DEPARTMENT OF TAXATION
2013 Fiscal Impact Statement

1. Patron Stephen H. Martin

2. Bill Number SB 692

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

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

3. Committee Senate Finance

4. Title Corporate Income Tax; Reduces Virginia's Corporate Income Tax Rate to 0 percent.

5. Summary/Purpose:

This bill would reduce the Virginia corporate income tax rate to 0 percent.

This bill would be effective for taxable years beginning on or after January 1, 2014.

6. Budget amendment necessary: Yes.
ITEM(S): Page 1, Revenue Estimates

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

Fiscal Year	*Dollars*	*Fund*
2012-13	$0	GF
2013-14	($499.1 million)	GF
2014-15	($1,178.9 million)	GF
2015-16	($887.0 million)	GF
2016-17	($879.4 million)	GF
2017-18	($821.4 million)	GF
2018-19	($834.1 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. This bill would not create significant administrative cost savings for the Department.

Revenue Impact

This bill would significantly reduce General Fund revenues by $499.1 million in FY 2014, $1,178.9 million in FY 2015, $887 million in FY 2016, $879.4 million in FY 2017, $821.4 million in FY 2018, and $834.1 million in FY 2019. There would be a smaller impact in FY 2014 due to corporations ceasing to make estimated tax payments for the 2014 taxable year in April and June of 2014. Corporations would continue to make extension and tax payments, as well as receive refunds, for prior taxable years.

The Department would continue to receive compliance revenue from audit and collection activity and processing amended returns related to prior years. However, it is estimated that the revenue would be reduced in FY 2017 and effectively cease in FY 2018. Based on historical collections, there would be a loss of $30 million in FY 2015 and annual losses of $60 million in FY 2016 and FY 2017. These amounts are included in the revenue estimates above.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia Corporate Income Tax

The corporate income tax is imposed at the rate of six percent on the Virginia taxable income of domestic and foreign corporations doing business in Virginia. A “corporation” is any entity created as a corporation under the laws of any state or local domestic or foreign jurisdiction, and any association, joint stock company, or any other entity subject to corporate income tax under the Internal Revenue Code.

A corporation’s taxable income is determined by allocation and apportionment when the income is derived from sources both within and without Virginia. Multistate corporations allocate and apportion federal taxable income after Virginia modifications are made to determine the amount of attributable to Virginia. There is no allocation or apportionment needed when the entire business of a corporation is conducted or transacted within Virginia. Instead, the Virginia corporate income tax is imposed upon the entire Virginia taxable income of the corporation for each taxable year.

The corporate income tax has become a major revenue source for Virginia. According to the Annual Report for Fiscal Year 2012, the corporate income tax produced $860 million in revenue. The corporate income tax produces the third highest amount of revenue behind the individual income tax and the state sales and use tax. See the chart below for details about the amount of corporate income tax revenues collected annually.

Corporate Income Tax Revenue (1999-2011)

Fiscal Year	Amount
1999	$420,421,456
2000	565,909,181
2001	363,757,398
2002	290,215,035
2003	343,318,607
2004	425,715,754
2005	616,690,263
2006	867,115,786
2007	879,575,371
2008	807,851,584
2009	648,032,537
2010	806,472,760
2011	822,258,803
2012	859,922,840

There are other business entities that are not subject to corporate income tax. Banks and trust companies are subject to a bank franchise tax, insurance companies are subject to an insurance premiums license tax, and telecommunications companies and electric suppliers are subject to a minimum tax. Businesses organized as pass-through entities, such as partnerships, LLPs, and LLCs, are not taxed at the entity level, but their members are typically subject to the individual income tax. Individuals who operate businesses as sole proprietorships also are subject to the individual income tax. For Taxable Year 2010, over 184,000 pass-through entity returns were filed, as compared to under 64,000 corporate income tax returns. In addition, based on IRS data, there were 535,294 individual returns filed for Taxable Year 2007 in Virginia that were sole proprietorships. This number includes a broad range of businesses, from people selling products part-time, to tradesmen (such as plumbers, electricians and carpenters) running a full-time business.

Other States

Currently, the only states that do not impose a corporate income tax are Nevada, South Dakota, Washington, and Wyoming.

Proposed Legislation

This bill would reduce the Virginia corporate income tax rate to 0 percent. Telecommunications companies and electric suppliers would still be subject to a minimum tax in lieu of the corporate income tax.

This bill would be effective for taxable years beginning on and after January 1, 2014.

Similar Legislation

Senate Bill 745 would reduce the corporate income tax rate to three percent for three years for corporations that locate satellite offices in certain localities.

cc : Secretary of Finance

Date: 01/09/2013 MTH
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