Department of Planning and Budget
2016 Fiscal Impact Statement

1. **Bill Number:** SB504

House of Origin	☒	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☐	Substitute	☐	Enrolled

2. **Patron:** Sturtevant

3. **Committee:** Finance

4. **Title:** Income tax, state, tax credit; return of budget surplus.

5. **Summary:** Individual income tax credit; return of budget surplus. Establishes beginning with taxable year 2016 a refundable individual income tax credit that is a portion of the general fund surplus at the close of the immediately preceding fiscal year. If more than $50 million in general fund surplus remains after assignments of the surplus for the Revenue Stabilization Fund, the Virginia Water Quality Improvement Fund, the Transportation Trust Fund, and other mandatory assignments, then a refundable income tax credit would be allowed for the immediately following taxable year equal to the remaining surplus divided by the number of individual income tax returns filed for the taxable year in which such surplus occurred. In such case, an amount equal to the surplus that is to be returned to individual taxpayers would be held in reserve for appropriation by the General Assembly and not further assigned by the Comptroller. If less than $50 million in general fund surplus remains after such mandatory assignments, no tax credit would be available and the remaining surplus would be assigned by the Comptroller for nonrecurring expenditures. The credit could be claimed only by those individuals who were required under Virginia law to file an individual income tax return and filed such return.

6. **Budget Amendment Necessary**: No

7. **Fiscal Impact Estimates:** Indeterminate, see item 8, below.

8. **Fiscal Implications:** Current law requires that any general fund surplus be applied first to certain required deposits, commitments, and assignments such as the Revenue Stabilization Fund, Water Quality Improvement Fund, and other mandated items including those required in the appropriation act such as capital and operating reappropriations. 67 percent of any amounts remaining after these various required deposits, commitments, and assignments are then to be deposited into the Transportation Trust Fund. The remaining 33 percent may then be assigned for other nonrecurring expenditures.

   This bill would place a restriction on this remaining 33 percent amount by reserving it for appropriation by the General Assembly for use as a tax credit if the balance reaches or exceeds $50 million. In the event that the conditions triggering this provision of the bill are met, and a tax credit is implemented these amounts would be unavailable to be appropriated for other purposes. The situations in which the triggers requiring the reservation of the remaining general fund balance are difficult to predict and as such the impact is indeterminate. At the end of FY 2015, the Commonwealth experienced a general fund surplus of $538 million. Of this amount $537.8 was required by Revenue Stabilization Fund and the Water Quality Improvement Fund deposits. Under the FY 2015 scenario, the provisions of this bill requiring the reservation of $50 million would not be met.

Note: The provisions of this bill indicate that certain balances be reserved for appropriation by the General Assembly. It is assumed that these amounts would be appropriated for use as a refundable tax credit. However, it is not clear in which form this appropriation would occur as current refunds are not appropriated in the traditional sense but instead are authorized via sum sufficient appropriation authority included in the Appropriation Act (see Item 465 of Chapter 665, 2015 Acts of Assembly).

9. **Specific Agency or Political Subdivisions Affected:** Department of Taxation, Department of Accounts

10. **Technical Amendment Necessary:** None

11. **Other Comments:** This bill is similar to HB218. The main difference between this bill and HB218 is that the tax credit under this bill is effective beginning on January 1, 2016 and in HB218 the tax credit is effective January 1, 2017.

    According to the Department of Taxation, if a $50 million refundable tax credit were implemented under the provisions of this bill, the credit amount per return would be $13.50 ($50 million divided by approximately 3.7 million tax returns, assuming married couples filing separately would be treated as a single return).