

DEPARTMENT OF TAXATION

2011 Fiscal Impact Statement

1. **Patron** Charles D. Poindexter

3. **Committee** House Finance

4. **Title** Income tax; travel expenses reimbursement tax credit.

2. **Bill Number** HB 2056

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide a transferable corporate income tax credit for an employer whose business is primarily drilling, extracting, and processing natural gas or providing support services for such activities. The amount of the credit would be equal to the amount paid for reimbursements of travel, lodging, food, and other allowable expenses by an employer that requires his employees to work outside of Virginia in the natural gas industry.

This bill would be effective for taxable years beginning on or after January 1, 2011, but before January 1, 2015.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

Administrative Impact

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

Revenue Impact

The magnitude of the revenue loss associated with this bill is unknown, but could be significant as it would apply to employee travel anywhere in the world, except Virginia.

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

Department of Taxation

10. **Technical amendment necessary:** No.

11. Other comments:

Federal Deduction for Employee Travel Expenses

Internal Revenue Code § 162(a) permits taxpayers to claim a deduction for all ordinary and necessary business expenses paid or incurred during the taxable year in carrying on any trade or business, including traveling expenses incurred while away from home in the pursuit of a trade or business. Corporations can generally claim a deduction for any reimbursed travel expenses incurred by an employee. This includes 100 percent of the costs of travel and lodging and up to 50 percent of meal expenses.

Any federal deductions are used to compute federal taxable income. Because Virginia uses federal taxable income as the base for computing Virginia corporate income tax liability, the federal deduction for employee travel expenses is already taken into account for Virginia income tax purposes.

Proposed Legislation

This bill would provide a corporate income tax credit for an employer whose business is primarily drilling, extracting, and processing natural gas or providing support services for such activities. The amount of the credit would be equal to the amount paid for reimbursements of travel, lodging, food, and other allowable expenses by an employer that requires his employees to work outside of Virginia in the natural gas industry.

For purposes of the credit, “drilling, extracting, and processing” would be defined as the production, inspection, testing, dewatering, dehydration, or distillation of raw natural gas into a usable condition consistent with commercial practices and the gathering, transporting, pipeline construction, and right-of-way construction to allow raw natural gas to be transported to a facility wherein the gas is converted into such a usable condition. “Natural gas” would be defined as gas, natural gas, and coalbed methane gas as defined in Va. Code § 45.1-361.1.

Any credit not used in the taxable year for which the reimbursements were paid may be transferred to another taxpayer. Any employer who transfers the credit would be required to submit a notification of the transfer to TAX in accordance with the procedures and forms prescribed by TAX.

Any employer subject to Virginia taxes that reimburses employees for travel outside of Virginia would be entitled to the credit, regardless of whether the employees are Virginia residents or whether the employer is a Virginia business. Virginia companies that conduct all of their business within the state and have large in-state travel expenses would not be entitled to any deduction.

This bill would be effective for taxable years beginning on or after January 1, 2011, but before January 1, 2015.

cc : Secretary of Finance

Date: 1/20/2011 KLC
HB2056F161