DEPARTMENT OF TAXATION
2010 Fiscal Impact Statement

1. Patron Terry G. Kilgore

2. Bill Number HB 624

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

3. Committee Senate Finance

4. Title Income Tax: Major Business Facility Job Tax Credit

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

5. Summary/Purpose:

This bill would reduce the number of qualified full-time jobs needed to qualify for the Major Business Facility Job Tax Credit from 100 to 50. This bill would also reduce the number of qualified full-time jobs needed to qualify for the Major Business Facility Job Tax Credit in economically distressed areas or enterprise zones from 50 to 25.

This bill would continue to allow this credit to be claimed over two years instead of three through December 31, 2012.

This bill would provide that these changes would be applicable only for qualified full-time employees first hired on or after January 1, 2010.

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. TAX considers implementation of this bill as "routine," and does not require additional funding.

Revenue Impact

This bill would have an unknown negative impact on General Fund revenue. Lowering the job thresholds to qualify for the credit and allowing the taxpayer to continue to claim the credit over two years rather than three would increase the amount of credit claimed annually. The increased amount would depend on the number of new jobs that qualify for the credit and whether employers have sufficient tax liability to utilize the credit. Based on credits granted in 2008 and announcements of job creation for the same year, the revenue loss could total $1.3 million.

However, to the extent that changing the criteria for claiming the Major Business Facility Jobs Tax Credit incentivizes companies to create jobs that they would not have otherwise created, there would be an unknown offsetting impact. This positive impact would be the result of taxes paid by employers and employees. Assuming that any jobs created by the incentive offered by this bill would be "new" jobs and not jobs that are filled by individuals already employed in the Commonwealth, the following examples may be used to estimate the direct potential positive revenue impact from taxes paid by the new employees:

Example 1: Company A hires 75 new Virginia employees in calendar year 2010. Each employee receives a salary of $50,000. If the jobs threshold is lowered to 50 new jobs, Company A would qualify for a credit of $1,000 for 25 new jobs. Therefore, it would earn a credit of $25,000, which may be claimed over two taxable years. If each employee is paid an annual salary of $50,000, according to the Virginia Economic Development Partnership, they would pay an estimated $2,785 per year in individual income and state retail sales tax.

Example 2: Company B hires 100 new Virginia employees in calendar year 2010. Each employee receives a salary of $100,000. If the jobs threshold is lowered to 50 new jobs, Company B would qualify for a credit of $1,000 for 50 new jobs. Therefore, it would earn a credit of $50,000, which may be claimed over two taxable years. If each employee is paid an annual salary of $100,000, according to the Virginia Economic Development Partnership, they would pay estimated $6,455 per year in individual income and state retail sales tax.

It is not known how such employment gains might interact or be included in the economic growth assumptions already built into the state's revenue forecasts.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

<u>Background</u>

Individuals, estates, trusts, corporations, banks, and insurance companies may claim a Virginia tax credit if the taxpayer creates at least 100 new full-time jobs in connection with the establishment or expansion of a major business facility, and the company is engaged in a qualifying industry in Virginia. If a taxpayer is located in an enterprise zone or in an economically distressed area (as defined by the Virginia Economic Development Partnership) or an enterprise zone, the threshold is reduced from 100 to 50. Credits will be recaptured proportionately if employment decreases during the five years following the initial credit year.

This nonrefundable credit is equal to $1,000 per each qualifying new job in excess of the 100/50 job threshold and is spread over three years. The credit only applies to facilities where an announcement to expand or establish such a facility was made on or after January 1, 1994.

The credit must be claimed ratably over three taxable years, beginning with the taxable year following the year in which the facility is established or expanded, or the new qualifying jobs are added. Unused credits may be carried forward for the next ten taxable years.

Effective for taxable years beginning on January 1, 2009, through December 31, 2010, taxpayers are allowed to claim the credit amount over two years instead of three.

Proposed Legislation

This bill would reduce the number of qualified full-time jobs needed to qualify for the Major Business Facility Job Tax Credit from 100 to 50. This bill would also reduce the number of qualified full-time jobs needed to qualify for the Major Business Facility Job Tax Credit in economically distressed areas or enterprise zones from 50 to 25.

This bill would continue to allow this credit to be claimed over two years instead of three through December 31, 2012.

This bill would provide that these changes would be applicable only for qualified full-time employees first hired on or after January 1, 2010.

Other Legislation

Senate Bill 472 is substantively identical to this bill, but it would not continue to allow taxpayers to claim the credit over two years.

cc : Secretary of Finance
Date: 2/23/2010 TG
HB624FE161