

DEPARTMENT OF TAXATION

2015 Fiscal Impact Statement

1. **Patron** Stephen H. Martin

3. **Committee** Senate Finance

4. **Title** Reduction of the Corporation Income Tax Rate

2. **Bill Number** SB 1285

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would reduce the corporation income tax rate from 6 percent to 5 percent for taxable years beginning on or after January 1, 2016. For taxable years beginning on or after January 1, 2018, this bill would reduce the corporation income tax rate by 1 percent if actual General Fund revenues for the fiscal year ending in the preceding taxable year exceeded the official General Fund revenue forecast for such fiscal year by one percent.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** Yes.

ITEM(S): Page 1, Revenue Estimates

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2014-15	\$0	GF
2015-16	(\$64.2 million)	GF
2016-17	(\$171.2 million)	GF
2017-18	(\$134.1 to \$196.6 million)	GF
2018-19	(\$132.6 to \$366.0 million)	GF
2019-20	(\$133.0 to \$502.5 million)	GF
2020-21	(\$135.1 to \$636.6 million)	GF

8. **Fiscal implications:**

Administrative Costs

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

Revenue Impact

This bill would have a negative General Fund revenue impact of \$64.2 million in Fiscal Year 2016, and \$171.2 million in Fiscal Year 2017. This bill would have a negative General Fund revenue impact of between \$134.1 million and \$196.6 million for Fiscal Year 2018, between \$132.6 million and \$366 million for Fiscal Year 2019, between \$133 million and \$502.5 million for Fiscal Year 2020, and between \$135.1 million and \$636.6 million for Fiscal Year 2021.

The negative General Fund revenue impact for Fiscal Year 2018 and thereafter is dependent on whether actual General Fund revenues for Fiscal Year 2017 and subsequent fiscal years exceed the official General Fund revenue forecast for such fiscal years by at least one percent. Because it is unknown whether such General Fund revenue goals will be met, it is unknown whether and to what extent this bill would reduce the corporation income tax rate for taxable years beginning with Taxable Year 2018. Therefore, the Department's General Fund revenue impact estimate for this bill is a range for each fiscal year, with the low estimate assuming that the corporation income tax rate would remain at 5 percent, and the high estimate assuming that the corporation income tax rate would be lowered by one percent for each taxable year beginning with Taxable Year 2018. The actual General Fund revenue impact for this bill could fall in between the high and low estimates for a given fiscal year if the corporation income tax rate is lowered for at least one taxable year beginning with Taxable Year 2018, but not for all years.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia's Corporation Income Tax Rate

Virginia imposes its corporation income tax at a rate equal to 6 percent of the Virginia taxable income of every Virginia corporation and every foreign corporation having income from Virginia sources. Virginia does not currently allow a lower corporation income tax rate for any corporations that are subject to the tax.

Non-Corporate Businesses

Businesses that do not operate as corporations would not be eligible for the reduced tax rate proposed in this bill. The majority of businesses that conduct business in Virginia are organized as pass-through entities or sole proprietorships, rather than as corporations. For Taxable Year 2012, more than 208,000 pass-through entity returns were filed, as compared to fewer than 67,000 corporate income tax returns. Additionally, many businesses file individual returns as sole proprietorships. For example, according to IRS data, more than 569,000 individual income tax returns were filed in Virginia for Taxable Year 2009 by owners of sole proprietorships. This number includes a broad range of businesses, from people selling products part-time, to tradesmen (plumbers, electricians,

carpenters, etc.) running a full-time business. Such businesses would not benefit from the reduced rate proposed by this bill.

North Carolina's Corporation Income Tax Rate

During 2013, North Carolina enacted legislation that reduced its corporation income tax rate from 6.9 percent to 6 percent for Taxable Year 2014, and to 5 percent for Taxable Year 2015. If General Fund tax revenue for Fiscal Year 2015 equals or exceeds \$20.2 billion, the corporation income tax rate will be reduced to 4 percent for taxable years beginning with Taxable Year 2016. If General Fund tax revenue for Fiscal Year 2016 equals or exceeds \$20.975 billion, the corporation income tax rate will be reduced to 3 percent for taxable years beginning with Taxable Year 2017.

Proposed Legislation

This bill would reduce the corporation income tax rate from 6 percent to 5 percent for taxable years beginning on or after January 1, 2016. For taxable years beginning on or after January 1, 2018, this bill would reduce the corporation income tax rate by 1 percent if actual General Fund revenues for the fiscal year ending in the preceding taxable year exceeded the official General Fund revenue forecast for such fiscal year by one percent.

The effective date of this bill is not specified.

Similar Bills

Senate Bill 807 would reduce the corporation income tax rate for certain businesses that open a satellite office or operation in a Virginia locality with a population of 200,000 or fewer people from six percent to three percent for the first three taxable years the new office is in operation.

cc : Secretary of Finance

Date: 1/19/2015 MTH
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