

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** John H. Chichester

3. **Committee** Senate Finance

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

2. **Bill Number** SB 69

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**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 January 7, 2005 to December 31, 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><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2005-06	(\$0.23 million)	GF
2006-07	(\$0.24 million)	GF
2007-08	(\$0.26 million)	GF
2008-09	(\$0.43 million)	GF
2009-10	(\$0.59 million)	GF
2010-11	(\$0.73 million)	GF
2011-12	(\$0.78 million)	GF

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

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### 8. **Fiscal implications:**

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not “routine.” Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

If this bill is not enacted, however, many, if not most, taxpayers would be required to adjust their federal income for Virginia income tax purposes. As a result, the Department would incur substantial costs in order to create and process forms reporting these adjustments.

The revenue loss associated with this bill is limited to the Gulf Opportunity Zone Act of 2005, as that bill was signed after the **Executive Budget** was completed. Thus, the negative revenue impact of this bill is \$0.23 million for FY 2006, \$0.24 million for FY 2007, \$0.26 million for FY 2008, \$0.43 million for FY 2009, \$0.59 million for FY 2010, \$0.73 million for FY 2011, and \$0.78 million for FY 2012. If the conformity bill is not passed, however, then General Fund revenue would be increased by \$2.24 million in FY 2006, \$2.59 million in FY 2007, \$2.59 million in FY 2008, \$2.69 million in FY 2009, and \$2.76 million in FY 2010.

**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 January 7, 2005. Since that date, Congress has enacted several significant measures that would affect income taxation in Virginia. If Virginia advances the date of conformity, the following benefits are among those that would flow through to Virginia taxpayers:

Energy Tax Incentives Act of 2005

The Energy Tax Incentives Act of 2005 eliminates the sunset dates for several energy tax incentives, modifies the depreciation rules for certain properties, and provides a temporary 50% expensing for certain equipment.

Katrina Emergency Tax Relief Act of 2005

The Katrina Emergency Tax Relief Act of 2005 provides a temporary suspension of limitations for qualified corporate and individual charitable contributions and allows enhanced deductions for contributions of food and books.

## Gulf Opportunity Zone Act of 2005

The Gulf Opportunity Zone Act of 2005 temporarily waives limits regarding charitable cash contributions for Rita and Wilma relief and extends the provision allowing combat pay to count as income for purposes of calculating the earned income tax credit,

### Proposal

This bill would advance Virginia's date of conformity to the IRC from January 7, 2005 to December 31, 2005. This will avoid the necessity of requiring taxpayers to make adjustments for any federal tax changes enacted in 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

**House Bill 531** is identical to this bill.

cc : Secretary of Finance

Date: 01/17/2006 AMS  
SB69F161