

**DEPARTMENT OF TAXATION
2022 Fiscal Impact Statement**

1. **Patron** Joseph P. McNamara

2. **Bill Number** HB 295

3. **Committee** House Finance

House of Origin:
 X **Introduced**
 Substitute
 Engrossed

4. **Title** Corporate Income Tax Rate Reduction

Second House:
 In Committee
 Substitute
 Enrolled

5. Summary/Purpose:

This bill would reduce the current 6 percent corporate income tax rate to 5 percent for Taxable Year 2022, 4 percent for Taxable Year 2023, 3 percent for Taxable Year 2024, and 2 percent for Taxable Year 2025 and thereafter.

If this bill is enacted during the 2022 Regular Session of the General Assembly, it would become effective July 1, 2022.

6. **Budget amendment necessary:** Yes.

Item(s): Page 1, Revenue Estimates

7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2022-23	(\$279.2 million)	GF
2023-24	(\$747.2 million)	GF
2024-25	(\$862.5 million)	GF
2025-26	(\$1.04 billion)	GF
2026-27	(\$1.08 billion)	GF
2027-28	(\$1.13 billion)	GF

8. Fiscal implications:

Administrative Costs

The Department of Taxation considers implementation of this bill as routine and does not require additional funding.

Revenue Impact

This bill would have an estimated negative General Fund revenue impact of \$279.2 million in FY 2023, \$747.2 million in FY 2024, \$862.5 million in FY 2025, \$1.04 billion in FY 2026, \$1.08 billion in FY 2027, and \$1.13 billion in FY 2028. If this bill is enacted, the introduced

budget would need to be adjusted to reduce General Fund revenues by \$279.2 million in FY 2023 and \$747.2 million in FY 2024.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia Corporate Income Tax Rate

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 1972, when it was increased from 5 percent to 6 percent.

Proposed Legislation

This bill would reduce the current 6 percent corporate income tax rate to 5 percent for Taxable Year 2022, 4 percent for Taxable Year 2023, 3 percent for Taxable Year 2024, and 2 percent for Taxable Year 2025 and thereafter.

If this bill is enacted during the 2022 Regular Session of the General Assembly, it would become effective July 1, 2022.

cc : Secretary of Finance

Date: 1/20/2022 JLOF
HB295F161