

**DEPARTMENT OF TAXATION
2017 Fiscal Impact Statement**

1. **Patron** Amanda F. Chase
3. **Committee** Senate Finance
4. **Title** Income Tax Subtraction for Small Business Owners

2. **Bill Number** SB 849
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 income attributable to the ownership and operation of a small business. For purposes of the subtraction, a small business would be defined as a business that has its primary place of business in Virginia, generates less than \$100,000 of taxable income in the taxable year, and has fewer than 50 employees. The subtraction would only apply during the first five years that the business is in operation.

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

6. **Budget amendment necessary:** No.
7. **Fiscal Impact Estimates are:** Preliminary. (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, annual negative General Fund revenue impact, beginning in Fiscal Year 2018. The amount of income attributable to the ownership and operation of businesses that would qualify for the proposed subtraction is unknown. According to the Virginia Employment Commission, 294,026 companies in Virginia have fewer than 50 employees. According to the 2014 IRS Statistics of Income, Virginians filed 582,310 federal returns reporting \$7.8 billion in business and professional net income on federal Schedule C, as well as 218,040 federal returns reporting \$14.1 billion in partnership and S-corporation income.

It is unknown exactly how much of this income would qualify for the proposed subtraction. A preliminary estimate indicates that the impact could be as much as \$914.3 million in Fiscal Year 2018, \$649.3 million in Fiscal Year 2019, \$686.4 million in Fiscal Year 2020, \$724.3 million in Fiscal Year 2021, \$763.2 million in Fiscal Year 2022, and \$802.5 million in Fiscal Year 2023. This preliminary estimate assumes that all small business owners with less than \$100,000 in taxable income attributable to their ownership interest would also meet the employment requirement. Although it is likely that most sole proprietorships and single-member LLCs with less than \$100,000 in taxable income also meet the employment requirement, this may not always be the case. Additionally, this bill would impose the \$100,000 taxable income threshold at the company level, rather than based upon the amount of taxable income attributable to the owners of the company. For this reason, the actual impact attributable to pass-through entities would likely be less.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

Page 4, Line 207, after "The"
Strike: "deduction"
Insert: "subtraction"

11. Other comments:

Proposal

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Similar Bills:

Senate Bill 1439 would create a corporate and individual income tax credit for each new job that is created in Virginia by a small business, equal to \$1,500 for each new full-time job.

Senate Bill 793 would allow tax penalties to 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.

Senate Bill 1386 would impose reduced individual income tax rates on qualifying small business income.

cc : Secretary of Finance

Date: 1/22/2017 NM
SB849F161