# Department of Planning and Budget
## 2017 Fiscal Impact Statement

1. **Bill Number:** SB1545

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

2. **Patron:** Vogel

3. **Committee:** Finance

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

5. **Summary:** Requires several actions relating to Virginia taxable income if a general fund surplus is recorded in a fiscal year.

   First, the bill establishes a refundable individual income tax credit that is a portion of the general fund surplus for the corresponding fiscal year. If $50 million or more 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 corresponding taxable year equal to the remaining surplus divided by the number of individual income tax returns filed for the most recent taxable year. 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.

   Second, if actual general fund revenues exceed the official general fund forecast by at least $500 million in a fiscal year, the income tax rate for Virginia taxable income in excess of $17,000 shall be lowered by one-quarter of one percent for the subsequent taxable year, until all income in excess of $5,000 is taxed at a rate of five percent.

   Finally, if actual general fund revenues exceed the official general fund forecast by at least $50 million in a fiscal year, the corporate income tax rate shall be lowered by one percent for the subsequent taxable year.

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 reappropriation. 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 would be met requiring the reservation of the remaining general fund balance are difficult to predict, and as such, the impact of this portion of the bill is indeterminate.

At the end of FY 2015, the Commonwealth experienced a general fund surplus of $538 million. However, the full amount of the surplus plus an additional $67 million were required by just the revenue stabilization fund. Thus, under the FY 2015 scenario, the provisions of this bill requiring the reservation of $50 million for tax credit purposes would not be met. However, the provisions of this bill dealing with the reduction of taxable income tax rates and corporate income tax rates would have taken effect. This would have resulted in a reduction in general fund revenue available for appropriation by the General Assembly and likely would have created the need for further appropriation reductions.

Assuming there is a surplus of more than $500 million in a given fiscal year, the provisions of this bill would trigger a reduction in income tax rates of 0.25 percent in the following tax year. The Department of Taxation indicates that this would result in a negative revenue impact of approximately $404.5 million. The negative revenue impact could grow significantly in the following year if another surplus of over $450 million is experienced which would trigger a further income tax rate reduction of another 0.25 percent. The combination of subsequent rate reductions would result in a negative revenue impact of approximately $999.4 million annually.

Assuming there is a surplus of more than $50 million in a given fiscal year, the provisions of this bill dealing with corporate income tax would trigger a one percent reduction in corporate tax rates in the following tax year. The Department of Taxation indicates that this would result in a negative revenue impact of approximately $68.6 million annually.

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

10. **Technical Amendment Necessary:** See Item 11.

11. **Other Comments:**
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 473 of Chapter 780, 2016 Acts of Assembly).