Department of Finance and Administration

Legislative Impact Statement

Bill: HB1490
Bill Subtitle: TO AMEND THE CONSOLIDATED INCENTIVE ACT OF 2003.

Basic Change :

Sponsors: Rep. Wing and Sen. Pitsch

HB1490 amends provisions of the Consolidated Incentive Act of 2003 which provides economic development tax incentives to promote economic development in Arkansas. The programs are administered by the Arkansas Economic Development Commission (AEDC).

HB1490 includes technical changes to the Consolidated Act of 2003, adds new language and removes obsolete language from the provisions. The technical changes include: amended definitions of terms used in the incentive act that reference applied research; basic research; corporate headquarters; nonretail business; regional headquarters; eligible business; and targeted business. The bill adds a definition for film and digital products and removes obsolete language from several sections.

Specific program changes are as follows:

Job-creation tax credit -- Advantage Arkansas: The Advantage Arkansas program provides an income tax credit, accruable for up to 60 months, based on the percentage of the annual payroll paid to new full-time permanent employees hired as a result of an approved project. The tier in which the project is located determines the qualifying minimum payroll threshold required to qualify for the incentive. The Tier System ranks all 75 Arkansas counties with the least prosperous counties assigned Tier 4 with the most prosperous counties assigned Tier 1. The requisite payroll threshold ranges from $50,000 to $125,000. The proposal gives the qualified business an additional tax credit of 1% if the average hourly wage paid to employees exceeds 125% of the lesser of the county or state average hourly wage for the county in which the qualified business is located or expands.

Investment tax incentives -- Tax Back: At present, the minimum investment for approved businesses under the Tax Back program is $100,000. The bill would add the tier structures for the Tax Back incentive for businesses to meet a minimum investment threshold dependent on the tier county in which the business is located or expands. The proposed change will increase the investment threshold to:

Tier 1 Counties Minimum Investment	$500,000
Tier 2 Counties Minimum Investment	$400,000
Tier 3 Counties Minimum Investment	$300,000
Tier 4 Counties Minimum Investment	$200,000

Economic Development Incentive Fund -- Payroll Rebate: Currently, the program requires that approved businesses comprised of new full-time permanent employees to meet a payroll threshold of at least $2,000,000 annually during the term of the financial incentive agreement. The proposal gives AEDC discretion to offer lower payroll thresholds for businesses located in Tier counties 2, 3 and 4 and allow an additional 1% rebate if the average hourly wage paid to employee's exceeds one hundred twenty-five percent (125%) of the county or state average hourly wage. The payroll threshold for eligibility would be changed to: Tier 2 Counties -- $1,750,000; Tier 3 Counties -- $1,500,000; and Tier 4 Counties -- $1,250,000.

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Revenue Impact :

Total revenue impact from the changes to the Consolidated Incentive Act are not known but with discretionary tax incentives, a positive economic impact is determined prior to the award. Tax Back incentives have increased project expenditure thresholds to qualify while payroll incentive eligibility is reduced in less prosperous counties.

Taxpayer Impact :

Job-creation tax credit -- Advantage Arkansas: Businesses with payroll that exceeds 125% of the lesser of the county or state average hourly wages paid to employees will benefit from an additional 1% income tax credit. Investment tax incentives -- Tax Back: Businesses with investment thresholds below their tier threshold will not qualify for the Tax Back Refund. Economic Development Incentive Fund -- Payroll Rebate: More businesses located in tier counties 2, 3, and 4 may qualify for Create Rebate incentives under the proposed change.

Resources Required :

None.

Time Required :

Adequate time for system update.

Procedural Changes :

Changes to DFA's computer tax system will be required. Program the system for the new thresholds as well as the additional 1% income tax credit.

Other Comments :

None.

Legal Analysis :

HB1490 seeks to amend the Consolidated Incentive Act of 2003 (CIA). Definitions were updated including "applied research" and "research." Both definitions were updated to be consistent with the National Science Foundation (NSF) grants definition. "Corporate headquarters" was amended to expand a headquarters functions and eliminated requirements of a physical presence, and, instead, substituted "based at."

The date certain for manufacturers classified in sectors 31-33 in the 2017 North American Industry Classification System was updated to amend the date from January 1, 2003 to 2017.

"In-house research" was amended to specify that the research must be conducted with an Arkansas state college, an Arkansas state university, or other Arkansas-based research organization to perform

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research for a targeted business. Previously, it did not have to be Arkansas based.
Most notably, this bill amends the amount required for minimum investment thresholds for the tier in which the qualified business expands or locates. Tier 1 counties, $500,000; Tier 2 counties, $400,000; Tier 3 counties, $300,000; Tier 4 counties, $200,000.

§ 15-4-2707 was amended to state that the payroll rebate authorized in that section shall only be awarded once DFA has received and verified certification of payrolls.

This bill also will allow AEDC to terminate financial incentive agreements if an initial certification has not been filed within four years after the date of the approved financial incentive agreement, unless such date has been extended by the Executive Director of AEDC.

As written, the CIA of 2003 identified a distinction between new and existing businesses regarding how the base is established and how annual credits are calculated. This bill's revisions provide for one standard calculation for all business in the program, thus the deletions in § 15-4-2708.

§15-4-2709, the Targeted business special incentive, is amended to reflect that the initial payroll requirement of $100,000 to $1,000,000 will not later preclude a qualified business from receiving incentives if, at any time after the financial incentive agreement has been approved, actual payroll does not satisfy the requirements in § 15-4-2709(b)(2)(A).