

# DEPARTMENT OF TAXATION

## 2013 Fiscal Impact Statement

1. **Patron** Gregory D. Habeeb

3. **Committee** House Finance

4. **Title** Income Tax: Corporate Income Tax Credit  
for Federal Government Contractors

2. **Bill Number** HB 1304

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would create a corporate income tax credit for certain large businesses that contract with the federal government and enter into qualified subcontracts with small businesses located in HUBZones or Enterprise Zones that are also minority-owned, women-owned, veteran-owned, or a Small Business Administration qualified small business that is HUBZone certified. The tax credit would be equal to five percent of the value of qualified subcontracts.

This bill would be effective for taxable years beginning on or after January 1, 2013, but before January 1, 2018.

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

ITEM(S): Page 1, Revenue Estimates

Item 107, Department of Business Assistance

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

#### 7a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2012-13	\$0	0	GF
2013-14	\$370,000	2	GF
2014-15	\$370,000	2	GF
2015-16	\$370,000	2	GF
2016-17	\$370,000	2	GF
2017-18	\$370,000	2	GF
2018-19	\$370,000	2	GF

### 8. **Fiscal implications:**

#### Department of Taxation Administrative Costs

The Department 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, the Department considers implementation of this bill as “routine,” and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not “routine.” Additionally, the Department 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, the Department will identify the costs at that time.

#### Department of Business Assistance Administrative Costs

The Department of Business Assistance (DBA) would require additional funding of approximately \$370,000 in order to implement the provisions of this bill. Such funding would include funding for two FTEs to administer the tax credit, each with an approximate salary of \$100,000, including benefits. Further, the DBA would require approximately \$20,000 for advertising, \$50,000 for supplies, and \$100,000 for a database to track federal contractors and subcontracts.

#### Revenue Impact

This bill would have an unknown, but likely significant, negative impact on General Fund revenues beginning in Fiscal Year 2014. However, the maximum negative revenue impact in one fiscal year could not exceed the \$10 million cap. It is possible that the restrictions on the size, ownership, and location of the subcontract work may limit the ability of businesses to qualify for the entire amount allowed.

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

Department of Taxation  
Department of Business Assistance

#### **10. Technical amendment necessary:** None.

#### **11. Other comments:**

##### Federal Law

The Historically Underutilized Business Zones (HUBZone) program, administered by the Small Business Administration, helps small businesses in urban and rural communities gain preferential access to federal procurement opportunities. These preferences go to small businesses that maintain a principal office in a HUBZone and ensure that at least 35 percent of its employees live in a HUBZone. Small businesses that qualify for the program receive a HUBZone certification from the Small Business Administration.

##### Current Virginia Small Business Incentives

The DBA provides a one-stop service for technical assistance related to business formation, access to capital, and workforce development. DBA works with existing businesses as they grow their workforce and mentors entrepreneurs from ideas to

launching their first business venture. To accomplish its objectives, DBA facilitates financing for Virginia businesses, provides technical assistance to such businesses, and hosts entrepreneurial workshops in Virginia.

The Virginia Small Business Finance Authority (VSBFA) assists small businesses through a number of financing programs. VSBFA offers direct loans for fixed asset purchases to businesses, localities and Economic Development Authorities for projects of all sizes. VSBFA also offers loan guaranties and loan loss insurance programs to reduce risk to banks, which makes it easier for financial institutions to make loans to small businesses. In addition, targeted financing programs are available for southern Virginia's tobacco region, minority-owned businesses, small manufacturers, non-profit organizations, licensed Child care and family home providers, Virginia's environment, and Virginia's tourism industry.

Under Virginia's Qualified Equity and Subordinated Debt Investments Tax Credit, an individual or corporation is allowed a tax credit for investments made in a qualified small business having annual gross revenues of no more than \$4 million engaged in the business of advanced computing, advanced materials, advanced manufacturing, agricultural technologies, biotechnology, electronic device technology, energy, environmental technology, information technology, medical device technology, nanotechnology, or any similar technology-related field.

The Virginia Enterprise Zone program, administered by the Department of Housing and Community Development, provides two grant programs available to eligible businesses that locate a facility within the zone. The Job Creation Grant program provides grants to eligible businesses for certain permanent full-time job creation exceeding a four job threshold. The Real Property Investment Grant program provides grants for qualified real property investments made in a designated Virginia Enterprise Zone by an eligible individual or business. Since the program was converted to a grant program in 2005, no new tax credits have been allowed. However, firms that had previously been allowed Enterprise Zone General Business Tax Credits are permitted to continue to claim them.

#### Proposed Legislation

This bill would create a corporate income tax credit for certain large businesses that contract with the federal government and enter into qualified subcontracts with small businesses located in HUBZones or Enterprise Zones are also minority-owned, women-owned, veteran-owned, or a Small Business Administration qualified small business that is HUBZone certified. The tax credit would be equal to five percent of the value of new qualified subcontracts.

The amount of these tax credits would not be allowed to exceed the tax liability of the taxpayer. Any unused tax credits would not be allowed to be carried over or back to another taxable year.

The DBA would be required to administer this tax credit. The total amount of tax credits DBA would be allowed to allocate in a fiscal year would be limited to \$10 million, beginning in Fiscal Year 2014. If the total amount of tax credits requested and approved by DBA exceed \$10 million, this bill would require DBA to allocate the tax credits to each

large business applying for a tax credit based upon the proportion that the amount that each large business paid under a qualified subcontract in the taxable year bears to the total amount that all such large businesses paid under qualified subcontracts in the taxable year.

The Department of Business Assistance would be required to allow an application for certification as a qualified business to be filed at any time during a calendar year regardless of when the business entered into the qualified subcontract.

A large business would not be allowed to claim this tax credit and another Virginia tax credit for costs related to the same project.

"Large business" would mean a federal government contractor that has more than 250 full-time employees and is subject to the corporate income tax.

"Minority-owned business" would mean a business concern that is at least 51 percent owned by African Americans, Hispanics, Asians, Pacific Islanders, or American Indians/Alaska Natives, the management and daily business operations of which are controlled by one or more African Americans, Hispanics, Asians, Pacific Islanders, or American Indians/Alaska Natives.

"Qualified subcontract" would mean a contract between a large business and a qualifying small business entered into on or after January 1, 2013, for the qualifying small business to conduct, as a subcontractor of the large business, government contract obligations that are the subject of a contract between the large business and the federal government. A qualified subcontract shall not be an extension of or an addendum to a contract that existed between a qualifying small business and a large business prior to such date. Each qualified subcontract shall be an arrangement for government contract obligations with compensation no less than \$250,000 for the life of the qualified subcontract.

"Qualifying small business" would mean a business conducting all its obligations under a qualified subcontract within (i) a Historically Underutilized Business Zone (HUB Zone) as defined by federal law or (ii) a current enterprise zone designated pursuant to Virginia law. A qualifying small business shall also be one of the following: (a) a Small Business Administration qualified small business that is HUBZone certified, (b) a women-owned business, (c) a minority-owned business, or (d) a veteran-owned business. Women-owned, minority-owned, and veteran-owned businesses would be permitted to be no larger than the size standards determined by the Small Business Administration for a qualified small business having the same North American Industry Classification System.

"Veteran-owned business" would mean a business concern that is at least 51 percent owned by one or more veterans as defined under federal law, the management and daily business operations of which are controlled by one or more veterans.

"Women-owned business" would mean a business concern that is at least 51 percent owned by one or more women, the management and daily business operations of which are controlled by one or more women.

The Department of Business Assistance, with the assistance of the Virginia Economic Development Partnership Authority and the Department of Taxation would be required to develop guidelines, exempt from the Administrative Process Act, that (i) establish procedures for claiming the tax credit and (ii) provide procedures for the allocation of tax credits in the event the amount of tax credits for which requests are made for the taxable year exceeds the available amount of tax credits.

This bill would be effective for taxable years beginning on or after January 1, 2013, but before January 1, 2018.

cc : Secretary of Finance

Date: 1/12/2013 MTH  
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