# DEPARTMENT OF TAXATION
# 2012 Fiscal Impact Statement

1. **Patron** Walter A. Stosch

2. **Bill Number** SB 462
   **House of Origin:**
   _____ **Introduced**
   _____ **Substitute**
   _____ **Engrossed**

   **Second House:**
   _____ **In Committee**
   _____ **Substitute**
   __X__ **Enrolled**

3. **Committee** Passed Senate and House

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

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.
   Page 1, Revenue Estimates

7. **Fiscal Impact Estimates are:** Final. (See Line 8.)
   **7b. Revenue Impact:**

| ***Fiscal Year*** | ***Dollars*** | ***Fund*** |
|---|---|---|
| 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:**

   <u>Administrative Costs</u>

   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 all 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. The federal deduction was phased in at 3% for taxable years 2005 and 2006, 6% for taxable years 2007 through 2009, and 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

**House Bill 1153** is identical to this bill.

**House Bill 516 and Senate Bill 463** are Department of Taxation Bills 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 has already been enacted (2012 *Acts of Assembly,* Chapter 2).

cc : Secretary of Finance

Date: 3/8/2012 tlg
SB462FER161