

DEPARTMENT OF TAXATION

2011 Fiscal Impact Statement

1. **Patron** Albert C. Pollard, Jr.

3. **Committee** House Finance

4. **Title** Income Tax: Exemption for Small
Businesses

2. **Bill Number** HB 2390

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would provide an exemption from individual and corporate income tax for small businesses. The exemption would be available for the first two taxable years the business operates or until such business generates \$300,000 in gross income, whichever occurs first. A "small business" would be a business located in Virginia that is owned or operated by U.S. citizens or noncitizens in full compliance with U.S. immigration law and has 250 or fewer employees.

The bill would be effective for taxable years beginning on and after January 1, 2012.

6. Budget amendment necessary: No.

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

8. Fiscal implications:

Administrative Costs

The Department of Taxation considers implementation of this bill as "routine," and does not require additional funding.

Revenue Impact

The negative impact on General Fund revenue is not known. Many new businesses do not earn a profit for the first several years they are in operation. Thus, it is not known how many businesses would not be able to take advantage of the exemption.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Recent Federal Tax Incentives for Small Businesses

The Small Business Jobs and Credit Act of 2010 increased the maximum amount a taxpayer may expense under Internal Revenue Code § 179 from \$250,000 to \$500,000 and increases the phase-out threshold amount to \$2 million for taxable years 2010 and 2011. The maximum amount a taxpayer may expense, for taxable years beginning after 2009 and before 2012, is \$500,000 of the cost of qualifying property placed in service for the taxable year.

Should the General Assembly enact House Bill 1874 and advance Virginia's date of conformity to the Internal Revenue Code (IRC) from January 22, 2010 to December 31, 2010, small businesses would benefit from the flow-through of the increased deduction on their Virginia returns.

In addition, the Hiring Incentives to Restore Employment Act, the Education Jobs and Medicaid Assistance Act, The Small Business Jobs and Credit Act, and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 created a number of new federal income tax credits and extended a number of existing tax credits available to small businesses.

Current Virginia Small Business Incentives

The Virginia Department of Business Assistance (VDBA) provides a one-stop-service for technical assistance related to business formation, access to capital, and workforce development. VDBA works with and mentors entrepreneurs from ideas to launching their first business venture. To accomplish its objectives, VDBA provides workforce incentives, access to capital, business information, small business incubator counseling, and hosts entrepreneurial workshops statewide annually.

The Virginia Small Business Finance Authority (VSBFA) assists small businesses through a number of financing programs. VSBFA offers direct loans for fixed asset purchases to businesses, localities and Economic Development Authorities for projects of all sizes. VSBFA also offers loan guaranties and loan loss insurance programs to reduce risk to banks making it easier for financial institutions to make loans to small businesses. In addition, targeted financing programs are available for southern Virginia's tobacco region, minority-owned businesses, small manufacturers, non-profit organizations, licensed Child care and family home providers, and Virginia's tourism industry.

Under Virginia's Qualified Equity and Subordinated Debt Investments Tax Credit, an individual or corporation is allowed a tax credit for investments made in a qualified small business having annual gross revenues of no more than \$3 million engaged in the business of advanced computing, advanced materials, advanced manufacturing, agricultural technologies, biotechnology, electronic device technology, energy, environmental technology, medical device technology, nanotechnology, or any similar technology-related field.

Proposal

This bill would provide an exemption from individual and corporate income tax for small businesses. The exemption would be available for the first two taxable years the business operates or until such business produces \$300,000 in gross income, whichever occurs first. A "small business" would be a business located in Virginia that is owned or operated by U.S. citizens or noncitizens in full compliance with U.S. immigration law and has 250 or fewer employees.

The bill would be effective for taxable years beginning on and after January 1, 2012.

cc : Secretary of Finance

Date: 1/25/2011 dtm
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