

# DEPARTMENT OF TAXATION

## 2015 Fiscal Impact Statement

1. **Patron** Glenn R. Davis

3. **Committee** House Finance

4. **Title** Tax Credit for Principal Paid on Business Loans

2. **Bill Number** HB 2225

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would allow eligible businesses to claim an individual income tax credit for principal paid on business loans during the taxable year. The credit would equal the lesser of (i) the product of .0575 multiplied by 75 percent of the principal paid on business loans by the eligible business during the taxable year, but not to exceed an aggregate of \$3,500 for the year, or (ii) the taxpayer's individual income tax liability for the taxable year.

This bill would be effective for taxable years beginning on or after January 1, 2015.

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

Page 1, Revenue Estimates

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

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

#### Administrative Costs

The Department of Taxation ("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.

## Revenue Impact

This bill would have an unknown negative impact on General Fund revenue, beginning in Fiscal Year 2016. This bill would not limit the maximum amount of credits that could be issued to eligible businesses annually; however, the maximum credit per eligible business would be limited to \$3,500 per year. Eligible businesses that repaid at least \$81,159 of principal would be eligible to claim the maximum credit amount.

Based on the average small business loan balance of approximately \$61,000 with approximately \$13,000 of principal paid a year, the tax credit generated by the average business loan would be \$564. If an estimated 3,500 eligible businesses each claimed a \$564 tax credit under this bill, the total credit amount would be approximately \$2,000,000. However, the actual number of business firms that would claim the credit and the amount of principal paid by such companies is unknown.

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

Department of Taxation

### **10. Technical amendment necessary: No.**

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

#### Proposed Legislation

This bill would allow eligible businesses to claim an individual income tax credit for principal paid on business loans during the taxable year. The credit would equal the lesser of (i) the product of .0575 multiplied by 75 percent of the principal paid on business loans by the eligible business during the taxable year, but not to exceed an aggregate of \$3,500 for the year, or (ii) the taxpayer's individual income tax liability for the taxable year.

For purposes of this bill, an "eligible business" would be defined as a business entity located in the Commonwealth (i) having at least \$100,000 but not in excess of \$5 million in gross receipts or gross revenues for the taxable year, (ii) with at least three full-time employees in the Commonwealth for at least six continuous months of the taxable year, and (iii) that has not been operating for more than five taxable years. For purposes of the employment requirement, each part-time employee would be counted as one-half of a fulltime employee. A "part-time employee" would be defined as an employee of the eligible business whose employment is of an indefinite duration requiring a maximum of 29 hours of such person's time per week.

The term "business loan" would mean a loan from any bank, trust company, savings institution, or credit union for which the business is a legal borrower.

Any credits granted to a partnership, limited liability company, or electing small business corporation (S corporation) would be allocated to the individual partners, members, or shareholders, respectively, in proportion to their ownership or interest in such business entities.

Because this credit would only be permitted to be claimed against the individual income tax, corporations would not be eligible to earn this credit. Additionally, corporations that are partners, members, or shareholders of a pass-through entity would not be entitled to claim the credit because they are not subject to the individual income tax.

The Tax Commissioner would be required to develop guidelines implementing the provisions of this bill. Such guidelines would be exempt from the provisions of the Administrative Process Act.

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

cc : Secretary of Finance

Date: 1/22/2015 CWM  
HB2225F161