

**DEPARTMENT OF TAXATION
2008 Fiscal Impact Statement**

1. **Patron** Jennifer L. McClellan

3. **Committee** House Finance

4. **Title** Income Tax: Credit for Initial Installation of
Automatic Sprinkler Systems

2. **Bill Number** HB 333

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill requires all buildings that (i) are more than 75 feet high or more than six stories high, (ii) are being used to house individuals or to provide guest rooms for occupancy, and (iii) are not equipped with automatic sprinkler systems to install such a system by December 31, 2017, regardless of when the building was constructed. The Board of Housing and Community Development ("BHCD") would be required to promulgate regulations that establish standards for the automated sprinkler systems to be installed in such buildings.

This bill would also provide an individual and corporate income tax credit to the owners of such buildings that is equal to 45% of the total amount paid by the owner for the initial installation of an automatic sprinkler system. If the building is owned by a partnership, limited liability company, or small business corporation, this bill would require the tax credit to be allocated among the individual partners, members, or shareholders according to their respective ownership or interest in such business entities.

Any credit not that is used in the taxable year in which certification from the local building official has been issued may be carried over the next ten succeeding taxable years. The amount of the credit may not exceed the tax imposed for the taxable year.

The provisions of this bill that pertain to the tax credit would be effective for taxable years beginning on or after January 1, 2008.

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

7. Budget amendment necessary: Yes. (See Line 8.)

Page 1, Revenue Estimates

8. Fiscal implications:

Administrative Costs

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

Revenue Impact

This bill could potentially have a substantial negative impact on General Fund revenues. The costs of installing an automatic sprinkler system vary depending on a variety of factors, such as building age and gross square footage. According to information provided by the Virginia Department of Housing and Community Development, there are an estimated 115 buildings statewide that would require the installation of automatic sprinkler systems. The costs associated with this could range anywhere from \$50 million to \$100 million. Such costs could result in total credit amounts of \$22.5 million to \$45 million over the next ten years.

To implement this credit, a reduction of an equal amount of general fund support from other areas in the introduced budget would be required. Given the magnitude of funding involved, funding would need to be transferred from areas with significant general fund support.

9. Specific agency or political subdivisions affected:

Department of Taxation
Board of Housing and Community Development
Local Building Officials

10. Technical amendment necessary: No.

11. Other comments:

Proposal

This bill requires all buildings that (i) are more than 75 feet high or more than six stories high, (ii) are being used to house individuals or to provide guest rooms for occupancy, and (iii) are not equipped with automatic sprinkler systems to install such a system by December 31, 2017, regardless of when the building was constructed.

BHCD would be required to promulgate regulations that establish standards for the automated sprinkler systems to be installed in such buildings. Upon the request of the owner of the building, the local building official would be required to inspect the sprinkler system to ensure it complied with BHCD standards. If the local building official determined that the automatic sprinkler system did comply, the owner of the building would be issued a certificate verifying such compliance.

This bill would also provide an individual and corporate income tax credit to the owners of such buildings that is equal to 45% of the total amount paid by the owner for the initial installation of an automatic sprinkler system. If the building is owned by a partnership, limited liability company, or small business corporation, this bill would require the tax credit to be allocated among the individual partners, members, or shareholders according to their respective ownership or interest in such business entities.

The amount of the credit would not be allowed to exceed the tax imposed for the taxable year. Any credit not that is used in the taxable year in which certification from the local building official has been issued would be allowed to be carried over for the next ten succeeding taxable years.

The taxpayer would be required to attach the following documents to his income tax return for the first taxable year in which the credit is claimed: written certification that that the sprinkler system has been installed and complies with installation standards, receipts, invoices, and any other documentation that confirms the total amount paid by the owner for the initial installation of the sprinkler system.

This bill would not be applicable to public and private buildings that are already required to have automatic sprinkler systems, such as certain college dormitories and hotels and motels. Buildings that are currently not required to have automatic sprinklers and would therefore possibly be required to install the sprinklers and qualify for the tax credit include, but are not limited to, adult care residences, nursing homes and apartment buildings.

The Department of General Services has informed TAX that they could not identify any buildings in the state inventory that would be required to install sprinklers under the conditions imposed by this bill.

The provisions of this bill pertaining to the tax credit would be effective for taxable years beginning on or after January 1, 2008.

Similar Legislation

Senate Bill 363 is identical to this bill.

cc : Secretary of Finance

Date: 1/18/2008 TG
HB333F161