# DEPARTMENT OF TAXATION
# 2003 Fiscal Impact Statement

**1. Patron** Almand

**2. Bill Number** HB 1914

**House of Origin:**
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

**3. Committee** Senate Finance

**4. Title** Elimination of the Foreign Source Income Subtraction

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

**5. Summary/Purpose:**

This bill would eliminate the individual income tax subtraction for foreign source income.

This bill would be effective for taxable years beginning on and after January 1, 2003.

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

**6b. Revenue Impact:**

| ***Fiscal Year*** | ***Dollars*** | ***Fund*** |
|---|---|---|
| 2002-03 | $0 | GF |
| 2003-04 | $8.0 Million | GF |
| 2004-05 | $6.2 Million | GF |

**7. Budget amendment necessary:** No.

**8. Fiscal implications:**

The Department's administrative costs as a result of this bill would be minimal.

This bill would increase General Fund revenues by approximately $8.0 Million in Fiscal Year 2004 and $6.2 Million in Fiscal Year 2005. This estimate is based upon the usage of the foreign source income subtraction for individual income tax purposes for taxable years 2000 and 2001.

**9. Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary:** None.

## 11. Other comments:

**Current Law**

Virginia currently allows all corporate and individual income taxpayers to subtract "foreign source income" from their Federal Taxable Income or Federal Adjusted Gross Income in determining their Virginia income tax liability. "Foreign source income" is defined under Code of Virginia § 58.1-302 as:

"1. Interest, other than interest derived from sources within the United States;
2. Dividends, other than dividends derived from sources within the United States;
3. Rents, royalties, license, and technical fees from property located or services performed without the United States or from any interest in such property, including rents, royalties, or fees for the use of or the privilege of using without the United States any patents, copyrights, secret processes and formulas, good will, trademarks, trade brands, franchises, and other like properties;
4. Gains, profits, or other income from the sale of intangible or real property located without the United States; and
5. The amount of an individual's share of net income attributable to a foreign source qualified business unit of an electing small business corporation (S corporation). For purposes of this subsection, qualified business unit shall be defined by § 989 of the Internal Revenue Code, and the source of such income shall be determined in accordance with §§ 861, 862 and 987 of the Internal Revenue Code."

**Proposal**

This bill would eliminate the subtraction for foreign source income for individual income taxpayers. This elimination would be effective for taxable years beginning on and after January 1, 2003. By eliminating this subtraction, all income currently defined as "foreign source income" under the Code of Virginia would be subject to the Virginia individual income tax.

cc : Secretary of Finance

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