

**DEPARTMENT OF TAXATION
2024 Fiscal Impact Statement**

1. **Patron** Alfonso H. Lopez

2. **Bill Number** HB 1524

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Asphalt Recycling Tax Credit

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would establish a nonrefundable tax credit in an amount equal to twenty percent of the purchase price paid for machinery and equipment used to reclaim, recycle, or reprocess existing asphalt materials from pavements and roadways in the Commonwealth of Virginia. No more than \$3 million in credit could be issued each fiscal year.

This bill would be effective for taxable years beginning on and after January 1, 2025, but before January 1, 2030.

6. Budget amendment necessary: Yes.

Item(s): 257 and 258, Department of Taxation

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

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2024-25	\$239,430	1	GF
2025-26	\$515,960	1	GF
2026-27	\$69,640	1	GF
2027-28	\$69,640	1	GF
2028-29	\$69,640	1	GF
2029-30	\$69,640	1	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation estimates that the provisions of this bill would result in administrative costs of \$239,430 in FY 2025, \$515,960 in FY 2026, and \$69,640 in each Fiscal Year thereafter. These costs include legal, tax processing, and technology costs associated with establishing this new credit. These costs also include the addition of one new full-time employee to monitor the credit and handle the Department’s responsibilities under this credit.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact of up to \$3 million beginning in Fiscal Year 2026 and each year thereafter. The impact is unknown because it is unknown how many taxpayers would apply for the credit, nor is the cost of qualifying equipment taxpayers claiming the credit would choose to purchase known. However, because this credit would be subject to an annual credit cap of \$3 million, the revenue impact of this bill would not exceed \$3 million per fiscal year.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Environmental Quality

10. Technical amendment necessary: No.

11. Other comments:

Recyclable Material Processing Equipment Tax Credit

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 predominantly 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 purchase of machinery and equipment used in advanced recycling is also eligible for the credit. "Advanced recycling" is defined as the operation of a single-stream or multi-stream recycling plants that convert waste materials into new materials for resale by processing them and breaking them down into their raw constituents. This includes the operation of a materials recovery facility or materials reclamation facility that receives, separates, and prepares recyclable materials for sale to end-user manufactures

The amount of the credit is equal to 20 percent of a taxpayer's qualifying expenditures and cannot exceed 40 percent of its Virginia income tax liability for the year. The credit is nonrefundable and nontransferable. Credits in excess of a taxpayer's income tax liability may be carried forward for up to 10 taxable years. The credit is subject to an annual credit cap of \$2 million.

DEQ is tasked with certifying eligible recycling equipment. The Department is responsible for administering eligible tax credits for certified equipment.

Property Tax Exemptions for Recycling Equipment, Facilities, and Devices.

Local governments in Virginia have the option of exempting or partially exempting DEQ certified recycling facilities and equipment from property taxes. Once certified, the machinery and equipment may qualify for a local tax exemption based on current value assessment by taxing authority.

Proposed Legislation

This bill would create a nonrefundable tax credit in an amount equal to twenty percent of the purchase price paid during the taxable year for machinery and equipment used to reclaim, recycle, or reprocess existing asphalt materials from pavements and roadways in the Commonwealth of Virginia. In determining the “purchase price paid,” the taxpayer would use the original total capitalized cost of the machinery and equipment minus the capitalized interest.

The amount of the credit allowed in any taxable year would be limited to no more than forty percent of the taxpayer’s Virginia income tax liability, and any excess credit could be carried forward for up to ten years. The total amount of aggregate credits issued would be limited to no more than \$3 million per fiscal year. If the amount of tax credits approved exceeds \$3 million, the credit would be prorated.

The taxpayer would be required to apply with DEQ to certify that the machinery and equipment are integral to the recycling process before the taxpayer would be allowed the tax credit. The bill would require a taxpayer to submit invoices with their income tax return verifying the amount of purchase price paid for machinery and equipment.

If a corporation converts to a partnership, limited liability company, or electing small business (S corporation), the business entity would be entitled to any unused credits. Credits earned by a partnership, limited liability company, or electing small business corporation, or a predecessor corporation entitled to credits, would be required to allocate such credits to the individual partners, members, or shareholders in proportion to their ownership or interest.

This bill would be effective for taxable years beginning on and after January 1, 2025, but before January 1, 2030.

cc : Secretary of Finance

Date: 2/4/2024 ALS
HB1524F161