

# DEPARTMENT OF TAXATION

## 2005 Fiscal Impact Statement

1. **Patron** L. Preston Bryant, Jr.

2. **Bill Number** HB 2411

3. **Committee** Passed House and Senate

**House of Origin:**

☐ Introduced

☐ Substitute

☐ Engrossed

4. **Title** Income Tax: Conformity of Terms to the  
Internal Revenue Code

**Second House:**

☐ In Committee

☐ Substitute

☒ Enrolled

### 5. Summary/Purpose:

This bill would advance Virginia's date of conformity to the Internal Revenue Code (IRC) from December 31, 2003 to January 7, 2005. Virginia would continue to disallow any bonus depreciation allowed for certain assets under federal income taxation and any five year carry-back of certain net operating losses (NOL) allowed for NOLs generated in either taxable year 2001 or 2002.

This bill contains an emergency clause which states that it would be in force from its passage.

This is an Executive bill.

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

#### 6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2004-05	(\$0.7 million)	GF
2005-06	\$0.5 million	GF
2006-07	\$0	GF
2007-08	\$0	GF
2008-09	\$0	GF
2009-10	\$0	GF
2010-11	\$0	GF

7. **Budget amendment necessary:** Yes.

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### 8. Fiscal implications:

The revenue loss associated with this bill is limited to the tsunami relief contribution provisions incorporated by advancing the conformity date an additional seven days into 2005, as the **Executive Budget** assumed that conformity to the Internal Revenue Code would be advanced to December 31, 2004. However, if the conformity bill is not passed, then General Fund revenue would be increased by \$9.41 million in FY 2005, decreased

by \$2.71 million for FY 2006, increased by \$20.93 million for FY 2007 and \$8.59 million for FY 2008, decreased by \$10.09 million for FY 2009 and \$3.44 million for FY 2010, and increased by \$1.26 million for FY 2011.

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

Department of Taxation

**10. Technical amendment necessary: No.**

**11. Other comments:**

Current Law

Virginia's conformity to the IRC is currently fixed to the IRC as it existed on December 31, 2003. Since that date, Congress has enacted two significant measures that would affect income taxation in Virginia: the Working Families Tax Relief Act of 2004 and the American Jobs Creation Act of 2004. These acts made over two hundred changes to the tax laws. If Virginia advances the date of conformity, the following benefits are among those that would flow through to Virginia taxpayers:

Working Families Tax Relief Act of 2004

The Working Families Tax Relief Act of 2004 liberalizes the rules for claiming dependency exemptions, extends the enhanced deduction for certain computer contributions, continues the deductions for teacher classroom expenses and clean fuel vehicles.

American Jobs Creation Act of 2004

The American Jobs Creation Act of 2004 creates a deduction relating to income attributable to United States manufacturing and other production activities, increases § 179 expensing, expands certain charitable contribution deductions, and allows taxpayers to deduct state and local sales taxes in lieu of state income tax for 2004 and 2005.

Tsunami Relief Contributions Deduction

On January 7, 2005, the President of the United States signed legislation allowing taxpayers to claim itemized deductions on their 2004 federal tax returns for contributions made for tsunami relief in January 2005.

Proposal

This bill would advance Virginia's date of conformity to the IRC from December 31, 2003 to January 7, 2005. This will avoid the necessity of requiring taxpayers to make adjustments for any federal tax changes enacted in 2004 and the tsunami relief legislation enacted on January 7, 2005. Virginia would continue to disallow any bonus depreciation allowed for certain assets under federal income taxation and any five year carry-back of NOLs allowed for NOLs generated in either taxable year 2001 or 2002.

This bill contains an emergency clause which states that it would be in force from its passage.

Other Legislation

**Senate Bill 856** is identical to this bill.

**Senate Bill 897** would allow individual and corporate taxpayers to deduct charitable contributions made for the relief of tsunami victims during January 2005.

cc : Secretary of Finance

Date: 2/22/2005 AMS  
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