

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** Ryan T. McDougale

2. **Bill Number** SB 344

3. **Committee** House General Laws

House of Origin:

☐ Introduced

☐ Substitute

☐ Engrossed

4. **Title** Small Business Investment Grant Program:
Creates the Small Business Investment
Grant Fund and Program

Second House:

☒ In Committee

☐ Substitute

☐ Enrolled

5. **Summary/Purpose:**

This bill would establish the Small Business Investment Grant Fund, a non-reverting, permanent fund, on the books of the Comptroller. The Fund would be administered by the Virginia Department of Business Assistance (DBA). Under this bill, an individual would be allowed to apply for a grant for each qualified investment during the calendar year in one or more small businesses that have been certified by DBA. The grant would be equal to 10 percent of the qualified investment.

The grants would be issued in the order that the completed eligible applications are received. Any year-end balances would be reappropriated and the fund retains any interest earned. In the event that the total amount of grants requested in a fiscal year exceed the appropriated funds, the grants would be issued in the next fiscal year in which funds are available.

The eligible investor would be required to hold the investment for two years, unless the qualified investment is transferred as a result of (i) the liquidation of the small business issuing such equity, (ii) the merger, consolidation, or other acquisition of such business with or by a party not affiliated with such business, or (iii) the death of the eligible investor. If the eligible investor fails to hold the equity for at least two years, then the grant would be forfeited and interest will be assessed in the amount of one percent per month, compounded monthly, from the date the grant was awarded to the eligible investor. Any amount of forfeiture and interest would be deposited into the general fund of the Commonwealth.

An eligible investor would not be allowed to receive a grant and the Qualified Equity and Subordinated Debt Investments Tax Credit for same investment.

The bill would require DBA to establish policies and procedure, exempt from the Administrative Process Act, regarding (i) the certification of small businesses, (ii) the application for grants, and (iii) the recapture of grants and the assessment of interest in the event the qualified investment is not held for at least two years

This bill would be effective beginning July 1, 2012.

This bill would not become effective unless an appropriation of General Funds is made to the Small Business Investment Grant Fund during the 2012 General Assembly session.

This is an Executive Bill.

6. Budget amendment necessary: Yes.

ITEM(S):

Page 1, Revenue Estimates

New item for the Small Business Investment Grant Fund

107, Virginia Department of Business Assistance (an appropriation for the administration of the grant)

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

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2011-12	\$0	0	GF
2012-13	Unknown	1 FTE	GF
2013-14	Unknown	1 FTE	GF
2014-15	Unknown	1 FTE	GF
2015-16	Unknown	1 FTE	GF
2016-17	Unknown	1 FTE	GF
2017-18	Unknown	1 FTE	GF

8. Fiscal implications:

Expenditure

This bill would require an appropriation from the General Fund to the Small Business Investment Grant Fund created by the Senate amendment to this bill. In order for the provisions of this bill to become effective, an appropriation must be made by the 2012 General Assembly to fund the Small Business Investment Grant Fund.

Another appropriation would be needed for the DBA's administrative costs related to the development of a database to track the spending and reimbursement of the Small Business Investment Grant Fund. The costs associated with developing a database would be up to \$50,000. DBA has already developed databases to track the Virginia Jobs Investment Program and the Small Business New Jobs Grant Fund spending and reimbursement. In addition, DBA reports that it would likely need to hire at least one full-time employee and would incur additional costs depending on how many individuals qualify for the grant.

Revenue

The introduced House Bill 30 includes a revenue reduction of \$1.5 million annually to reflect the tax credit contained in this bill as introduced. Therefore, in addition to the budget amendments to appropriate funds to the Small Business Investment Grant Fund and DBA, the revenue reduction should be reversed.

9. Specific agency or political subdivisions affected:

Virginia Department of Business Assistance

10. Technical amendment necessary: No.

11. Other comments:

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.

The Virginia Enterprise Zone program, administered by the Department of Housing and Community Development, provides two grant programs available to eligible businesses that locate a facility within the zone. The Job Creation Grant program provides grants to eligible businesses for certain permanent full-time job creation exceeding a four job threshold. The Real Property Investment Grant program provides grants for qualified real property investments made in a designated Virginia Enterprise Zone by an eligible individual or business. Since the program was converted to a grant program in 2005, no new tax credits have been allowed. However, firms that had previously been allowed Enterprise Zone General Business Tax Credits are permitted to continue to claim them.

Similar Bills

House Bill 585 is similar to this bill, but would provide a tax credit equal to 10 percent of the qualified investment made to small business. The bill would be effective for taxable years January 1, 2012, but before January 1, 2015. **This is an Executive bill.**

cc : Secretary of Finance

Date: 2/21/2012 tlg
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