

DEPARTMENT OF TAXATION

2006 Fiscal Impact Statement

1. **Patron** Frank M. Ruff

2. **Bill Number** SB 70

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Income Taxes: Payments to Producers of
Quota Tobacco and Tobacco Quota
Holders

Second House:

 In Committee

 Substitute

 Enrolled

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:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2005-06	\$0	GF
2006-07	(\$7.7 million)	GF
2007-08	(\$0.5 million)	GF
2008-09	(\$1.2 million)	GF
2009-10	(\$1.2 million)	GF
2010-11	(\$2.1 million)	GF
2011-12	(\$2.1 million)	GF

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

Page 1, Revenue Estimates

8. **Fiscal implications:**

This bill would result in revenue loss of \$7.7 million for FY 2007, \$0.5 million for FY 2008, \$1.2 million for FY 2009 and 2010, and \$2.1 million for FY 2011 and 2012.

TAX has not assigned any administrative costs to this bill because the changes require 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.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

While the bill would give taxpayers the option of claiming their 2005 payments on either their 2005 or 2006 returns, taxpayers should not be allowed to switch them between years if they later discover it would be to their advantage. As such, the following technical amendments are suggested.

Page 3, Line 172, after may
Insert: make an irrevocable election to

Page 9, Line 503, after may
Insert: make an irrevocable election to

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).

Payments under the buyout program replace payments that producers and quota holders had been receiving under Phase II of the Master Settlement Agreement. These payments are eligible for a subtraction under current Virginia law.

cc : Secretary of Finance

Date: 01/22/2006 CHC
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