# DEPARTMENT OF TAXATION
# 2005 Fiscal Impact Statement

**1. Patron** W. Roscoe Reynolds

**2. Bill Number** SB 734

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

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

**3. Committee** Senate Finance

**4. Title** Income Tax Subtraction for Contract Payments for Tobacco Quotas

**5. Summary/Purpose:**

This bill would allow a subtraction from income in computing individual and corporate income taxes for contract payments to producers of quota tobacco and tobacco quota holders pursuant to the American Jobs Creation Act of 2004.

This subtraction would be effective for taxable years beginning on or after January 1, 2005.

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

**6b. Revenue Impact:**

| ***Fiscal Year*** | ***Dollars*** | ***Fund*** |
|---|---|---|
| 2004-05 | $0 | GF |
| 2005-06 | ($4.06 million) | GF |
| 2006-07 | (0.49 million) | GF |
| 2007-08 | ($0.52 million) | GF |
| 2008-09 | ($1.19 million) | GF |
| 2009-10 | ($1.21 million) | GF |
| 2010-11 | ($2.05 million) | GF |

**7. Budget amendment necessary:** Yes.
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**8. Fiscal implications:**

The Department would incur minimal costs to implement this bill.

This bill would reduce General Fund revenue by $4.06 million in Fiscal Year 2006, $0.49 million in Fiscal Year 2007 and $0.52 million in Fiscal Year 2008, $1.19 million in Fiscal year 2009, $1.21 million in Fiscal Year 2010, and $2.05 million in Fiscal Year 2011.

Virginia producers and growers are expected to receive about $66 million annually for 10 years. However, the payments are assignable, so some of the recipients are expected to negotiate a lump sum payment from private financial institutions. The revenue estimate assumes that 20% of recipients will negotiate a lump sum in the first year at an average discount rate of 9%. If 50% of recipients negotiate a lump sum in the first year, the revenue loss would be $8.67 million in FY 2006, and $0.28 million in FY 2007. If no lump sum subtractions are claimed, the revenue loss would be $0.98 million in FY 2006 and $1.01 million in FY 2007.

The buyout program payments would replace payments to producers of quota tobacco currently made as a result of the National Tobacco Grower Settlement Trust (also known as the Master Settlement Agreement, Part II), which qualify for a subtraction under current Virginia law. The revenue estimate nets the revenue loss from the proposed subtraction against the revenue gain from the elimination of the MSA Part II payments.

The official revenue forecast is derived from econometric models and national income statistics that include agricultural income such as earnings by tobacco growers and tobacco quota holders. The elimination of the tobacco quota and price support system is expected to reduce agricultural income, and the buyout payments under the American Jobs Creation Act of 2004 are intended to compensate tobacco growers and quota holders for this anticipated loss in future income. Because the econometric models include future tobacco-related income under the quota system, and the buyout payments are intended to substitute for the lost earnings, no attempt has been made to adjust the econometric models or the official revenue forecast for the elimination of the tobacco buyout payments. Therefore, the proposed subtraction for the tobacco buyout payments would eliminate payments intended by Congress to be a substitute for income streams that are part of the econometric models on which the official revenue forecast is based.

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

Department of Taxation

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

**11. Other comments:**

This bill would allow a subtraction from income in computing individual and corporate income taxes for contract payments to producers of quota tobacco and tobacco quota holders pursuant to the American Jobs Creation Act of 2004.

The buyout program was initiated by Congress to introduce competition into the tobacco market. The tobacco quotas and related price supports had been in place since the 1930's. The buyout program compensates the quota holders and producers whose income is expected to be reduced when tobacco prices are set in a competitive market.

Under the program, producers of quota tobacco and tobacco quota holders will receive 10 equal annual installment payments beginning in 2005 and ending in 2014. The buyout program does not provide for a lump sum payment, however, payments may be assigned to a financial institution in exchange for a lump sum payment.

Many tobacco quota holders purchased their quotas and would have basis in the tobacco marketing quota. As such, the subtraction would be allowed only to the extent that the payments exceed this basis and are included in federal adjusted gross income (individuals) or federal taxable income (corporations).

cc : Secretary of Finance

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