclable Materials Processing Equipment
Tax Credit

2. **Bill Number** HB 1554

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the amount of Recyclable Materials Processing Equipment Tax Credits that each taxpayer may claim to an amount equal to 20 percent of the purchase price for machinery and equipment that qualifies for the credit. This bill would impose a credit cap of \$2 million per fiscal year.

This bill would also allow taxpayers to claim the credit for machinery and equipment used predominantly for qualified purposes, rather than exclusively for such purposes. This bill would prohibit denying the credit to a taxpayer based solely on another person's use of tangible personal property produced by the taxpayer using machinery and equipment that would otherwise qualify for the credit, provided that the tangible personal property was sold by the taxpayer to an unaffiliated person in an arm's-length sale.

This bill would require that machinery and equipment be used to manufacture, process, compound, or produce items of tangible personal property from recyclable materials to qualify for the credit.

This bill would extend the sunset date for the Recyclable Materials Processing Equipment Tax Credit from taxable years beginning before January 1, 2015 to taxable years beginning before January 1, 2020.

This bill would be effective for taxable years beginning on and after January 1, 2015.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

Administrative Costs

The Department of Environmental Quality ("DEQ") and the Department of Taxation ("the Department") consider implementation of this bill as routine, and do not require additional funding.

Revenue Impact

Because this bill would increase the amount of credits that each taxpayer could claim for qualifying expenditures and would make it less difficult for certain taxpayers to qualify for the credit, the Department anticipates that it could increase the amount of Recyclable Materials Processing Equipment Tax Credits claimed each year by an unknown amount. Therefore, this bill would have an unknown negative General Fund revenue impact, beginning in Fiscal Year 2016. The potential reduction in General Fund revenues would be limited because this bill would also impose a credit cap of \$2 million.

The fiscal impact of the credit cap is unknown, since the amount of Recyclable Materials Processing Equipment Tax Credits claimed tends to fluctuate annually. The table below shows the amount of Recyclable Material Processing Equipment Tax Credits claimed for Fiscal Years 2010 through 2014:

Fiscal Year	Amount of Credits Claimed
2010	\$1,208,570
2011	\$603,233
2012	\$656,223
2013	\$2,705,672
2014	\$1,151,167

9. Specific agency or political subdivisions affected:

Department of Environmental Quality
Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

The Recyclable Materials Processing Equipment Tax Credit is an individual and corporate income tax credit for purchases made during the taxable year of 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 Virginia for sale. The amount of the credit is equal to 10 percent of a taxpayer's qualifying expenditures, and cannot exceed 40 percent of its Virginia income tax liability for the year.

DEQ must certify that machinery and equipment is integral to the recycling process before the taxpayer is entitled to claim the credit. A taxpayer is also required to submit purchase receipts, invoices, and other such documentation as may be necessary to confirm the purchase price paid for machinery and equipment with its tax return.

Once DEQ has certified the equipment, the Department is responsible for administering the credit and, therefore, processes credit applications, determines eligibility, and allocates credits to taxpayers.

Proposed Legislation

This bill would increase the amount of credits that each taxpayer could claim to an amount equal to 20 percent of the purchase price for machinery and equipment that qualifies for the credit. This bill would impose a credit cap of \$2 million per fiscal year. If the amount of credits approved by the Department exceeds \$2 million for any taxable year, the Department would be required to apportion credits on a pro rata basis.

This bill would also allow taxpayers to claim the credit for machinery and equipment used predominantly for qualified purposes, rather than exclusively for such purposes. This bill would prohibit denying the credit to a taxpayer based solely on another person's use of tangible personal property produced by the taxpayer using machinery and equipment that would otherwise qualify for the credit, provided that the tangible personal property was sold by the taxpayer to an unaffiliated person in an arm's-length sale.

This bill would require that machinery and equipment be used to manufacture, process, compound, or produce items of tangible personal property from recyclable materials to qualify for the credit.

No taxpayer would be allowed to claim the credit unless it applies to DEQ for certification that the machinery and equipment are integral to the recycling process, and DEQ has issued a written certification stating that such machinery and equipment are integral to the recycling process.

This bill would extend the sunset date for the Recyclable Materials Processing Equipment Tax Credit from taxable years beginning before January 1, 2015 to taxable years beginning before January 1, 2020.

This bill would require the Department, in consultation with DEQ, to develop guidelines, exempt from the Administrative Process Act, implementing the provisions of this bill, and update such guidelines as necessary.

This bill would be effective for taxable years beginning on and after January 1, 2015.

Similar Bills

Senate Bill 1205 is identical to this bill.

cc : Secretary of Finance

Date: 2/13/2015 MTH
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