

# DEPARTMENT OF TAXATION

## 2008 Fiscal Impact Statement

1. **Patron** Charles J. Colgan

3. **Committee** Senate Finance

4. **Title** Taxation; Conformity with Internal Revenue Code

2. **Bill Number** SB 582

**House of Origin:**

  X   **Introduced**

      **Substitute**

      **Engrossed**

**Second House:**

      **In Committee**

      **Substitute**

      **Enrolled**

### 5. **Summary/Purpose:**

This bill would advance Virginia's date of conformity to the Internal Revenue Code (IRC) from December 31, 2006 to December 31, 2007. Virginia would continue to disallow any bonus depreciation allowed for certain assets under the IRC and any five year carry-back of certain net operating losses (NOL) allowed for NOLs generated in taxable years 2001 or 2002.

This bill contains an emergency clause which states that it would be in force from its passage.

This is a Department of Taxation bill.

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

7. **Budget amendment necessary:** No.

### 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

**The Governor's Introduced Executive Budget and the Proposed Executive Amendments to the Introduced Budget assume the passage of this bill** and therefore incorporate the fiscal impact of federal tax laws passed during 2007. As a result, this bill would have no revenue impact. If this conformity bill is not passed, however, then General Fund revenue would be increased by \$2.07 million for FY 2008, \$3.30 million for FY 2009, \$3.71 million for FY 2010, and \$2.04 million for FY 2011, and decreased by \$0.25 million for FY 2012, \$1.10 million for FY 2013, and \$1.35 million for FY 2014.

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

Department of Taxation

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

### **11. Other comments:**

#### Current Law

Virginia's conformity to the IRC is currently fixed to the IRC as it existed on December 31, 2006. Since that date, Congress has enacted three significant measures that would affect income taxation in Virginia:

- The Small Business and Work Opportunity Tax Act of 2007, which would increase and extend § 179 expensing and provide several other tax breaks for small businesses;
- House Resolution 4118, which excludes income received from Virginia Tech University out of amounts transferred from the Hokie Spirit Memorial Fund if such amounts were paid on account of the tragic event on April 16, 2007; and
- The Tax Mortgage Forgiveness Debt Relief Act of 2007, which creates an exception to current law so that certain homeowners do not have to pay taxes for debt forgiveness on their troubled home loans. The bill also extends a provision allowing homeowners to deduct mortgage insurance payments from their taxable income and provides other forms of tax relief.

Unless the date of IRC conformity is advanced, none of the provisions of these Acts will flow through to Virginia taxable income. Because federal adjusted gross income (individuals) and federal taxable income (corporations) are the starting point for Virginia tax returns, if this bill is not enacted Virginia taxpayers would be required to make numerous complex "Fixed-Date Conformity" adjustments to remove the effect of these Acts when they prepare their Virginia tax returns.

## Proposal

The bill would advance the date of IRC conformity to December 31, 2007, which would include all of the tax Acts passed by Congress in 2007. Virginia taxpayers would not be required to make any "Fixed-Date Conformity" adjustments. Virginia would continue to disallow any bonus depreciation allowed for certain assets under the IRC and any five year carry-back of certain NOLs generated in taxable years 2001 and 2002.

This bill contains an emergency clause which states that it would be in force from its passage.

## Similar Legislation

**House Bill 912** is identical to this bill.

cc : Secretary of Finance

Date: 1/11/2008 AMS  
SB582F161