

# DEPARTMENT OF TAXATION

## 2016 Fiscal Impact Statement

1. **Patron** Janet D. Howell and Richard L. Saslaw

3. **Committee** Senate Finance

4. **Title** Reduce the Corporate Income Tax Rate

2. **Bill Number** SB 326

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would decrease the corporate income tax rate from 6 percent to 5.75 percent, effective for taxable years beginning on or after January 1, 2017.

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

**7. No Fiscal Impact:** (See Line 8.)

**8. Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have a negative General Fund revenue impact of \$17.2 million in Fiscal Year 2017, \$46.5 million in Fiscal Year 2018, \$37 million in Fiscal Year 2019, \$38.1 million in Fiscal Year 2020, \$36.5 million in Fiscal Year 2021, and \$37.4 million in Fiscal Year 2022. No budget amendment is needed because the General Fund revenue impact is assumed in the Introduced Executive Budget.

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

Department of Taxation

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

**11. Other comments:**

Virginia's Corporate Income Tax

Virginia's corporate income tax is currently imposed at the rate of 6 percent on the Virginia taxable income of domestic and foreign corporations doing business in Virginia. A "corporation" is defined as 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 income attributable to Virginia. No allocation or apportionment is necessary 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.

Virginia's corporate income tax rate has remained unchanged since 1973, when it was increased from 5 percent to 6 percent, effective for taxable years beginning on or after January 1, 1973. See the chart below for detailed information regarding the amount of corporate income tax revenue collected annually.

| <b>Fiscal Year</b> | <b>Amount of Revenue</b> |
|--------------------|--------------------------|
| 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            |
| 2013               | \$796,728,154            |
| 2014               | \$757,490,742            |
| 2015 (preliminary) | \$831,906,887            |

#### Corporate Income Tax or Comparable Tax in Other Jurisdictions

Forty-four states and the District of Columbia impose a corporate income tax or a comparable tax. Six states (Nevada, Ohio, South Dakota, Texas, Washington, and Wyoming) do not impose a corporate income tax. Ohio, Texas, and Washington impose a gross receipts tax on businesses in lieu of a corporate income tax. Nevada, South Dakota, and Wyoming impose neither a corporate income tax nor a gross receipts tax on businesses. See the chart below for details regarding the corporate income tax currently imposed by other jurisdictions.

| <b>Jurisdiction</b>  | <b>Corporate Income Tax Rate (2016)</b> |
|----------------------|-----------------------------------------|
| Alabama              | 6.5 percent                             |
| Alaska               | 2.2 percent to 9.4 percent              |
| Arkansas             | 1 percent to 6.5 percent                |
| Arizona              | 5.5 percent                             |
| California           | 8.84 percent                            |
| Colorado             | 4.63 percent                            |
| Connecticut          | 7.5 percent                             |
| Delaware             | 8.7 percent                             |
| District of Columbia | 9.2 percent                             |
| Florida              | 5.5 percent                             |
| Georgia              | 6 percent                               |
| Hawaii               | 4.4 percent to 6.4 percent              |

| <b>Jurisdiction</b> | <b>Corporate Income Tax Rate (2016)</b>                                  |
|---------------------|--------------------------------------------------------------------------|
| Idaho               | 7.4 percent                                                              |
| Iowa                | 6 percent to 12 percent                                                  |
| Illinois            | 5.25 percent                                                             |
| Indiana             | 6.5 percent                                                              |
| Kansas              | 4 percent plus a 3 percent surtax for income over \$50,000               |
| Kentucky            | 4 percent to 6 percent                                                   |
| Louisiana           | 4 percent to 8 percent                                                   |
| Maine               | 3.5 percent to 8.93 percent                                              |
| Maryland            | 8.25 percent                                                             |
| Massachusetts       | 8 percent of net income plus \$2.60 per \$1,000 of property or net worth |
| Michigan            | 6 percent                                                                |
| Minnesota           | 9.8 percent                                                              |
| Mississippi         | 3 percent to 5 percent                                                   |
| Missouri            | 6.25 percent                                                             |
| Montana             | 6.75 percent                                                             |
| Nebraska            | 5.58 percent to 7.81 percent                                             |
| New Hampshire       | 8.5 percent                                                              |
| New Jersey          | 9 percent                                                                |
| New Mexico          | 4.8 percent to 6.6 percent                                               |
| New York            | 6.5 percent                                                              |
| North Carolina      | 4 percent                                                                |
| North Dakota        | 1.41 percent to 4.31 percent                                             |
| Oklahoma            | 6 percent                                                                |
| Oregon              | 6.6 percent to 7.6 percent                                               |
| Pennsylvania        | 9.99 percent                                                             |
| Rhode Island        | 7 percent                                                                |
| South Carolina      | 5 percent                                                                |
| Tennessee           | 6.5 percent                                                              |
| Utah                | 5 percent                                                                |
| Vermont             | 6 percent to 8.5 percent                                                 |
| Virginia            | 6 percent                                                                |
| West Virginia       | 6.5 percent                                                              |
| Wisconsin           | 7.9 percent                                                              |

#### Recent Changes in Neighboring Jurisdictions

##### ***District of Columbia***

In 2014, the District of Columbia enacted legislation that reduced its business franchise tax (equivalent to a corporate income tax) rate from 9.975 percent to 9.4 percent. Such legislation required further reductions in subsequent fiscal years to the extent funding becomes available. Under this legislation, the business franchise tax rate may eventually be reduced to 8.25 percent. During 2015, revenue projections in June and September exceeded the baseline revenue estimate by enough to reduce the business franchise tax rate from 9.4 percent to 9.2 percent.

## ***North Carolina***

In 2013, North Carolina enacted legislation that reduced its corporate income tax rate from 6.9 percent to 6 percent for Taxable Year 2014, and to 5 percent for taxable years beginning on or after January 1, 2015. Such legislation also required further reductions to the corporate income tax rate if certain revenue targets are met as follows:

- If General Fund tax collections for Fiscal Year 2015 exceed \$20.2 billion, the corporate income tax rate is to be reduced by 1 percent for taxable years beginning on or after January 1, 2016.
- If General Fund tax collections for Fiscal Year 2016 exceed \$20.975 billion, the corporate income tax rate is to be reduced by 1 percent for taxable years beginning on or after January 1, 2017.

Because the revenue target for Fiscal Year 2015 was exceeded, North Carolina's corporate income tax rate was reduced from 5 percent to 4 percent for taxable years beginning on or after January 1, 2016. If the revenue target for Fiscal Year 2016 is met, North Carolina's corporate income tax rate will be reduced from 4 percent to 3 percent for taxable years beginning on or after January 1, 2017.

### Proposed Legislation

This bill would decrease the corporate income tax rate from 6 percent to 5.75 percent, effective for taxable years beginning on or after January 1, 2017.

### Similar Bills

**House Bill 539** is identical to this bill.

cc : Secretary of Finance

Date: 1/16/2016 MTH  
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