

# DEPARTMENT OF TAXATION

## 2007 Fiscal Impact Statement

1. **Patron** John H. Chichester

2. **Bill Number** SB 1105

3. **Committee** Passed House and Senate

**House of Origin:**

       **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Taxation; Conformity with Internal Revenue Code

**Second House:**

       **In Committee**

       **Substitute**

  X   **Enrolled**

### 5. **Summary/Purpose:**

This bill would advance Virginia's date of conformity to the Internal Revenue Code (IRC) from December 31, 2005 to December 31, 2006. Virginia would continue to disallow any bonus depreciation allowed for certain assets under the IRC and any five year carry-back of certain net operating losses (NOL) allowed for NOLs generated in taxable years 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.)

#### **Revenue Impact:**

| <i><b>Fiscal Year</b></i> | <i><b>Dollars</b></i> | <i><b>Fund</b></i> |
|---------------------------|-----------------------|--------------------|
| 2006-07                   | (\$0.75 million)      | GF                 |
| 2007-08                   | (\$1.92 million)      | GF                 |
| 2008-09                   | (\$1.65 million)      | GF                 |
| 2009-10                   | (\$1.73 million)      | GF                 |
| 2010-11                   | (\$1.97 million)      | GF                 |
| 2011-12                   | (\$2.15 million)      | GF                 |
| 2012-13                   | (\$2.33 million)      | GF                 |

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

#### Administrative Impact

TAX considers implementation of this bill as routine, and does not require additional funding.

If this bill is not passed there will be a substantial administrative cost as TAX will be required have to make significant changes to its forms.

#### Revenue Impact

**The Executive Budget assumes the passage of this bill** and therefore incorporates the fiscal impact of federal laws passed prior to its publication. Since the introduction of the Executive Budget Congress passed and the President signed the Tax Relief and Health Care Act of 2006 (TRHCA 2006). Consequently, this bill has a revenue impact beyond that assumed in the Executive Budget.

Passage of this bill would reduce the General Fund revenue by \$0.75 million for FY 2007, \$1.92 million for FY 2008, \$1.65 million for FY 2009, \$1.73 million for FY 2010, \$1.97 million for FY 2011, \$2.15 million for FY 2012, and \$2.33 million for FY 2013.

#### **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 December 31, 2005. Since that date, Congress has enacted three significant measures that would affect income taxation in Virginia:

- The Tax Increase Prevention and Reconciliation Act of 2005 altered various corporate and individual income tax provisions and extended sunset dates on various tax breaks.
- The Pension Protection Act of 2006 changed the tax treatment of certain retirement funds at the corporate and individual levels.
- The Tax Relief and Health Care Act of 2006 expanded many deductions related to energy and health savings accounts as well as other provisions relating to both individuals and corporations.

Unless the date of IRC conformity is advanced, none of the provisions of these Acts will flow through to Virginia taxable income. Because federal adjusted gross income (individuals) and federal taxable income (corporations) are the starting point for Virginia tax returns, if this bill is not enacted Virginia taxpayers would be required to make numerous complex "Fixed-Date Conformity" adjustments to remove the effect of these Acts when they prepare their Virginia tax returns.

## Proposal

The bill would advance the date of IRC conformity to December 31, 2006, which would include all of the Acts passed by Congress in 2006. Virginia taxpayers would not be required to make any "Fixed-Date Conformity" adjustments. Virginia would continue to disallow any bonus depreciation allowed for certain assets under the IRC and any five year carry-back of certain NOLs generated in taxable years 2001 and 2002.

## Similar Legislation

**House Bill 1696** is identical to this bill.

cc : Secretary of Finance

Date: 3/6/2007 JOC  
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