

DEPARTMENT OF TAXATION 2016 Fiscal Impact Statement

1. **Patron** Glen H. Sturtevant

3. **Committee** Senate Finance

4. **Title** Waiver of Tax Penalties for Small
Businesses

2. **Bill Number** SB 506

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would require that tax penalties be waived for a small business during its first two years of operation, provided that such small business enters into an installment agreement with the Tax Commissioner. The term "small business" would be defined as an independently owned and operated business that has been organized pursuant to Virginia law or maintains a principal place of business in Virginia and has 250 or fewer employees in its base year.

The effective date of this bill is not specified.

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") considers implementation of this bill as routine, and does not require additional funding.

Revenue Impact

This bill would have an unknown, but likely minimal, negative General Fund revenue impact. The waiver created by this bill would apply to certain businesses during their first two years of operation. During Fiscal Year 2015, approximately 41,000 new business accounts registered with the Department. It is unknown how many of these businesses would be considered small businesses eligible for the waiver and how many of such businesses are in their first two years of operation.

The bill would define a "small business" to include only independently owned and operated businesses. Independently owned businesses with fewer than 100 employees represented nearly 91 percent of businesses in the Commonwealth in 2012. It is unknown

how many of these independently owned businesses would meet the other requirements in the bill and qualify for a waiver of penalties.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

If the intent of this legislation is to provide a waiver for penalties relating to taxes administered by the Department of Taxation, the Department suggests the following technical amendments:

Page 1, Line 16, after “Any”

Strike: “tax penalties authorized under this title”

Insert: “penalties relating to taxes administered by the Department of Taxation”

11. Other comments:

Current Law

Penalties Applicable to Individuals, Fiduciaries, and Corporations

Virginia law provides an automatic extension of six months for the filing of individual, fiduciary, and corporate income tax returns. There is no extension of time granted for payment of taxes due. To avoid an extension penalty, at least 90 percent of the final tax liability must be paid by the original due date for filing the return with respect to individual, fiduciary, and corporate income tax returns. The extension penalty is assessed on the balance of tax due with the return at a rate of two percent per month or part of a month, from the original due date until the date the return is filed.

If a taxpayer files his return more than six months after the due date and he owes tax, his return will be subject to a late filing penalty. The law provides for the penalty to be assessed at a rate of six percent per month or part of a month from the due date of the return until the return is filed, or until the maximum penalty of 30 percent has accrued.

If a taxpayer files his return within six months after the due date but does not pay the tax due until after that time, his return will be subject to a late payment penalty. Like the late filing penalty, the late payment penalty is assessed at a rate of six percent per month, with a maximum penalty of 30 percent. However, if the return was made in good faith and the understatement of the amount in the return was not due to any fault of the taxpayer, no penalty may be imposed because of such understatement. The late payment penalty will not be imposed in any month for which a late filing penalty has been assessed.

Pass-Through Entity Penalties

If a pass-through entity (“PTE”) files an informational return after the extended due date, the late filing penalty is \$200 per month for a maximum of six months beginning from the original due date. However, if the PTE files its return more than six months after the

extended due date, the late filing penalty is equal to the greater of \$1,200 or six percent of the amount of Virginia taxable income derived by its owners from the PTE for the taxable year.

If a PTE is required to pay income tax and it pays such tax after the due date, a late payment penalty is assessed equal to six percent of the tax due per month, with a maximum penalty of 30 percent of the tax due. However, if the return was made in good faith and the understatement of the amount in the return was not due to any fault of the taxpayer, no penalty may be imposed because of such understatement. In any month or fraction of a month where the PTE is subject to both the late filing penalty and the late payment penalty, the greater of the two penalties will apply.

Sales and Use Tax Penalties

A return must be filed for each required period even if there is no tax due. If a dealer fails to file or pay the full amount of the tax when due, a penalty of 6 percent of the tax due will be added to the tax for each month or any part of a month that the return is not filed or the tax is not paid. The maximum penalty is 30 percent; the minimum penalty is \$10. The minimum penalty of \$10 applies even if no tax is due. However, if such failure is due to providential or other good cause shown to the satisfaction of the Department, the Department is not required to impose penalties.

Other Penalties

In addition to the penalties discussed above, civil and criminal penalties are required to be assessed in cases involving fraud, failure to file a return, conversion of certain trust taxes, and other violations of Virginia law.

Waiver of Penalties

Where a penalty has been imposed for failure to comply with the requirements of Virginia's tax laws, the Department of Taxation has in its discretion the authority to accept offers made in compromise or in lieu of such penalties. An offer in lieu of the assessment of a penalty is deemed to be made when a taxpayer files a return or makes a payment of tax without paying the penalty if information filed with the return or payment of tax or obtained from other sources demonstrates reasonable cause for the taxpayer's failure or omission for which the penalty would be imposed. The reason for the acceptance of such offers in compromise must be preserved among the records of the Department.

Additionally, the Tax Commissioner has the authority to waive penalties and grant extensions of time to file a return or pay a tax, or both, to any class of taxpayers when the Tax Commissioner in his discretion finds that the normal due date has, or would, cause undue hardship to the class of taxpayers because of a natural disaster or other reason.

Proposed Legislation

This bill would require that tax penalties be waived for a small business during its first two years of operation, provided that such small business enters into an installment agreement with the Tax Commissioner. The term "small business" would be defined as an

independently owned and operated business that has been organized pursuant to Virginia law or maintains a principal place of business in Virginia and has 250 or fewer employees in its base year.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 1/23/2016 JJS
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