Tax Credits: An Incentive for Recycling?
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Among the many varieties of programs adopted by state governments to spur recycling are tax incentive programs. Just under half of the states have incorporated some form of incentive into their tax codes. What do these programs offer, and in what direction are they moving?

The programs work by offering credits or exemptions on sales, income or property taxes on a state or local level for the purchase of equipment or machinery used in recycling or pollution control.

Our goal was to find out which states have sales, property or income tax exemptions that are specifically geared toward increasing recycling. By telephone, we contacted each state to gather information and used state market development information provided by the National Recycling Coalition (Alexandria, Virginia) as a reference.

Some states, such as Tennessee and Nebraska, have long-time tax incentive programs for manufacturers as a means to increase industry in general in the state. Some of these states subsequently have added recycling as one of the many industries that may receive a credit. However, since the state was not specifically attempting to promote recycling, these programs are not included in our listing.

What's out there?

We found that 22 states have recycling tax credit programs, 28 do not. This compares to a 1993 study by the California Integrated Waste Management Board (Sacramento) of state-by-state financial assistance programs, which listed 28 states with programs. The number of income tax credits offered seems to have fallen from 21 in 1993 to about 10 today. Remaining steady are the number of sales and property tax exemptions. This is a general comparison, however, and the qualification requirements used for CIWMB's chart may have differed slightly from those used here.

Minnesota and Oregon have two of the oldest programs. Minnesota has granted 341 requests for exemptions since the creation of its program in 1984. Oregon has approved 1,400 requests (see Table 1) between its three tax credit programs. The state's reclaimed plastics tax credit program was created in 1989 and the pollution control facility incentive began in 1967, adding solid waste in 1975. In 1982, Oregon's business energy tax credit was introduced.

A geographical look indicates that the Western and Southern states have a lead over the other regions in terms of the percentage of states using tax incentive programs. The North Central and Northeastern states have a fairly small percentage of states with programs.

What equipment is included?

The particular types of equipment dominating the use of tax incentives is difficult to isolate. Very few states have summary information available for their programs. The majority of analysis comes from programs that have ended. New Jersey's corporate tax credit program ended in 1996 and gave 50 percent of its credits for equipment to manufacturing projects. Another 42 percent went to processing projects, and 8 percent went to transportation projects. Currently, the state offers a sales tax exemption for recycling equipment.

A state agency review of the former tax credit program in California shows that as of December 1994, asphalt/concrete recyclers received the largest portion of the credit, with 40 certifications. The projects totaled approximately $4.8 million and accounted for a projected 4.7 million tons of post-consumer materials used annually.

What do the programs cost?

Further review of programs gives some insight into how much these programs cost state governments. Idaho gave $14,095 in credits for its post-consumer waste credit program for the 1996 tax year. In Montana, the investment credit program gave $219,611 in credits to 10 taxpayers for the fiscal year ending in June 1996. For the following fiscal year, $230,031 in credits were given to 15 taxpayers.

In New Jersey, from October 1987 through December 1996, a corporate business tax credit was given to 300 businesses, taking advantage of $146 million worth of certifications (value of eligible equipment). And in Oregon, (see Table 1) for the state's three programs combined, nearly $139 million in project costs have been approved to receive credit. California's franchise tax board estimated that $2,127,816 were claimed for the credit from 1989 to 1993, not including unused credit rolled forward to subsequent years.

In other cases, almost no firms take advantage of the break. New Mexico's credit has been used by only very few firms, although this could be due to the investment and job creation standards. Colorado, Kansas and North Dakota all had tax incentive programs that were rarely used.

Profile of state programs

Many states focus on recycling as an industry, giving tax exemptions or credits to manufacturers with the intent of increasing commerce or jobs. For this reason, many states have made tax credits dependent on the number of jobs created or the amount of capitol invested. Montana gives a 25 percent credit for the first $250,000 invested. Additional expenditures receive scaled down credits. New Mexico limits its tax credit to include only recycling equipment that is creating jobs rather than eliminating the need for employees.

In an effort to encourage businesses to reduce their own waste, Texas gives a property tax exemption for recycling equipment that is not used by a company in its primary activity. For example, the state would not give a credit for a plastics shredder to a recycling processor, but might for a used beverage can depot at a grocery store.

Delaware gives income tax credits of between $500 and $750 for each $100,000 invested under the Green Industries Initiative. In 1994, the state was awarded a Jobs Through Recycling grant from the U.S. Environmental Protection Agency (Washington) and established a recycling advocate position, both of which helped spur the state's market development program. The goals of the JTR grant are to increase jobs and bring recycling businesses into the state. Thus far, the number of Green Industries has increased three-fold.

Other programs focus on the amount of recycling processed by the equipment. Arkansas, for example, gives an income tax credit for 30 percent of the cost if the equipment handles 10 percent post-consumer solid waste. Idaho requires that 90 percent of the equipment's product be made from recyclables. A similar requirement applies in Louisiana, where the equipment must deal with 100 percent post-consumer or recovered materials or make a product that contains 50 percent post-consumer or recovered materials.

Typically, the types of qualifying equipment for a tax incentive are those that process, collect, treat, separate, modify, convert or manufacture a product from solid waste. Some programs target a certain type of solid waste. Oregon's plastics tax credit is one example. Minnesota had a sales tax exemption for some time which was limited to recycling old corrugated containers.

Where are they headed?

The direction of tax credit programs is uncertain. Some states have abandoned them, while others have only recently included one in their market development plan. Recent legislation in this area has primarily added to or extended the time periods for existing tax incentive programs, although some new tax legislation has come into existence. For example, Utah recently passed a bill exempting scrap recycling equipment from sales taxes.

On the other hand, some states, such as Hawaii, have been trying to get tax incentives through the legislature, but have failed. Hawaii House Bill 3405 would have established a 50 percent income tax credit on the cost of recycling machinery and equipment, but the bill was unsuccessful.

At the start of last year, Massachusetts considered a bill that would have given a 50 percent credit on equipment bought for recycling through 2006. Despite a good deal of support, the bill failed, and currently Massachusetts has no tax incentive programs. Rhode Island has been looking into developing a program for some time, but has not settled on a direction.

How effective are tax incentives?

It could be that states are moving toward loans and grants because it is expensive for the state to finance recycling programs through tax incentives. In some cases, it ends up costing the state more than it had bargained for.

George MacDonald of Maine's state planning office in Augusta found that the state's tax incentive, which ended last month, had more of an impact on the state financially than was expected. A number of businesses used the 30 percent income tax credit the state offered. Although he found tax incentives somewhat successful, MacDonald feels that loans seem to be a little easier to manage.

Florida is without tax credit programs due to a financially tough year in which the state couldn't support the cost of the program. Ron Henricks, of the Department of Environmental Protection (Tallahassee) doesn't think tax incentive programs are necessarily effective. He said the agency didn't fight to keep the program, but they wouldn't have won anyway.

However, Guy Watson of the New Jersey Department of Environmental Protection (Trenton) feels that "tax credits are very good at making investment happen now rather than later." They often help build the local infrastructure, he said. They haven't been proven to be a determining factor in making a business locate in the state. Yet, in at least one case, they were a factor in keeping the mill in the state.

The 1995 summary of California's program by two state agencies reveals problems with the program that ended in 1996. The first and most often cited criticism of such programs is that it is very difficult to determine whether the credit is actually promoting recycling. In California, 63 percent of equipment was purchased before the applicant knew about the program and thus had no expectation of receiving a credit.

The California review suggested restricting tax credits to emerging recycling markets and eliminating those industries that don't need market development but are benefiting from the credit. Brian Foran of CIWMB said the basic problem with such programs is they don't assist start-up businesses. "They [companies] don't show a profit for a few years. And if you don't have profit, you don't qualify for a tax break."

In Indiana, the resource recovery tax credit is due to sunset in the 1998 tax year. Deemed a failed effort in providing incentives to recycling businesses, the credit was being given in large numbers to companies that had been doing the same thing for years, rather than encouraging new activity or new businesses.

Oregon's business energy tax credit was changed in 1993 from giving a credit primarily to collectors to giving the credit to businesses using recovered materials in the manufacture of new products. The former facilitates the recovery process, while the latter helps spur the creation of new markets for recovered materials. John Savage, administrator of the Oregon Office of Energy (Salem) said, "The success of recycling hinges on using recycled materials as ingredients in the manufacture of new products."

Edward Biosson of the Northeast Recycling Council (Battleboro, Vermont) also sees the shortcomings of tax incentives. On the other hand, he contends that any type of incentive to increase recycling is going to help get projects done and raise the awareness of recycling. Biosson felt that aside from the criticisms, "if nothing else, tax incentives spur recycling." He proposed that "for these programs to be most efficient (in terms of tax dollars), there needs to be pre-certification to ensure that the project is a new one or focused on specific materials or projects."

States that seem to have the most success with tax incentives are those that also provide a network of market development assistance. This can occur either as various financial assistance programs other than tax incentives (loans, grants) or as technical assistance.

Delaware is one example. The state has a well laid out system of financial tools as well as technical assistance, such as assisting a business in locating in the state, employee training and expedited environmental permitting. In a report on the JTR grant, Delaware found that a necessary element of these programs is positioning the recycling industry as a legitimate enterprise so its needs are taken seriously by the state. Also, Delaware requires businesses to demonstrate a serious commitment to recycling and environmental issues. Annual reports on the amount of material diverted are required of companies that receive tax credits.

To have a system of financial and technical assistance, however, requires funding. Funding for Delaware's tax credit is provided in part by the JTR grant, which takes some of the pressure off state coffers. RR

If you would like a summary of state-by-state recycling tax credit programs and contacts, send $5 and your name and address to *Resource Recycling*, P.O. Box 10540, Portland, OR 97296. Credit card orders may be placed by fax (503) 227-6135, phone (503) 227-1319 or E-mail at resrecycle@aol.com.

Table 1

Type	**Claimed project cost (in thousands)**	**Number of applications approved**
Pollution control recycling facility credit	$ 40,952	133
Reclaimed plastics tax credit	2,499	67
Business energy recycling tax credit	95,500	1,200
Total	$ 138,957	1,400

(1) Totals reflected are throughout the lifetime of the three programs and include only approvals relating to recycling projects specifically.
Sources: William Bree, Oregon Department of Environmental Quality, and Suzanne Dillard, Oregon Department of Energy, May 1998.

Table 2

State	**Income tax**	**Property tax**	**Sales tax**
Arizona			X
Arkansas	X		
Delaware	X		
Georgia	X		
Hawaii			X
Idaho	X		
Indiana		X	
Iowa		X	X
Kentucky	X	X	X
Louisiana	X		X

Minnesota			X
Montana	X		
Nevada		X	
New Jersey			X
New Mexico			X
North Carolina		X	
Oregon	X		
South Carolina			X
Texas		X	X
Utah			X
Virginia	X	X	
Wisconsin			X

Source: *Resource Recycling*, 1998.