

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** David L. Englin

3. **Committee** House Finance

4. **Title** Minimum corporate income tax

2. **Bill Number** HB 1030

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would impose a minimum corporate income tax of \$250. Under this bill, no tax credit would be permitted to reduce a corporation's income tax liability below \$250 for the taxable year.

This bill would be effective for taxable years beginning on or after January 1, 2012.

6. **Budget amendment necessary:** Yes.

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2011-12	\$0	GF
2012-13	\$13.01 million	GF
2013-14	\$13.01 million	GF
2014-15	\$13.01 million	GF
2015-16	\$13.01 million	GF
2016-17	\$13.01 million	GF
2017-18	\$13.01 million	GF

8. **Fiscal implications:**

Administrative Costs

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

Revenue Impact

This bill would result in an annual increase of approximately \$13.01 million in General Fund revenues beginning in FY 2013. This estimate is based on the number of corporate income taxpayers with tax liability of less than \$250 on their 2009 tax returns. There would be no impact on estimated payments in any taxable year because estimated payments are not required for corporations paying less than \$1,000 in corporate income taxes. Accordingly, the revenue gain would begin in FY 2013, as corporations begin filing their 2012 income tax returns.

The imposition of a minimum tax as required under this bill may also reduce or postpone the revenue loss from certain tax credits.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Alternative Minimum Tax

The federal corporate alternative minimum tax (AMT) is a tax system that is separate from the regular corporate income tax. Under the AMT system, a tentative minimum tax is calculated by making certain adjustments, adding certain tax preferences, and subtracting an exemption amount, then applying the special AMT rates. If the tentative minimum tax exceeds the taxpayer's regular tax liability, then the excess amount is due. This excess amount is referred to as the alternative minimum tax.

Minimum Taxes in Other States

Twelve states and the District of Columbia currently impose a fixed dollar minimum tax. These states include Arizona, California, Connecticut, Idaho, Massachusetts, Montana, New Jersey, New York, Oregon, Rhode Island, Utah, and Vermont. The amount of minimum tax imposed by these states can be seen the table below:

State	Tax Type	Amount
Arizona	Corporate income tax	\$50
California	Franchise tax	\$800
Connecticut	Corporation business tax	\$250
District of Columbia	Taxes on corporations, financial institutions, and unincorporated businesses	\$250 (\$1,000 if District gross receipts are greater than \$1 million)
Idaho	Corporate income tax	\$20
Massachusetts	Corporate income tax	\$456
Montana	Corporate license or income tax	\$50
New Jersey	Minimum corporation business tax	Ranges from \$500 to \$2,000, depending on gross receipts
New York	General business corporate tax	Ranges from \$25 to \$5,000, depending on receipts

Oregon	Minimum tax for C-corporations	Ranges from \$150 to \$100,000, depending on sales
Rhode Island	Alternative annual franchise tax	\$500
Utah	Corporate franchise and corporate income taxes (does not apply to S corporations)	\$100
Vermont	Corporate income tax	\$250

Prior to 2007, Kentucky had a minimum corporate income tax equal to \$175. Prior to phasing out its corporation tax in 2010, Ohio had a minimum corporation tax equal to \$50. For corporations with worldwide gross receipts for the taxable year of at least \$5 million or with at least 300 worldwide employees, the Ohio minimum tax was \$1,000.

In addition to fixed dollar minimum taxes, eight states (Alaska, California, Florida, Hawaii, Iowa, Maine, Minnesota, and New Jersey) currently impose an alternative minimum tax similar to the federal AMT. Kansas previously imposed an AMT, but it was repealed in 1989. Prior to 2007, Kentucky imposed an AMT on corporations. The Kentucky AMT was replaced with a limited liability entity (LLE) tax for taxable years beginning on or after January 1, 2007. Corporations must pay the Kentucky LLE tax in addition to the corporate income tax.

Virginia currently imposes a minimum tax on electric utilities and telecommunications companies. The minimum tax is based on gross receipts and was imposed in connection with the transfer of these companies to the income tax from a license tax measured by gross receipts.

Proposal

This bill would impose a minimum corporate income tax of \$250. Under this bill, no tax credit would be permitted to reduce a corporation's income tax liability below \$250 for the taxable year.

This minimum tax would apply only to businesses conducted in corporate form. It would not apply to businesses conducted as partnerships, LLCs, or sole proprietorships. For Taxable Year 2009, more than 179,000 pass-through entity returns were filed, as compared to fewer than 69,000 corporate income tax returns. Additionally, many businesses file individual returns as sole proprietorships. For example, according to IRS data, 578,234 individual income tax returns were filed in Virginia for Taxable Year 2007 by owners of sole proprietorships. This number includes a broad range of businesses, from people selling products part-time, to tradesmen (plumbers, electricians, carpenters, etc.) running a full-time business.

This bill would be effective for taxable years beginning on or after January 1, 2012.

Similar Legislation

House Bill 248 would eliminate the corporate income tax.

House Bill 149 and **Senate Bill 61** would lower the corporate income tax rate for certain corporations.

cc : Secretary of Finance

Date: 1/23/2012 KLC
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