

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** Brian J. Moran

2. **Bill Number** HB 3165

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Corporate Income Tax; Higher Education
Research and Development Tax Credit

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide a corporate income tax credit for corporations that invest in research and development programs in Virginia's institutions of higher education. The credit would be equal to 20% of the investments made and is limited to \$100,000 annually per taxpayer. The amount of credits granted for any taxable year is limited to \$20 million. Unused tax credits may be carried forward for the next five years.

The effective date of this bill is taxable years beginning on or after January 1, 2008.

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

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2006-07	\$0	0	GF
2007-08	\$34,225	1	GF
2008-09	\$48,700	1	GF
2009-10	\$49,700	1	GF
2010-11	\$50,700	1	GF
2011-12	\$51,700	1	GF
2012-13	\$52,700	1	GF

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

Item 265, Department of Taxation

8. **Fiscal implications:**

Administrative Costs

TAX would incur administrative costs of \$34,225 for FY 2008, \$48,700 for FY 2009, \$49,700 for FY 2010, \$50,700 for FY 2011, \$51,700 for FY 2012 and \$52,700 for FY 2013. TAX would require one additional full-time employee to implement this credit.

Revenue Impact

This bill would have a negative General Fund revenue impact of unknown magnitude. The National Science Foundation reports that in 2003 there was \$776 million of academic research and development performed in Virginia. The proportion of this research that was supported by corporations is unknown.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

When a corporation is determining its federal taxable income (FTI) research and experimental expenditures that are paid or incurred are either deductible or may be capitalized and deducted over several years. Since FTI is the starting point for the determination of Virginia taxable income for corporations such expenditures are deductible from Virginia corporate tax as well.

The federal government also offers an income tax credit for businesses that increase their research activities during the taxable year. The federal credit is based on (1) the excess of the qualified research expenses; and (2) basic research payments. Qualified research expenses include wages and salaries paid to individuals engaged in research, amounts paid for supplies used to conduct research, and 65% of fees paid to a research contractor. Basic research payments are amounts paid to educational institutions and nonprofit research organizations to conduct research pursuant to a written agreement.

Proposal

This bill would provide a corporate income tax credit for corporations that invest in research and development programs in Virginia's institutions of higher education. The credit would be equal to 20% of the investments made and is limited to the lesser of the taxpayer's tax liability or \$100,000. The amount of credits granted for any taxable year is limited to \$20 million. Unused tax credits may be carried forward for the next five years.

This bill is similar to the federal credit for basic research payments in that both credits are offered for payments to institutions of higher education. However, the amount of the federal credit is significantly larger than the proposed state credit. This bill would not prohibit corporations from taking both the federal credit and the state credit for the same investment.

This bill would require TAX to establish policies and procedures for the administration of this credit. Any actions by TAX relating to the approval or denial of this credit would be exempt from the Administrative Process Act.

cc : Secretary of Finance

Date: 1/23/2007 JOC
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