DEPARTMENT OF TAXATION
2004 Fiscal Impact Statement

1. **Patron** Walter A. Stosch

2. **Bill Number** SB 537
House of Origin:
__X__ **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. **Committee** Senate Finance

4. **Title** Income Tax Credit For Exported Cigarettes

5. **Summary/Purpose:**

This bill would allow an income tax credit to cigarette manufacturers if they export at least 50% of the volume of cigarettes exported in 2003. The credit would vary from 20¢ per 1,000 cigarettes exported if at least 50% of 2003 exports, to 40¢ per 1,000 cigarettes exported if at least 120% of 2003 exports. The credit would be capped at $6 million per taxpayer per year and could not exceed the tax liability. Unused credits may be carried forward for 10 years until used.

The credit would be effective for taxable years beginning on or after January 1, 2004.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)
6a. Expenditure Impact:

Fiscal Year	***Dollars***	***Fund***
2003-04	$54,400	GF
2004-05	$254,660	GF
2005-06	$7,221	GF
2006-07	$7,437	GF
2007-08	$7,660	GF
2008-09	$7,890	GF
2009-10	$8,126	GF

7. **Budget amendment necessary:** Yes.
Item(s): Page 1, Revenue Estimates
284 and 286, Department of Taxation

8. **Fiscal implications:**

The Department would incur administrative costs to implement this bill of $54,400 in FY 2004, $254,660 in FY 2005, $7,221 in FY 2006, and about $7,500 annually thereafter for systems modifications.

This bill would have a negative impact on General Fund revenue, but the amount cannot be determined. The amount of the credit claimed would depend on the export levels of the cigarette manufacturers doing business in Virginia and each manufacturer's Virginia tax liability.

North Carolina has a similar credit, which is also capped at $6 million. However, North Carolina limits the credit to 50% of each manufacturer's tax liability. Assuming that Virginia and North Carolina have similar numbers of cigarette manufacturers, with similar profitability, production and exports, Virginia could lose between $10 million and $25.7 million in General Fund revenue annually based on a number of eligible manufacturers between one and twelve.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

This bill would grant a credit of up to 40 cents per 1,000 cigarettes exported each taxable year if the volume exported is at least 50% of the cigarettes exported in 2003. The credit would be calculated on the total volume exported, not just the portion that exceeds 50% of the base year exports. The Virginia credit would be granted for exported cigarettes regardless of where they are manufactured or the port through which they are exported. The credit would be computed as follows:

If, compared to 2003 exports the current year exports are	But not in Excess of	Credit per 1,000 Cigarettes Exported
50%	60%	$0.20
60%	80%	$0.25
80%	100%	$0.30
100%	120%	$0.35
120%	- - - -	$0.40

The credit may not exceed the taxpayer's income tax liability or $6 million, whichever is less. However, any credit not used may be carried forward for 10 years until utilized. The Department would be required to promulgate guidelines, which would be exempt from the Administrative Process Act, to address issues such as adjusting the credit when exported cigarettes are later returned to the manufacturer. This credit would apply to cigarettes manufactured anywhere in the United States.

cc : Secretary of Finance
Date: 2/8/2004 JPJ