

Fiscal Note

BILL # SB 1177

TITLE: forest products; processing; tax credit

SPONSOR: Kerr

STATUS: As Introduced

PREPARED BY: Henry Furtick

Description

SB 1177 creates a new non-refundable healthy forest tax credit for the processing of qualified forest products. The credit is based on the tonnage of qualified forest products processed in a calendar year, with \$10,000 in credit given for the first 20,000 tons and \$5,000 for every subsequent 10,000 tons. The credits would be allowed against individual and corporate income tax liability in tax years 2022 through 2031. The bill sets an annual cap of \$500,000 per taxpayer and limits the total yearly credit amount for both the individual and corporate credit to \$2.0 million each. An individual or company seeking to use the credit must have a current Healthy Forest Enterprise Incentive (HFEI) certification with the Arizona Commerce Authority (ACA). Credits will be awarded on a first-come, first-served basis until the respective \$2.0 million caps are reached.

Estimated Impact

We estimate the bill will have an annual General Fund tax credit cost of \$(395,800) based on current usage. The cost would likely increase in future years if the availability of the credit increases the processing of forest products.

At the time of publication, the ACA did not have a fiscal impact estimate for the bill.

Analysis

The Healthy Forest Enterprise Incentive Program was created in 2004. The program provides tax incentives to companies primarily engaged in harvesting, processing, or transporting qualifying forest products for commercial use. Qualifying forest products include dead standing or fallen timber, and forest thinnings from the harvest of small-diameter timber, wood chips, peelings, brush and other woody vegetation. The HFEI program currently offers an individual and corporate income tax credit based on the net increase of employment in companies certified with the ACA as healthy forest enterprises.

Pursuant to A.R.S. § 41-1516, the ACA annually reports on the performance measures for the HFEI program, including the measured weight of qualifying forest products processed in the previous calendar year (*Table 1*). According to the ACA, in 2019, the most recent year for which data is available, 8 companies holding ACA HFEI certification processed a total of 791,600 tons of qualified forest products.

Calendar Year	Companies with ACA certification	Total Weight (in tons)
2015	8	722,600
2016	9	718,200
2017	8	624,000
2018	8	619,000
2019	8	791,600

Under the bill, credits for processing qualified forest products are effectively awarded at a rate of \$1 for every 2 tons of product. Based on the reported amount of tonnage processed in 2019, the General Fund cost of the new tax credit would be approximately \$(395,800). The ultimate impact of the bill would depend on the overall amount of tonnage processed induced by the bill's incentives, which we cannot determine in advance.

Additionally, the Governor's proposed FY 2022 budget includes an increase in funding for the Arizona Department of Forestry and Fire Management (DFFM) to expand the use of Department of Correction inmates for fuel treatment and fire suppression. The Governor's proposal could increase the use of the proposed tax credits.

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Local Government Impact

Each year, incorporated cities and towns receive 15% of corporate and individual income tax collections from 2 years prior. The bill would decrease local government distributions by at least \$(59,400) beginning in FY 2025. The ultimate impact will depend on the level of credits against the individual and corporate income tax liability.

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