

# DEPARTMENT OF TAXATION

## 2017 Fiscal Impact Statement

1. **Patron** J. Randall Minchew

3. **Committee** House Finance

4. **Title** Individual Income Tax; Subtraction for Interest and Dividends from Virginia-based Corporations

2. **Bill Number** HB 1717

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would create an individual income tax subtraction for interest or dividends received from a corporation that has a principal of business in Virginia.

This bill would be effective for taxable years beginning on or after January 1, 2017.

**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 potentially significant negative General Fund revenue impact. The amount of interest and dividends received by Virginia taxpayers from corporations with a primary place of business in Virginia is currently unknown. According to the Internal Revenue Service ("IRS") statistics of income, Virginia taxpayers claimed \$13.2 billion worth of taxable interest and dividends on their Taxable Year 2014 federal individual income tax returns. It is unknown what portion of such interest and dividends are attributable to corporations with a principal place of business in Virginia.

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

Department of Taxation

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

## 11. Other comments:

### Federal Law

Under federal law, both interest and dividends paid by a corporation are generally included in a taxpayer's federal adjusted gross income. Interest is generally taxed as ordinary income. Most dividends are ordinary dividends, which are paid out of a corporation's earnings and profits and are ordinary income to taxpayers. Dividends that meet certain criteria, including certain holding period requirements, are "qualified dividends" subjected to lower federal tax rates, which are equal to the maximum tax rate that applies to net capital gains. Virginia does not currently have any preferential tax rates treatment for capital gains.

### Virginia

Virginia allows an individual and corporation income tax subtraction for any income attributable to an investment in certain high technology businesses that is taxed as long-term capital gain or investment services partnership interest income for federal income tax purposes. For purposes of this subtraction, a "qualified business" means a business that:

- Has annual gross revenues of no more than \$3 million in its most recent fiscal year;
- Has its principal office or facility in Virginia;
- Is engaged in business primarily in or does substantially all of its production in Virginia;
- Has not obtained during its existence more than \$3 million in aggregate gross cash proceeds from the issuance of its equity or debt investments; and
- Is primarily engaged, or is primarily organized to engage, in certain technology-related fields.

A "qualified business" also includes any other technology business approved by the Secretary of Technology, provided that the business has its principal office or facility in Virginia and less than \$3 million in annual revenues in the fiscal year prior to the investment. For an investment to qualify for the subtraction, it must be made between April 1, 2010 and June 30, 2020.

### Proposal

This bill would create an individual income tax subtraction for interest or dividends received from a corporation that has a principal of business in Virginia.

This bill has an effective date for taxable years beginning on or after January 1, 2017.

### Similar Bills

**HB 1806** would increase the annual cap on the Qualified Equity and Subordinated Debt Investments Tax Credit from \$5 million to \$7.5 million, reserve \$2.5 million of the annual cap exclusively for investments in cybersecurity businesses, and allow a business with no

more than 50 full-time employees to qualify even if it has more than \$3 million of annual gross revenues.

**HB 2074** would create an income tax subtraction for income attributable to an investment in a Virginia venture capital account.

**SB 849** would create an income tax subtraction for income attributable to the ownership and operation of a small business.

cc : Secretary of Finance

Date: 1/15/2017 NM  
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