DEPARTMENT OF TAXATION
2001 Fiscal Impact Statement

1. Patron Bennett

2. Bill Number HB 2467

House of Origin:
__X__ **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee House Finance

4. Title Income Tax: Small Technology Business Investment Tax Credit

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

5. Summary/Purpose:

This bill would create an income tax credit for investments in small technology businesses. An individual taxpayer would be allowed a credit equal to 25% of an investment up to $50,000. A corporation would be allowed a credit equal to 25% of an investment up to $100,000. Partnerships, S corporations, and limited liability companies would be able to earn a credit equal to 25% of an investment up to $100,000 that would be passed through to the partners, shareholders, and members, respectively.

The maximum amount of credits that could be authorized for a taxable year would be capped at $10 million. Individuals, trusts and estates earning the credit would be allocated credits from a $5 million pool. Corporations would be allocated credits from another $5 million pool.

This bill would be effective for taxable years beginning on or after January 1, 2002.

6. Fiscal Impact Estimates are: Tentative. (See Line 8.)

6a. Expenditure Impact:

Fiscal Year	*Dollars*	*Positions*	*Fund*
2000-01	$0	0	GF
2001-02	$0	0	GF
2002-03 *****	$71,338	1	GF

*** Does not include systems costs. (See line 8.)**

Budget amendment necessary: No.

8. Fiscal implications:

Administrative Cost

While this bill does have costs associated with systems development, these cannot be ascertained at this time. The cost for implementing a **single** piece of legislation cannot be calculated precisely due to economies of scale. The actual cost to implement **all** legislation enacted during a given session will more than likely be less than the sum of the costs attributed to individual bills. Further, the ability to accurately predict costs is complicated because the department is replacing its current database system. As a result, legislative changes may need to be made to both the current and the future system, depending on the effective date. Therefore, the department is not providing specific systems costs for this bill, but will calculate the total for all tax bills once they have been acted upon favorably in both houses and prior to the conference committee report. The department would incur administrative costs of $71,338 for Fiscal Year 2003 for an additional full-time position to administer the caps. Continuing costs would be $56,656 for Fiscal Year 2004 and thereafter.

Revenue Estimate

Data was not available to determine the fiscal impact of this bill. The bill includes a $5 million pool for individuals and a $5 million pool for corporations. As such, the General Fund revenue impact of this bill could not exceed $10 million annually.

9. Specific agency or political subdivisions affected:

Department of Taxation
Secretary of Technology

10. Technical amendment necessary: None.

11. Other comments:

This bill would create an income tax credit for taxpayers equal to 25% of a qualified investment in a small technology business. The maximum credit that could be earned for each qualified investment in any taxable year would be $50,000 for individuals and $100,000 for corporations.

The bill would also allow partnerships, limited liability companies, and S corporations to earn a maximum credit of $100,000. The Small Technology Business Investment Tax Credit ("STBITC") earned by a partnerships, limited liability companies, and S corporations would be passed through to the individual partners, members, and shareholders, respectively, in accordance with their respective ownership interests.

A "small technology business" would be a business with 10 or fewer employees performing research and development or commercialization in the fields of information technology or biotechnology in Virginia.

The Secretary of Technology would grant certificates of eligibility for the STBITC. The department would be responsible for implementing and administering a system for allocating the $5 million credit pools among eligible applicants. The bill includes a $5 million pool for individuals and a $5 million pool for corporations. The Secretary and the department would be required to promulgate regulations for the claiming of this credit in accordance with the Administrative Process Act.

Other legislation

House Bill 2184 would create a tax credit equal to 50% of qualified research and development expenses incurred by technology and biotechnology corporations in Virginia and a tax credit equal to 50% of basic research payments for research and development done in the Commonwealth. Unused credits could be carried over for up to 10 taxable years. Unused research and development tax credits could be sold for at least 75% of face value.

House Bill 2466 would amend the Qualified Equity and Subordinated Debt Investments Tax Credit to (i) increase the total amount of tax credit pool from $5 million to $20 million; (ii) change the $50,000 cap per taxpayer to the amount equal to 10% of the tax credit pool; (iii) reduce the tax credit from 50% to 25% of a qualified investment; and (iv) reduce the equity investment holding period requirement from 5 to 2 years.

Senate Bill 1260 would create a tax credit equal to 15% of qualified research and development expenses incurred by technology and biotechnology corporations in Virginia and a tax credit equal to 15% of a qualified investment in a technology or biotechnology corporation. Unused credits could be carried over for up to 10 taxable years. Unused research and development tax credits or net operating loss carry-overs could be sold for at least 75% of face value.

Investments Qualifying for Multiple Credits

In 1998, the General Assembly established the Qualified Equity and Subordinated Debt Investments Tax Credit ("QESDITC") for individual and fiduciary income taxpayers that invest in qualified Virginia small business ventures that have annual gross receipts of $5 million or less. It is possible that the small technology business targeted by the STBITC could also qualify for the QESDITC. In order to qualify for the STBITC, the target business must have 10 employees or less. If a target business has gross receipts of $5 million or less and 10 or less employees, it is possible that an investment made in such a company could meet the qualifications of both credits.

In addition, the General assembly established Tobacco-Dependent Localities Technology Investment Tax Credit ("TDLTITC") in 2000 for taxpayers that invest in an information technology and biotechnology business located in a tobacco dependent locality. If a target business is a information technology and biotechnology company located in a tobacco dependent locality and has 10 or less employees, it is possible that an investment made in such a company could meet the qualifications of both credits.

Also, under the provisions of this bill, It is possible that investments targeted by the STBITC could also qualify for the credits proposed in Senate Bill 1260. This bill and the TDLTITC include a provision that would prevent investments qualifying for more than one investment tax credit. However, the QESDITC and Senate Bill 1260 include no such provision.

The following table illustrates the similarities between the qualification requirements for the STBITC, the QESDITC, the TDLTITC, and investment tax credit proposed in Senate Bill 1260:

	Targeted Business for Investment Credits
QESDITC (HB 2466)	Virginia Small businesses that have annual gross receipts of $5 million of less
TDLTITC	Technology or biotechnology businesses located in tobacco-dependent localities and meeting criteria established by the Tobacco Indemnification and Community Revitalization Commission
STBITC	Technology or biotechnology businesses that have 10 or less employees.
SB 1260	Technology or biotechnology businesses that have 100 or less employees.

cc: Secretary of Finance

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