

# DEPARTMENT OF TAXATION

## 2012 Fiscal Impact Statement

1. **Patron** James P. "Jimmie" Massie, III

2. **Bill Number** HB 1153

3. **Committee** Senate Finance

**House of Origin:**

       Introduced

       Substitute

       Engrossed

4. **Title** Income Tax: Federal Deduction for Domestic  
Production Activities

**Second House:**

  X   In Committee

       Substitute

       Enrolled

### 5. Summary/Purpose:

This bill would allow the entire amount of the federal deduction for domestic production activities to be deducted for Virginia income tax purposes instead of only two-thirds of the federal deduction allowed under IRC § 199.

This bill would be effective for taxable years beginning on and after January 1, 2013.

**This is an Executive bill.**

6. **Budget amendment necessary:** Yes.  
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7. **Fiscal Impact Estimates are:** Final. (See Line 8.)

#### 7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2011-12	\$0	GF
2012-13	\$10 million	GF
2013-14	(\$10 million)	GF
2014-15	(\$10 million)	GF
2015-16	(\$10 million)	GF
2016-17	(\$10 million)	GF
2017-18	(\$10 million)	GF

### 8. Fiscal implications:

#### Administrative Costs

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

## Revenue Impact

This bill would have a General Fund revenue loss of \$10 million annually beginning in Fiscal Year 2014. There is \$10 million loss assumed in the introduced Executive Budget for Fiscal Year 2013 only.

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

Department of Taxation

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

### **11. Other comments:**

#### Background

Since 2003 the General Assembly has advanced the date as of which Virginia conforms to the Internal Revenue Code ("IRC"). This procedure allows the General Assembly to deconform from new federal tax policies that are incompatible with Virginia's policy or revenue objectives. However, Virginia has not automatically conformed to changes in federal tax law.

In 2010, Virginia partially deconformed from the federal domestic production deduction allowed under IRC § 199. This deduction was created by Congress in 2004, which allows a tax deduction for domestic production by certain businesses. The intent of the change was to reduce the effective tax rate on domestic manufacturing. For taxable years 2007 through 2009, the deduction was 6%, but increased to 9% for taxable years 2010 and thereafter. Virginia deconformed from the increase in the deduction, effectively freezing it at the 6% level for Virginia income tax purposes.

#### Proposal

This bill would allow the entire amount of the federal deduction for domestic production activities to be deducted for Virginia income tax purposes instead of only two-thirds of the federal deduction allowed under IRC § 199.

This bill would be effective for taxable years beginning on and after January 1, 2013.

#### Other Bills

**Senate Bill 462** is similar, but would allow the entire amount of the federal deduction for domestic production activities to be deducted for Virginia income tax purposes instead of only two-thirds of the federal deduction allowed under IRC § 199 for taxable year 2012 only.

**Senate Bill 463** is Department of Taxation Bill that would advance Virginia's date of conformity to the Internal Revenue Code (IRC) from December 31, 2010 to December 31, 2011.

**House Bill 516** is identical to Senate Bill 463, and has been enacted (2012, *Acts of Assembly*, Chapter 2).

cc : Secretary of Finance

Date: 2/19/2012 tlg  
HB1153FE161