

Department of Finance and Administration

Legislative Impact Statement

Bill: SB543

Bill Subtitle: TO AMEND THE LAW GOVERNING THE INCOME TAX CREDIT FOR WASTE REDUCTION, REUSE, OR RECYCLING EQUIPMENT; AND TO AMEND THE DEFINITION OF "QUALIFIED SPECIALTY STEEL PRODUCTS MANUFACTURING FACILITY".

Basic Change :

**Sponsors: Sen. D. Wallace
Reps. Jett and M. Hodges**

Arkansas law provides an income tax credit for steel manufacturers that purchase certain waste reduction, reuse, and recycling equipment. The credit is available to qualified steel specialty products manufacturing facilities that commenced construction on or after January 1, 2017 with a closing date before July 1, 2018. SB543 extends the credit to qualified steel specialty products manufacturing facilities who commence construction on or after January 1, 2021 with a closing date before July 1, 2023. By the closing date of July 1, 2023, qualifying taxpayers must have obtained the necessary capital acquisition and borrowing to:

- Secure a site;
- Obtain engineering services;
- Purchase equipment; and
- Commence initial construction.

SB543 allows for an electric arc or similar furnace to qualify if the project invests \$200 million or more and creates at least 150 net new positions paying an average annual wage of \$75,000. The project must provide a positive cost-benefit analysis to the state before it is approved. The credit is equal to 30% of the cost of the qualifying waste reduction, reuse, or recycling equipment, include the cost of installation. The credit may be claimed against income taxes owed at a maximum of \$4,000,000 per year if the investment is \$200 million to \$275 million, \$5,000,000 per year if the investment is between \$275 million and \$350 million and \$6,500,000 per year if the investment is over \$350 million. Unused credits may be carried forward until fully claimed.

SB543 amends the definition of a "qualified steel specialty products manufacturing facility" to allow a new facility meeting that definition to qualify for the credit.

SB543 also provides that a public retirement system that has tax credits from an investment in a qualified steel specialty products manufacturing facility may sell or transfer those credits, subject to certain limitations.

The bill is effective for tax years beginning on or after January 1, 2021.

Revenue Impact :

A qualifying project would result in \$4,000,000 to \$6,500,000 in tax credits that may be sold or transferred per year beginning in FY2022. No tax credits would be issued to a taxpayer unless the project is determined to have a positive cost benefit analysis as certified by Arkansas Economic Development Commission (AEDC) and the Office of Economic Analysis and Tax Research and an performance and clawback agreement is signed by the taxpayer and AEDC. If the tax credits are in the possession and control of a public retirement system, the State of Arkansas may purchase the credits

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for 80% of the face value.

Taxpayer Impact :

A taxpayer will need to apply with AEDC and the Office of Economic Analysis and Tax Research before an incentive agreement can be made. DFA will conduct audits to ensure that taxpayers are complying with requirements. A taxpayer must maintain records for at least 15 years or until the credit is fully claimed plus three years.

Resources Required :

Computer programs, tax forms, and instructions will need to be updated.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Computer programs, tax forms and instructions and training manuals will need to be updated. Department employees will need to be educated as well as the tax community.

Other Comments :

None.

Legal Analysis :

Under current law, a "qualified steel specialty products manufacturing facility" qualifies for the tax credit. A "qualified steel products manufacturing facility" is an Arkansas facility that melts scrap steel in an electric arc furnace; that began construction after January 1, 2017; and that completed its certification requirements with AEDC on or before July 1, 2018. SB543 amends this definition to allow a "qualified steel specialty products manufacturing facility" to include a facility that melts scrap steel in a furnace that is similar to an electric arc furnace; that began construction on or after January 1, 2021; and that completed its certification requirements on or before July 1, 2023.