DEPARTMENT OF TAXATION
2020 Fiscal Impact Statement

1. **Patron** Nick Rush

2. **Bill Number** HB 708
   House of Origin:
   X **Introduced**
   ___ **Substitute**
   ___ **Engrossed**

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

3. **Committee** House Finance

4. **Title** Bank Franchise Tax Credit; Student Loan Refinancing

5. **Summary/Purpose:**

This bill would allow a bank to claim a credit against its state bank franchise tax liability in an amount equal to 20 percent of its refinancing expenses with respect to privately held student loans. However, no credit would be allowed against the bank franchise taxes imposed by cities, towns, and counties. This credit would not be subject to an annual credit cap.

This bill would be effective for taxable years beginning on and after January 1, 2020.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

<u>Administrative Costs</u>

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

<u>Revenue Impact</u>

This bill would have an unknown, but potentially significant, negative General Fund revenue impact beginning in Fiscal Year 2021. The extent to which banks would qualify for and claim this credit is unknown. Because the bill is not limited to forgiving private student loans owed by Virginia residents, the credit could be claimed for bank refinancing expenses attributable to the forgiveness of private student loans nationwide.

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

Department of Taxation

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

11. Other comments:

Virginia’s Bank Franchise Tax

Virginia imposes an annual Bank Franchise tax on a bank’s net capital at the rate of $1 per $100. Counties, cities and towns are authorized to impose a local Bank Franchise Tax on banks at an amount equal to 80 percent of the state tax. A credit against the state tax is allowed for these local taxes. Therefore, banks pay a total Bank Franchise Tax of $1 per $100 on their net capital, but it is effectively split 80 percent to localities and 20 percent to the state. The total amount of state bank franchise tax revenues was $29.6 million in Fiscal Year 2019.

Discharge of Indebtedness Income

The discharge of indebtedness, including discharged student loans, is includible in a taxpayer’s gross income unless an exclusion applies. Exclusions are provided for certain taxpayers that are insolvent, permanently and totally disabled, and working in public service professions for at least ten years.

For individual income tax purposes, Virginia generally conforms to federal income tax law and begins the calculation of a taxpayer’s Virginia taxable income with his or her federal adjusted gross income. Therefore, Virginia generally conforms to the above exclusions.

Virginia provides also provides a specific subtraction for any income attributable to the discharge of a student loan solely by reason of the student’s death that is not already excluded from federal adjusted gross income.

Sunset Dates for Tax Credits

During the 2012 Session, the General Assembly enacted House Bill 246, which prohibits legislation from adding a new credit or renewing an existing credit unless the legislation contains a sunset date of not longer than five years from the effective date of the new or renewed credit.

Proposed Legislation

This bill would allow a bank to claim a credit against its state bank franchise tax liability in an amount equal to 20 percent of its refinancing expenses with respect to privately held student loans. However, no credit would be allowed against the bank franchise taxes imposed by cities, towns, and counties. This credit would not be subject to an annual credit cap.

"Refinancing expenses" would be defined as forgiven principal plus interest reduction.

"Forgiven principal" would be defined as, for all student loans refinanced by a bank, in the aggregate, including multiple loans consolidated into a single loan, the amount of principal outstanding before refinancing minus the amount of principal outstanding after refinancing.

"Interest reduction" would be defined as, for all student loans refinanced by a bank, in the aggregate, including multiple loans consolidated into a single loan, the amount of interest outstanding before refinancing minus the amount of interest outstanding after refinancing.

For purposes of calculating interest reduction for a fixed rate loan, the total amount of interest over the loan term would be averaged annually using the rate that applies to the loan. For purposes of calculating interest reduction for a variable rate loan, the total amount of interest over the loan term would be required to be averaged annually using the highest rate that could apply to the loan under the terms of the loan contract.

"Student loan" would be defined as a privately held student loan. "Student loan" would not include a loan held by the federal government.

This bill would be effective for taxable years beginning on and after January 1, 2020.

cc : Secretary of Finance

Date: 1/18/2020 JJS
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