DEPARTMENT OF TAXATION
2014 Fiscal Impact Statement

1. Patron Benjamin L. Cline

2. Bill Number HB 1243
House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

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

3. Committee House Finance

4. Title Corporate Income Tax Rate.

5. Summary/Purpose:

This bill would reduce the corporate income tax rate from 6 percent to 5 percent.

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

6. Budget amendment necessary: Yes.
ITEM(S): Page 1, Revenue Estimates

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

Fiscal Year	***Dollars***	***Fund***
2013-14	$0	GF
2014-15	($80.9 million)	GF
2015-16	($193.1 million)	GF
2016-17	($151.9 million)	GF
2017-18	($152.8 million)	GF
2018-19	($152.0 million)	GF
2019-20	($152.3 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.

Fiscal Impact

This bill would reduce General Fund revenue by $80.9 million for Fiscal Year 2015, $193.1 million for Fiscal Year 2016, $151.9 million for Fiscal Year 2017, $152.8 for Fiscal Year 2018, $152.0 for Fiscal Year 2019, and $152.3 million for Fiscal Year 2020. The revenue estimates for Fiscal Years 2015 and 2016 would fluctuate due to the timing of estimated tax payments and refunds. Taxpayers would begin to adjust their estimated tax payments for Taxable Year 2015 during the second half of Fiscal Year 2015, which would generate a revenue loss for that year.

Foregone compliance revenue also contributes to the revenue loss. Prior to lowering the corporate income tax rate, compliance revenue is assumed to be $60 million per year. Once the corporate income tax rate is lowered to five percent, it is estimated that the compliance revenue would be reduced by $3.3 million for Fiscal Year 2016, $6.67 million for Fiscal Year 2017, and $10 million for each fiscal year thereafter. These amounts are included in the revenue estimates above.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia Corporate Income Tax

The corporate income tax is imposed at the rate of six percent on the Virginia taxable income of domestic and foreign corporations doing business in Virginia. For purposes of the corporate income tax, a corporation is defined as any entity created as a corporation under the laws of any state or local domestic or foreign jurisdiction, and any association, joint stock company, or any other entity subject to corporate income tax under the Internal Revenue Code.

A corporation's taxable income is determined by allocation and apportionment when the income is derived from sources both within and without Virginia. Multistate corporations allocate and apportion federal taxable income after Virginia modifications are made to determine the amount of income attributable to Virginia. No allocation or apportionment is necessary when the entire business of a corporation is conducted or transacted within Virginia. Instead, the Virginia corporate income tax is imposed upon the entire Virginia taxable income of the corporation for each taxable year.

The corporate income tax has become a major revenue source for Virginia. According to the Department's Annual Report for Fiscal Year 2013, the corporate income tax produced $796.7 million in revenue. The corporate income tax produces the third highest amount of revenue behind the individual income tax and the state sales and use tax. Details about the amount of corporate income tax revenue collected annually are included in the chart on the following page.

Corporate Income Tax Revenue, Fiscal Years 2003 to 2013

Fiscal Year	Amount
2003	$343,318,607
2004	$425,715,754
2005	$616,690,263
2006	$867,115,786
2007	$879,575,371
2008	$807,851,584
2009	$648,032,537
2010	$806,472,760
2011	$822,258,803
2012	$859,922,840
2013	$796,728,154

Not all business entities are subject to the corporate income tax. Banks and trust companies are subject to a bank franchise tax, insurance companies are subject to an insurance premiums license tax, and telecommunications companies and electric suppliers are subject to a minimum tax. Businesses organized as pass-through entities, such as partnerships, limited liability companies, and electing small business corporations ("S corporations"), are not taxed at the entity level; instead, the pass-through entities' individual partners, members, or shareholders are typically subject to the individual income tax. Sole proprietorships are also subject to the individual income tax.

For Taxable Year 2010, Virginia taxpayers filed over 184,000 pass-through entity returns, as compared to under 64,000 corporate income tax returns. In addition, according to the most recent IRS data published, there were 535,294 individual income tax returns filed for Taxable Year 2007 in Virginia by sole proprietorships. This number includes a broad range of businesses, from individuals selling products part-time, to tradesmen (such as plumbers, electricians, and carpenters) running a full-time business.

Proposed Legislation

This bill would reduce the corporate income tax rate from 6 percent to 5 percent.

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

cc : Secretary of Finance

Date: 1/27/2014 mjm
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