

DEPARTMENT OF TAXATION

2023 Fiscal Impact Statement

1. **Patron** Alfonso H. Lopez

3. **Committee** House Finance

4. **Title** Corporate Income Tax; Local Journalism
Sustainability Credits

2. **Bill Number** HB 2061

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would provide two new tax credits for local journalism. The first would be an individual and corporate income tax credit for eligible local newspaper publishers for compensation paid to local news journalists. For the first taxable year in which it is claimed, the credit would be equal to 10 percent of the actual amounts paid in wages to local news journalists during such taxable year up to \$5,000. For subsequent taxable years, the credit would be equal to 5 percent of the actual amounts paid in wages to local news journalists during such taxable year up to \$2,500. The credit would be subject to an annual credit cap of \$5 million.

The bill would also provide an individual and corporate income tax credit for eligible small businesses with fewer than 50 employees for certain expenses incurred for qualified local media advertising in a local newspaper, or in a broadcast of a local radio or television station. For the first taxable year in which it is claimed, the credit would be equal to 80 percent of the actual amounts paid or incurred for qualified local media advertising expenses up to \$4,000. For subsequent taxable years the credit would be 50 percent of the actual amounts paid or incurred for qualified local media advertising expenses during such taxable year up to \$2,000. This credit would be subject to an annual credit cap of \$10 million.

This bill would be effective for taxable years beginning on and after January 1, 2023, but before January 1, 2028.

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

Item(s): Page 1, Revenue Estimates
274 and 276, Department of Taxation

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>
2023-24	\$269,768	1	GF
2024-25	\$75,898	1	GF
2025-26	\$75,898	1	GF
2026-27	\$75,898	1	GF
2027-28	\$75,898	1	GF
2028-29	\$75,898	1	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation (“the Department”) estimates that this bill would result in administrative costs of \$269,768 in Fiscal Year 2024, and \$75,898 in Fiscal Year 2025 and thereafter. These costs would be incurred for purposes of hiring one full time employee to administer the Department’s responsibilities with respect to the credit, system updates, and additional ongoing operational expenses related to overseeing this credit program.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning in Fiscal Year 2024 of up to \$15 million annually. It is unknown to what extent publishers and small businesses would incur expenditures that would be eligible for these credits. However, because both credits would be subject to annual caps, the impact to the General Fund would not exceed \$5 million per fiscal year for the local news journalist credit and \$10 million per fiscal year for the local advertising credit.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Sunset Dates for Income Tax Credits and Sales Tax Exemptions

Section 3-5.14 of the 2021 Appropriation Act provides that any new sales tax exemption or tax credit enacted by the General Assembly after the 2019 Session, but prior to the 2024 Session, must have a sunset date of not later than June 30, 2025.

Proposed Legislation

This bill would provide two new tax credits for local journalism. The first would be an individual and corporate income tax credit for eligible local newspaper publishers for compensation paid to local news journalists. For the first taxable year in which it is claimed, the credit would be equal to 10 percent of the actual amounts paid in wages to local news

journalists during such taxable year up to \$5,000. For subsequent taxable years, the credit would be equal to 5 percent of the actual amounts paid in wages to local news journalists during such taxable year up to \$2,500. This credit would be subject to an annual credit cap of \$5 million. In the event that applications for credits exceed \$5 million for any taxable year, the Department would allocate the credits on a pro rata basis.

The bill would also provide an individual and corporate income tax credit for eligible small businesses with fewer than 50 employees for certain expenses incurred for qualified local media advertising in a local newspaper, or in a broadcast of a local radio or television station. For the first taxable year in which it is claimed, the credit would be equal to 80 percent of the actual amounts paid or incurred for qualified local media advertising expenses up to \$4,000. For subsequent taxable years the credit would be 50 percent of the actual amounts paid or incurred for qualified local media advertising expenses during such taxable year up to \$2,000. This credit would be subject to an annual credit cap of \$10 million. In the event that applications for credits exceed \$10 million for any taxable year, the Department would allocate the credits on a pro rata basis.

For purposes of the credit for eligible small businesses, the following definitions would apply:

- "Eligible small business" would be defined as any business whose average number of full-time employees during such taxable year was fewer than 50 and that incurred qualified local media advertising expenses during such taxable year.
- "Local radio or television station" would be defined as any broadcast radio or television station licensed by the Federal Communications Commission to serve a local community.
- "Qualified local media advertising expenses" would be defined as amounts paid or incurred by an eligible small business in the ordinary course of a trade or business for advertising in a local newspaper or in a broadcast of a local radio or television station during a taxable year.

For purposes of both credits, the following definitions would apply:

- "Eligible local newspaper publisher" would be defined as a business operated in Virginia whose gross receipts during the taxable year are substantially derived in the trade or business of publishing local newspapers.
- "Local news journalist" would be defined as any individual who regularly gathers, collects, photographs, records, writes, or reports news or information that concerns local events or other matters of local public interest, who provides at least 100 hours of service during the taxable year to an eligible local newspaper publisher, and who earns no more than \$50,000 during the taxable year for such service.
- "Local newspaper" would be defined as any print or digital publication if:
 - The primary content of such publication is original content derived from primary sources and relating to news and current events,

- Such publication primarily serves the needs of a regional or local community,
- The publisher of such publication employs at least one local news journalist who resides in such regional or local community,
- The publisher of such publication employs no more than 750 employees, and
- Such publication has been in publication for at least two years.

If the amount of either credit exceeds a taxpayer's tax liability for the taxable year in which the credit is originally claimed, the amount that exceeds the tax liability may be carried over for credit against the taxes of the taxpayer in the next five taxable years or until the total amount of the tax credit has been taken, whichever is sooner.

This bill would require the Tax Commissioner to develop guidelines, exempt from the Administrative Process Act, for claiming each of these credit.

This bill would be effective for taxable years beginning on and after January 1, 2023, but before January 1, 2028.

cc : Secretary of Finance

Date: 1/22/2023 VB
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