DEPARTMENT OF TAXATION
2017 Fiscal Impact Statement

1. Patron J. Randall Minchew

2. Bill Number HB 1714
House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee House Finance

4. Title Reduce the Corporate Income Tax Rate

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

5. Summary/Purpose:

This bill would decrease the corporate income tax rate from 6 percent to 5 percent, effective for taxable years beginning on or after January 1, 2018.

6. Budget amendment necessary: Yes.
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7. Fiscal Impact Estimates are: Preliminary. (See Line 8.)
7b. Revenue Impact:

Fiscal Year	*Dollars*	*Fund*
2016-17	$0	GF
2017-18	($68.6 million)	GF
2018-19	($184.5 million)	GF
2019-20	($147.0 million)	GF
2020-21	($149.0 million)	GF
2021-22	($150.9 million)	GF
2022-23	($154.4 million)	GF

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 $68.6 million in Fiscal Year 2018, $184.5 million in Fiscal Year 2019, $147.0 million in Fiscal Year 2020, $149.0 million in Fiscal Year 2021, $150.9 million in Fiscal Year 2022, and $154.4 million in Fiscal Year 2023.

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.

Fiscal Year	Amount of Revenue
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	$831,906,887
2016 (preliminary)	$764,948,014

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.

Jurisdiction	Corporate Income Tax Rate (2017)
Alabama	6.5 percent
Alaska	2 percent to 9.4 percent
Arkansas	1 percent to 6.5 percent
Arizona	4.9 percent
California	8.84 percent
Colorado	4.63 percent
Connecticut	7.5 percent
Delaware	8.7 percent
District of Columbia	9 percent
Florida	5.5 percent
Georgia	6 percent
Hawaii	4.4 percent to 6.4 percent
Idaho	7.4 percent
Iowa	6 percent to 12 percent
Illinois	5.25 percent
Indiana	6.25 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	8.2 percent
New Jersey	9 percent
New Mexico	4.8 percent to 6.6 percent
New York	6.5 percent
North Carolina	3 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

Jurisdiction	Corporate Income Tax Rate (2017)
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 for Taxable Year 2015. 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. Revenue projections for 2015 and 2016 exceeded the baseline revenue estimate by enough to reduce the business franchise tax rate from 9.4 percent to 9.2 percent for Taxable Year 2016, and to 9 percent for Taxable Year 2017.

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 Year 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 targets for Fiscal Year 2015 and Fiscal Year 2016 were exceeded, North Carolina's corporate income tax rate was reduced from 5 percent to 4 percent for Taxable Year 2016, and to 3 percent for Taxable Year 2017.

Proposed Legislation

This bill would decrease the corporate income tax rate from 6 percent to 5 percent, effective for taxable years beginning on or after January 1, 2018.

Similar Bills

Senate Bill 789 would decrease the corporate income tax rate to 5.5 percent, effective for taxable years beginning on or after January 1, 2018.

Senate Bill 835 would decrease the corporate income tax rate to 2.5 percent, effective for taxable years beginning on or after January 1, 2017.

cc : Secretary of Finance

Date: 1/15/2017 MTH
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