DEPARTMENT OF TAXATION
2010 Fiscal Impact Statement

1. Patron Frank M. Ruff, Jr.

2. Bill Number SB 657

House of Origin:
X **Introduced**
___ **Substitute**
___ **Engrossed**

Second House:
___ **In Committee**
___ **Substitute**
___ **Enrolled**

3. Committee Senate Finance

4. Title Income Tax: Exported Renewable Energy Products Tax Credit

5. Summary/Purpose:

This bill would allow an income tax credit to a corporation that manufactures renewable energy products in Virginia provided they export at least 50 percent of the number of renewable energy products that were exported in 2010. The credit would vary from 20 cents per ton of renewable energy products exported, if at least 50 percent of the 2010 exports, to 40 cents per ton of renewable energy products exported if at least 120 percent of 2010 exports.

The credit would be capped at $6 million per taxpayer per year and could not exceed 50 percent of the tax liability of the taxpayer. The total amount of credits allowed to all taxpayers would not be allowed to exceed $6 million in each fiscal year. This credit would only be allowed to corporations that manufacture renewable energy products in Virginia at a manufacturing facility that begins production of the renewable energy products on or after January 1, 2011.

The credit would be effective for taxable years beginning on or after January 1, 2011, but before January 1, 2016.

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

7. Budget amendment necessary: Yes.
Page 1, Revenue Estimates

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.

Revenue Impact

This bill would have an unknown negative impact on General Fund Revenue. There is no data on the number or weight of renewable energy products manufactured in Virginia and exported to a foreign country. However, the revenue impact could be as high as, but no more than, $6 million for each fiscal year beginning in Fiscal Year 2013 if the technical amendment modifying the base year is accepted.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

TAX understands that it was the Patron's intent for the base year to be 2011. Therefore, the following technical amendment is suggested:

Page 1, Line 16, after calendar year
Strike: 2010
Insert: 2011

11. Other comments:

This bill would grant a corporate income tax credit of up to 40 cents per ton of renewable energy products exported by a manufacturer in Virginia each taxable year provided the volume exported is at least 50 percent of the renewable energy products exported in 2010. The credit would be calculated on the total volume exported, not just the portion that exceeds 50 percent of the base year exports. The Virginia credit would be granted only for renewable energy products manufactured in Virginia and exported. The credit would be computed as follows:

If, compared to 2010 exports are	But not in excess of	Credit per ton of renewable energy products
50%	60%	$0.20
60%	80%	$0.25
80%	100%	$0.30
100%	120%	$0.35
120%	----	$0.40

This credit would only be allowed to corporations that manufacture renewable energy products in Virginia at a manufacturing facility that begins production of the renewable energy products on or after January 1, 2011.

The credit may not exceed 50 percent of the taxpayer's income tax liability or $6 million, whichever is less. The taxpayer would not be allowed to carry forward any tax credit to be applied against income tax for taxable years subsequent to the taxable year of export.

"Base year export volume" would mean the number of renewable energy products manufactured by a corporation, which renewable energy products were also exported by such manufacturer during its taxable year beginning in calendar year 2010.

"Current year export volume" would mean the number of renewable energy products manufactured by a corporation, which renewable energy products were also exported by such manufacturer in the taxable year for which credit under this section is claimed. The term shall only apply for taxable years beginning on and after January 1, 2010.

"Exported" or "exports" would mean the shipment of renewable energy products to a foreign country.

"Manufactured" or "manufactures" would mean manufactured in the Commonwealth.

"Renewable energy products" would mean any equipment, devices, or fuel sources designed and used primarily for the production of renewable energy, as that term is defined in § 56-576.

TAX would be required to promulgate guidelines, which would be exempt from the Administrative Process Act, to address the following: (i) requirements for applying for the tax credits; (ii) a system for allocating the available amount of tax credits among eligible corporations; (iii) a method for issuing unused tax credits to eligible corporations that are not initially approved for the tax credit; and (iv) a procedure for the cancellation and reallocation of tax credits that are allocated to corporations that have become ineligible.

Finally, this would provide that a corporation claiming the credit would be required to submit with its application for the tax credits and its state income tax return a written statement that certifies its base year export volume and current year export volume. This statement would also include a listing of its export volumes, as reported on its monthly reports to the United States Department of the Treasury, for each month of the taxable year and a listing for each month of the taxable year of its export volumes.

The credit would be effective for taxable years beginning on or after January 1, 2011.

<u>Other Legislation</u>

House Bill 998 is identical to this bill.

cc : Secretary of Finance

Date: 1/24/2010 TG