DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement

1. **Patron** David W. Marsden

2. **Bill Number** SB 1433
   House of Origin:
   X **Introduced**
   _____ **Substitute**
   _____ **Engrossed**

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

3. **Committee** Senate Finance and Appropriations

4. **Title** Income Tax: Asphalt Recycling Tax Credit

5. **Summary/Purpose:**

   This bill would establish a nonrefundable individual and corporate income 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 Virginia. 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 no more than $3 million in aggregate credits could be issued each fiscal year.

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

6. **Budget amendment necessary:** Yes.
   Item(s): Page 1, Revenue Estimates
   258 and 260, Department of Taxation

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

8. **Fiscal implications:**

   Administrative Costs

   The Department of Taxation ("the Department") estimates that the provisions of this bill would result in administrative costs $337,930 in FY 2026; $366,920 in FY 2027; and $88,800 in each fiscal year thereafter. This includes processing and technology costs associated with establishing this new credit. These costs also include the addition of one new full-time employee to administer the credit. These costs assume that invoices would be provided by taxpayers on request, as the Department's electronic filing system cannot accept attachments.

   The Department of Environmental Quality ("DEQ") has stated that it would need one full-time employee to administer the certification process envisioned by this bill.

Revenue Impact

This bill would have an annual unknown negative General Fund revenue impact of up to $3 million beginning in Fiscal Year 2026. The impact is unknown because it is unknown how many taxpayers would apply for the credit. In addition, the cost of qualifying equipment is unknown. However, because this credit would be subject to an annual aggregate 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 plant that converts 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.

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

Mobile recycling machinery or equipment used at the worksite would not qualify for this tax credit, because the credit is only for 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.

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.

Proposal

This bill would create a nonrefundable individual and corporate income 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 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.

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 become effective for taxable years beginning on and after January 1, 2025, but before January 1, 2030.

Similar Bills

HB 2740 & **SB 1464** are similar. However, they would provide a definition for the term "asphalt recycling equipment," which is undefined by this bill, and they would give DEQ and the Virginia Department of Transportation different responsibilities, including involvement in publishing a legislative report.

cc : Secretary of Finance

Date: 01/26/2025 ALS
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