DEPARTMENT OF TAXATION
2011 Fiscal Impact Statement

1. **Patron** Richard H. Stuart

2. **Bill Number** SB 998
   House of Origin:
   ____ **Introduced**
   ____ **Substitute**
   X **Engrossed**

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

3. **Committee** House Finance

4. **Title** Corporate Income Tax; Lower Rate for Certain Businesses

5. **Summary/Purpose:**

The bill would reduce the corporate income tax rate for a certain businesses that open a new or satellite office or operation in a Virginia locality with a population of 200,000 or fewer. In order to qualify a corporation would have to (1) either be located outside Virginia or located in a Virginia locality with a population exceeding 200,000 people; (2) make a capital investment equal or greater than $250,000 in the new or satellite office; and (3) either hire five new employees or reduce commute times for at least five employees. The rate would be reduced from 6% to 3% for the first three taxable years the new office is in operation, but any tax reduction could not exceed the amount of the capital investment.

The bill would be effective for taxable years beginning on or after January 1, 2011.

6. **Budget amendment necessary:** No.

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

<u>Administrative Costs</u>

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

<u>Revenue Impact</u>

This bill would result in an unknown loss in General Fund revenues potentially beginning as early as Fiscal Year 2011 with a significant unknown revenue loss in Fiscal Year 2012 and thereafter. The impact for Fiscal Year 2011 would depend on the timing of the enactment by the General Assembly and whether businesses could adjust their estimated payments based on qualifying projects.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Virginia currently offers a of tax credit to businesses for investing and locating in Virginia. Under the Major Business Facility Job Tax Credit, a taxpayer, engaged in a qualifying industry, that creates at least 50 new full-time jobs (25 for economically distressed areas or enterprise zones) in connection with the establishment or expansion of a major business facility in Virginia can earn a nonrefundable credit equal to $1,000 for each qualifying new job in excess of the 50/25 job threshold.

Proposal

Under this bill, any corporation located outside Virginia that opens an office in a Virginia locality with a population of 200,000 or fewer individuals would be permitted to use a reduced corporate income tax rate for determining its Virginia income tax for the first three taxable years such new office is in operation.

In addition, any corporation located in a Virginia locality with a population in excess of 200,000 individuals that opens a satellite office or operation in a Virginia locality with a population of 200,000 or fewer individuals would be permitted to use a reduced corporate income tax rate for determining its Virginia income tax for the first three taxable years such satellite offices are in operation.

In order to be eligible for the lower tax rate, the corporation would have to make a capital investment for the new office or operation of at least $250,000. The corporation would also have to hire five or more full-time employees or reduce the commuting distance to less than 10 miles for at least five existing full-time employees.

For corporations meeting the requirements of this bill, the corporate income tax rate would be reduced from 6% to 3%. However, the tax reduction resulting from the lower tax rate could not exceed the capital investment made by the corporation in establishing the new or satellite office or operation.

Although not required by the bill, the Department of Taxation would likely need to work with Virginia localities to develop procedures for providing documentation to corporations that qualify for the reduce income tax rate.

Businesses that do not operate as corporations would not be eligible for a reduced tax rate proposed in this bill.

The bill would be effective for taxable years beginning on or after January 1, 2011.

cc : Secretary of Finance

Date: 2/8/2011 TG
SB998FE161