DEPARTMENT OF TAXATION
2015 Fiscal Impact Statement

1. **Patron** Ryan T. McDougle

2. **Bill Number** SB 1447
   House of Origin:
   X **Introduced**
   ____ **Substitute**
   ____ **Engrossed**

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

3. **Committee** Senate Finance

4. **Title** Corporate Income Tax; Rate of Taxation

5. **Summary/Purpose:**

   This bill would provide that if a previously-inverted corporation makes a capital investment of at least $5 million to open a facility or business operation in the Commonwealth, then the first $5,000,000 of the corporation's profits each year shall be exempt from the corporate income tax for the first five years of operation of such business or facility.

   The bill would be effective for taxable years beginning on or after January 1, 2016.

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

7. **Fiscal Impact Estimates are:** Not available. (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 result in an unknown General Fund revenue loss. For each qualifying company, exempting the first $5 million of income would reduce Corporate Income Tax revenue by up to $1.5 million ($300,000 for five years), depending on its income and apportionment factor.

The number of corporations that would qualify is unknown, but there could be several corporations making qualifying investments each year. Based on announced plans of new or expanding companies tracked by the Virginia Economic Development and Partnership, there were 727 projects announced over the last 10 years with investments of $5 million or more, of which 173 had a foreign affiliation. It is not known how many of the 173 corporations were the result of an inversion.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

Because the bill is intended to exempt a portion of a corporation's income, it is suggested that a substitute be drafted to make it a subtraction under *Va. Code* § 58.1-402.

11. Other comments:

<u>Background</u>

A corporate inversion occurs when a corporation with its headquarters in the United States, and owned by U.S. shareholders, shifts its headquarters to a foreign country so that the U.S. corporation becomes a subsidiary of a foreign parent corporation. The foreign parent owns all of the foreign operations, while the U.S. corporation owns only U.S. operations. There are several ways to accomplish such a move (mergers are usually involved), but the result is that income earned abroad is no longer subject to U.S. income tax.

<u>Proposal</u>

This bill would provide that if a previously-inverted corporation makes a capital investment of at least $5 million to open a facility or business operation in the Commonwealth, then the first $5,000,000 of the corporation's profits each year shall be exempt from the corporate income tax for the first five years of operation of such business or facility.

The bill would be effective for taxable years beginning on or after January 1, 2016.

cc : Secretary of Finance

Date: 1/30/2015 JPJ
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