



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **9 VAC 20-140-Regulations for the Certification of Recycling Machinery and Equipment for Tax Exemption Purposes**

**Department of Environmental Quality**

September, 11 2000

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 9-6.14:7.1.G of the Administrative Process Act and Executive Order Number 25 (98). Section 9-6.14:7.1.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

The proposed regulation modifies the certification process of recycling machinery and equipment for tax exemption purposes. The modifications include the removal of the certification of the purchase price requirement and clarification of what qualifies as recycling machinery and equipment.

### **Estimated Economic Impact**

Under the current statutes, the Department of Environmental Quality (DEQ) is charged with the certification of recycling machinery and equipment for tax exemption purposes and is not required to certify the purchase price of these recycling tools. The current regulation, however, requires that DEQ certify the purchase price as well. The proposed regulation will remove the certification of purchase price requirement. Instead, only proof of purchase will be required.

Under the current regulations, DEQ approved 64 applications in 1997, 59 applications in 1998, 70 applications in 1999, and 23 applications in 2000 as of 09/01/2000. The sum of the purchase prices of the certified machinery amounted to \$11,882,601 in 1997, \$90,091,548 in 1998, and \$83,831,500 in 1999.<sup>1</sup> The total amount of the state tax credit in 1998 tax-year was \$346,031 and issued to 70 individuals or corporations.<sup>2</sup> However, the amount of personal property tax credits is not available at this time.

DEQ is not required to certify the purchase price under the current statues, only the certification of purchase is required. Thus, the proposed changes will produce consistency between the regulations and the statues. The removal of the proof of purchase price requirement reduces costs in three ways. First, the burden on the applicant will be reduced. The applicant will not be required to supply the proof of purchase price to DEQ. The proof of purchase price will be required only by the taxing authority to determine the exact amount of the tax credit. Second, the burden on DEQ will be reduced. The certification of the proof of purchase price by DEQ serves no practical purpose, as this issue is already being independently assessed by local taxing authorities. So, requiring DEQ staff to certify the purchase price is a waste of time and resources. The proposed amendments will eliminate this waste of time and resources. Third, the proposed changes will reduce the processing time of the certification process. Timesaving due to increased speed of the process will be beneficial for both the applicant and DEQ.

In addition, the clarification of the recycling machinery and equipment definitions is expected to produce economic benefits. DEQ indicated that there were a number of instances where the applicants were not clear about what would qualify as recycling machinery and equipment. Applicants will benefit from the change since they will have a better knowledge on what qualifies as a recycling machinery and equipment and what does not. With the proposed clarifications, some resources could be saved in cases where the applicants may have doubts if a certain type of equipment or machinery qualifies for tax exemption. These resources may include the time saved by the applicant and required expenses during the certification process. Also, DEQ staff time will not be wasted on applications that have no chance of being approved.

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<sup>1</sup> Source: Department of Environmental Quality

<sup>2</sup> Source: Department of Taxation

Finally, the incentives to purchase recycling machinery and equipment for tax credit purposes will be increased. This increased incentive to purchase recycling machinery is the result of a more convenient certification process designed by the proposed changes. The expected increase in the incentives to purchase recycling machinery and equipment will benefit Virginians as the amount of recycling in the state may increase. This may lead to a small reduction in waste sent to landfills.

In conclusion, the proposed changes are expected to produce net benefits. The changes are not expected to introduce any new costs. The benefits will come from the reduction of the burden on the applicant and DEQ, increased speed of the certification process, increased precision on the definition of machinery and equipment that would qualify for tax exemption purposes, and increased incentives to purchase recycling machinery and equipment.

### **Businesses and Entities Affected**

The proposed changes will directly affect about 64 applicants (average number of applications in previous three years) for the certification of recycling machinery and equipment in a year.

### **Localities Particularly Affected**

The proposed changes to the regulation affect localities throughout the commonwealth.

### **Projected Impact on Employment**

The proposed changes may slightly reduce the demand for the services of accountants because of the clarification of what qualify as recycling machinery.

### **Effects on the Use and Value of Private Property**

There could be a slight increase in the value of firms that sell recycling machinery and equipment as the demand for recycling machinery and equipment may increase as a result of increased incentives to purchase these types of goods.