

DEPARTMENT OF TAXATION

2015 Fiscal Impact Statement

1. **Patron** William M. Stanley, Jr.

3. **Committee** Senate Finance

4. **Title** Corporation Income Tax; Lower Rate for
Certain Corporations Opening Satellite
Offices or Operations

2. **Bill Number** SB 807

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would reduce the corporation income tax rate for certain businesses that open a satellite office or operation in a Virginia locality with a population of 200,000 or fewer people. In order to qualify a corporation would have to (1) either be located outside Virginia or located in a Virginia locality with a population exceeding 200,000 people; (2) make a capital investment equal or greater than \$250,000 in the satellite office or operation; and (3) either hire five full-time employees or reduce commute times to less than 10 miles for at least five existing full-time employees. The rate would be reduced from six percent to three percent for the first three taxable years the new office is in operation, but any tax reduction would not be allowed to exceed the amount of the capital investment in the satellite office or operation.

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

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

7. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation considers implementation of this bill as routine, and is not requesting additional funding. The impact for FY 2015 would depend on the timing of enactment by the General Assembly, and whether businesses could adjust their estimated payments based on qualifying projects.

Revenue Impact

This bill would have an unknown negative General Fund revenue impact beginning as early as FY 2015, and each fiscal year thereafter. The impact for FY 2015 would depend on the timing of enactment by the General Assembly, and whether businesses could adjust their estimated payments based on qualifying projects.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Corporation Income Tax Rate

Virginia imposes its corporation income tax at a rate equal to 6 percent of the Virginia taxable income of every Virginia corporation and every foreign corporation having income from Virginia sources. Virginia does not currently allow a lower corporation income tax rate for any corporations that are subject to the tax.

Non-Corporate Businesses

Businesses that do not operate as corporations would not be eligible for the reduced tax rate proposed in this bill. The majority of businesses that conduct business in Virginia are organized as pass-through entities or sole proprietorships, rather than as corporations. For Taxable Year 2012, more than 208,000 pass-through entity returns were filed, as compared to fewer than 67,000 corporate income tax returns. Additionally, many businesses file individual returns as sole proprietorships. For example, according to IRS data, more than 569,000 individual income tax returns were filed in Virginia for Taxable Year 2009 by owners of sole proprietorships. This number includes a broad range of businesses, from people selling products part-time, to tradesmen (plumbers, electricians, carpenters, etc.) running a full-time business. Such businesses would not benefit from the reduced rate proposed by this bill.

Proposed Legislation

This bill would allow any corporation located outside Virginia that opens a satellite office in a Virginia locality with a population of 200,000 or fewer individuals to use a reduced corporation income tax rate for determining its Virginia income tax for the first three taxable years such satellite office is in operation. This bill would also allow any corporation located in a Virginia locality with a population in excess of 200,000 individuals that opens a satellite office or operation in a Virginia locality with a population of 200,000 or fewer individuals to use a reduced corporation income tax rate for determining its Virginia income tax for the first three taxable years such satellite office or operation is in operation.

In order to be eligible for the lower tax rate, a corporation would be required to make a capital investment for satellite office or operation of at least \$250,000. The corporation would also be required to either hire five or more full-time employees or reduce the commuting distance to less than 10 miles for at least five existing full-time employees.

For corporations meeting the requirements of this bill, the corporate income tax rate would be reduced from six percent to three percent. However, the tax reduction resulting from

the lower tax rate would not be allowed to exceed the capital investment made by the corporation in establishing the new or satellite office or operation.

Because this bill requires that the business be located outside Virginia or in another Virginia locality with a population exceeding 200,000 people, it would not apply to new corporations that start a new business in Virginia. Additionally, because the bill applies to satellite offices, it would not apply to corporations that move their headquarters to Virginia from another state, or corporations that relocate their headquarters from a Virginia locality with a population of more than 200,000 people.

Although not required by the bill, the Department of Taxation would likely need to work with Virginia localities to develop procedures for providing documentation to corporations that qualify for the reduced income tax rate.

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

Similar Bills

Senate Bill 1285 would reduce the corporation income tax rate to 5 percent for taxable years beginning on or after January 1, 2016, and would further reduce the rate in subsequent taxable years if certain General Fund revenue goals are met.

cc : Secretary of Finance

Date: 1/19/2015 MTH
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