

# DEPARTMENT OF TAXATION

## 2005 Fiscal Impact Statement

1. **Patron** John H. Chichester

2. **Bill Number** SB 0867

**House of Origin:**

☐ Introduced

☐ Substitute

☐ Engrossed

3. **Committee** House Rules

4. **Title** Corporate Income Tax Relief Report

**Second House:**

☒ In Committee

☐ Substitute

☐ Enrolled

### 5. Summary/Purpose:

This bill would require the Tax Commissioner to compile annual reports detailing the amount of corporate income tax relief granted in the Commonwealth and issue the report to the members of the House Appropriations Committee, the House Finance Committee, and the Senate Finance Committee. A preliminary report would be submitted to the committees by December 1 of each year. The Tax Commissioner would submit the final report by April 15 of the subsequent year.

The effective date of this bill is not specified.

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

#### 6a. Expenditure Impact:

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Fund</i> |
|--------------------|----------------|-------------|
| 2004-05            | \$0            | GF          |
| 2005-06            | \$90,000       | 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.

ITEM(S): 284 and 286, Department of Taxation

### 8. Fiscal implications:

There would be no revenue impact as a result of this bill.

The Department is in the final stages of preparing for an August changeover to an entirely new system developed over many years through a public-private partnership. Legislative changes that become effective before the new system is in place must be made to both the old and new systems. However, the Department must "freeze" both systems for several months while its existing records and other data are converted to the new system,

and will not be able to resume system modifications until the new system is stable. This freeze is required both by the physical requirements of a major system upgrade and the fact that all personnel capable of modifying either system will be fully committed to the changeover.

The Department would incur costs of \$90,000 for Fiscal Year 2006 and minimal costs for Fiscal Year 2007 and thereafter to implement this bill, including necessary systems changes. The Department believes that there will be sufficient time available to make the necessary systems changes required by this bill without affecting the system changeover. However, if numerous changes must be implemented within the same time frame the Department may not be able to accomplish all of the modifications without additional resources or the ability to delay the effective date of some of the changes.

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

Department of Taxation

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

**11. Other comments:**

Under this bill the Tax Commissioner would be required to prepare an annual report detailing the amount of income tax relief granted to corporations in the Commonwealth. The report would include the total dollar amount of income tax subtractions, deductions, exclusions, exemptions and credits claimed cumulatively by corporations.

The Tax Commissioner would issue the report on an annual basis to the members of the House Appropriations Committee, the House Finance Committee, and the Senate Finance Committee. A preliminary report would be due by December 1, with a final report to follow by April 15 of the subsequent year.

On December 1, 2005, and April 15, 2006, the Department will not have complete data for taxable year 2004, which would include taxable years beginning between January 1, 2004 and December 31, 2004. A 2004 return for a fiscal year corporation can be filed or mailed as late as September 15, 2006. The first preliminary and final reports could include complete data for taxable year 2003, but only incomplete data for taxable year 2004.

The report will not reflect all of the exemptions and exclusions available to corporations because not all of them are reported on Virginia income tax returns. For example, a corporation that receives interest on Virginia obligations would exclude the interest from federal taxable income and, therefore, no indication of this exclusion would appear in the Virginia income tax return.

Additionally, many pass through entities such as Subchapter S corporations, limited liability companies, and partnerships earn the same tax relief provisions granted to corporations. The subtractions, deductions, exclusions, exemptions and credits are reported in individual income tax returns.

cc : Secretary of Finance

Date: 2/8/2005 AMS  
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