

**DEPARTMENT OF TAXATION
2010 Fiscal Impact Statement**

1. **Patron** David L. Englin

2. **Bill Number** HB 271

3. **Committee** House Finance

House of Origin:
 Introduced
 Substitute
 Engrossed

4. **Title** Individual Income Tax; Corporate Income Tax; Sales Tax

Second House:
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

TAX understands that the patron will be amending this bill. This fiscal impact statement is applicable to that amended version.

This bill would alter the Virginia taxable income brackets and tax rates for the individual income tax. This bill would divide the highest income bracket, which is 5.75 percent on income in excess of \$17,000, into three new brackets with different tax rates for taxable years beginning on or after January 1, 2011. Taxpayers with a Virginia taxable income between \$17,001 and \$75,000 would be subject to a rate of 5.6 percent. Taxpayers with a Virginia taxable income between \$75,001 and \$400,000 would be subject to the existing rate, 5.75 percent. Taxpayers with a Virginia taxable income of \$400,001 or higher would be subject to a rate of 7 percent. The chart below details the brackets that would be created by this bill.

Virginia Taxable Income	Tax Rate
\$0 - \$3000	2%
\$3001 - \$5000	3%
\$5001 - \$17,000	5%
\$17,001 - \$75,000	5.6%
\$75,001 - \$400,000	5.75%
\$400,001 and up	7%

This bill would also exempt corporations with less than \$100,000 in Virginia taxable income from the 6 percent corporation income tax for taxable years beginning on or after January 1, 2011.

Additionally, this bill would eliminate the state Retail Sales and Use Tax on food purchased for human consumption effective January 1, 2011. In order to offset the revenue loss to the Transportation Trust Fund and to the General Fund distribution to localities based on school age population resulting from this exemption, this bill would

increase the portion of state Retail Sales and Use Tax revenues allocated to the Transportation Trust Fund from 0.5 percent to 0.575 percent and increase the portion of state Retail Sales and Use Tax revenues allocated to the General Fund for redistribution to localities based on school age population from 1 percent to 1.149 percent. This bill would not affect the 1 percent local Retail Sales and Use Tax on food for human consumption.

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 Impact

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 would provide for a net gain in General Fund revenue of approximately \$26.5 million in Fiscal Year 2011, \$2.7 million in Fiscal Year 2012, \$4.1 million in Fiscal Year 2013, \$10.8 million in Fiscal Year 2014, \$17.7 million in Fiscal Year 2015, and \$27.6 million in Fiscal Year 2016. This impact estimate accounts for significant shifts in revenue from the unrestricted General Fund to the Transportation Trust Fund and the restricted portion of the General Fund.

Individual Income Tax

The individual income tax component of this bill would increase unrestricted General Fund revenue by approximately \$121.8 million in Fiscal Year 2011, \$237.4 million in Fiscal Year 2012, \$249.6 million in Fiscal Year 2013, \$266.7 million in Fiscal Year 2014, \$285.8 million in Fiscal Year 2015, and \$307.0 million in Fiscal Year 2016.

Corporation Income Tax

The corporation income tax component of this bill would decrease unrestricted General Fund revenue by approximately \$14.0 million in Fiscal Year 2011, \$21.4 million in Fiscal Year 2012, \$23.6 million in Fiscal Year 2013, \$24.1 million in Fiscal Year 2014, \$25.1 million in Fiscal Year 2015, and \$25.4 million in Fiscal Year 2016.

Retail Sales and Use Tax

The Retail Sales and Use Tax component of this bill would require significant shifts from the unrestricted General Fund to the Transportation Trust Fund and the restricted portion of the General Fund that is used for redistribution to localities based on school age population. Accordingly, this bill would decrease the unrestricted General Fund revenue by approximately \$81.3 million in Fiscal Year 2011, \$213.3 million in Fiscal Year 2012, \$221.9 million in Fiscal Year 2013, \$231.8 million in Fiscal Year 2014, \$243.0 million in Fiscal Year 2015, and \$254.0 million in Fiscal Year 2016.

Summary

The following table summarizes the changes to the unrestricted General Fund, the Transportation Trust Fund, and the restricted General Fund.

Net Revenue Impact of House Bill 271					
(Impacts in \$millions)					
Fiscal Year	Individual Income Tax	Corporate Income Tax	Sales and Use Tax on Food	Offsetting Allocations	Net Impact by Fund
2011					
GF Unrestricted	121.8	-14.0		-81.3	26.5
GF Restricted			-54.2	54.2	0.0
TTF			-27.1	27.1	0.0
Local					0.0
2012					
GF Unrestricted	237.4	-21.4		-213.3	2.7
GF Restricted			-142.2	142.2	0.0
TTF			-71.1	71.1	0.0
Local					0.0
2013					
GF Unrestricted	249.6	-23.6		-221.9	4.1
GF Restricted			-147.9	147.9	0.0
TTF			-74.0	74.0	0.0
Local					0.0
2014					
GF Unrestricted	266.7	-24.1		-231.8	10.8
GF Restricted			-154.4	154.4	0.0
TTF			-77.3	77.3	0.0
Local					0.0
2015					
GF Unrestricted	285.8	-25.1		-243.0	17.7

GF Restricted			-162.0	162.0	0.0
TTF			-81.0	81.0	0.0
Local					0.0
2016					
GF Unrestricted	307.0	-25.4		-254.0	27.6
GF Restricted			-169.3	169.3	0.0
TTF			-84.7	84.7	0.0
Local					0.0

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

TAX understands the Patron will introduce the following amendments or a substitute bill that incorporates the following amendments.

In order to fix a typographical error, the following technical amendment is suggested:

Page 1, Line 42, after beginning of the line

Strike: 2010

Insert: 2011

In order to ensure that this bill does not decrease General Fund revenues, the following technical amendment is suggested:

Page 1, Line 43, after beginning of the line

Strike: *Six and eighty-five hundredths*

Insert: *Seven*

In order to make the elimination of the state Retail Sales and Use Tax on food purchased for human consumption effective January 1, 2010, the following technical amendments are suggested:

Page 1, Line 54, after *beginning*

Strike: July 1, 2011

Insert: January 1, 2011

Page 5, Line 276, beginning of the line

Insert: 2. That the provisions of this act amending § 58.1-638 are effective beginning with the Retail Sales and Use Tax return for January, 2011 sales due in February, 2011.

11. Other comments:

Individual Income Tax

The Virginia individual income tax applies to the Virginia taxable income of Virginia residents and nonresident individuals. The tax rate is dependent upon the amount of Virginia taxable income. The table below demonstrates the current tax rates.

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\$0 - \$3000	2%
\$3001 - \$5000	3%
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\$17,001 and up	5.75%

Corporation Income Tax

The corporation income tax is imposed at a rate of 6 percent on the Virginia taxable income of every corporation organized under the laws of Virginia and every foreign corporation having income from Virginia sources. The following corporations are excluded from the tax: certain public service corporations, banks subject to the bank franchise tax, credit unions, insurance companies, and nonprofit corporations.

Retail Sales and Use Tax

The 1999 General Assembly established the Food Tax Reduction Program to reduce the state Retail Sales and Use Tax rate on food for human consumption by 0.5 percent per year over a four-year period, beginning January 1, 2000 and extending through April 1, 2003, if certain conditions were met. Effective April 1, 2003, when fully implemented, the state Retail Sales and Use Tax rate on food for human consumption would have been 1.5 percent. However, the conditions required to fully implement were not met, and only the initial 0.5 percent reduction took effect.

The 2005 General Assembly reduced the state Retail Sales and Use Tax on food purchased for human consumption from 3 percent to 1.5 percent effective July 1, 2005. The 1 percent local option sales tax, the 1 percent portion of the state Retail Sales and Use Tax redistributed to localities on the basis of school age population, and the 0.5 percent portion of the Retail Sales and Use Tax allocated to the Transportation Trust Fund remain in effect.

Proposal

Based upon the above amendments being accepted, this bill would alter the Virginia taxable income brackets and tax rates for the individual income tax. This bill would divide the highest income bracket, which is 5.75 percent on income in excess of \$17,000, into three new brackets with different tax rates for taxable years beginning on or after January 1, 2011. Taxpayers with a Virginia taxable income between \$17,001 and \$75,000 would be subject to a rate of 5.6 percent. Taxpayers with a Virginia taxable income between

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cc : Secretary of Finance

Date: 1/18/2010 JKM
HB271F161