

DEPARTMENT OF TAXATION

2012 Fiscal Impact Statement

1. **Patron** Walter A. Stosch

2. **Bill Number** SB 462

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Income Tax: Federal Deduction for Domestic
Production Activities

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow the entire amount of the federal deduction for domestic production activities to be deducted for Virginia income tax purposes instead of only two-thirds of the federal deduction allowed under IRC § 199.

The Department understands that the patron of this bill intends to amend the bill to make this bill effective for 2012 only. This fiscal impact statement is based on that amendment.

This bill would be effective for taxable years beginning on and after January 1, 2012, but before January 1, 2013.

This is an Executive bill.

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

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

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

As amended, this bill would have a General Fund revenue loss of \$10 million in Fiscal Year 2013 only. This amount is already assumed in the introduced Executive Budget.

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

Department of Taxation

10. Technical amendment necessary: Yes.

Page 1, Line 40, after 2010
Strike: , but before January 1, 2012

Page 1, Line 41, after 2012,
Insert: but before January 1, 2013

11. Other comments:

Background

Since 2003 the General Assembly has advanced the date as of which Virginia conforms to the Internal Revenue Code ("IRC"). This procedure allows the General Assembly to deconform from new federal tax policies that are incompatible with Virginia's policy or revenue objectives. However, Virginia has not automatically conformed to all changes in federal tax law.

In 2010, Virginia partially deconformed from the federal domestic production deduction allowed under IRC § 199. This deduction was created by Congress in 2004, which allows a tax deduction for domestic production by certain businesses. The intent of the change was to reduce the effective tax rate on domestic manufacturing. The federal deduction was phased in at 3% for taxable years 2005 and 2006, 6% for taxable years 2007 through 2009, and 9% for taxable years 2010 and thereafter. Virginia deconformed from the increase in the deduction, effectively freezing it at the 6% level for Virginia income tax purposes.

Proposal

This bill, as amended, would allow the entire amount of the federal deduction allowed under IRC § 199 for domestic production activities to be deducted for Virginia income tax purposes for taxable year 2012. For taxable years 2013 and after, the allowable deduction would revert back to the two-thirds that is allowable under existing law.

This bill would be effective for taxable years beginning on and after January 1, 2012, but before January 1, 2013.

Other Bills

House Bill 1153 is identical to this bill.

House Bill 516 and Senate Bill 463 are Department of Taxation Bills that would advance Virginia's date of conformity to the Internal Revenue Code (IRC) from December 31, 2010 to December 31, 2011.

cc : Secretary of Finance

Date: 1/27/2012 tlg
SB462F161