

# DEPARTMENT OF TAXATION

## 2022 Fiscal Impact Statement

1. **Patron** Nadarius E. Clark

3. **Committee** House Finance

4. **Title** Income Tax; Conversion to Employee Ownership  
Tax Credit

2. **Bill Number** HB 592

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would provide a nonrefundable, one-time individual and corporate income tax credit for eligible businesses that transfer whole or partial ownership to employees in the form of a worker cooperative, an employee stock ownership plan, an employee ownership trust, an employee equity grant program, or an employee stock purchase plan or conduct a feasibility study for a transition to such employee ownership models.

The amount of the credit would be \$5,000 for each eligible business transferring ownership to employees or up to \$5,000 for the actual costs incurred in conducting a feasibility study. The credit would only be allowed for the taxable year in which the eligible business transfers ownership to its employees or incurs costs for conducting an employee ownership feasibility study. The annual aggregate credit cap for this credit would be \$5 million.

This bill would be effective for taxable years beginning on and after January 1, 2022, but before January 1, 2026.

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

Item(s): 282 and 284, Department of Taxation

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

#### 7a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2022-23	\$237,655	1	GF
2023-24	\$70,200	1	GF
2024-25	\$70,200	1	GF
2025-26	\$70,200	1	GF
2026-27	\$70,200	1	GF
2027-28	\$70,200	1	GF

### 8. **Fiscal implications:**

#### Administrative Costs

This bill would result in administrative costs to the Department of Taxation ("the Department") in the amount of \$237,655 for FY 2023 and \$70,200 for FY 2024 and thereafter. Such costs would primarily consist of updating the Department's systems to implement the new tax credit that would be provided by this bill and hiring one new full-time employee to administer the tax credit program.

## Revenue Impact

This bill would have an unknown General Fund revenue impact beginning in FY 2023. It is unknown how many businesses in Virginia begin the process of transferring some or all of its ownership to employees. The negative revenue impact would be capped at \$5 million.

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

Department of Taxation

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

### **11. Other comments:**

#### Sunset Dates for Income Tax Credits and Sales Tax Exemptions

Section 3-5.14 of the Appropriation Act provides that the General Assembly may not advance the sunset date for any existing income tax credit or sales tax exemption beyond June 30, 2025. Any new income tax credit or sales tax exemption enacted by the General Assembly prior to the 2024 Session must have a sunset date not later than June 30, 2025. This requirement does not apply to sales tax exemptions related to nonprofit entities or to income tax credits or sales tax exemptions with sunset dates after June 30, 2022 that were enacted or advanced during the 2016 Session, or to the Motion Picture Production Tax Credit.

#### Proposed Legislation

This bill would provide a nonrefundable, one-time individual and corporate income tax credit for eligible businesses that transfer whole or partial ownership to employees in the form of a worker cooperative, an employee stock ownership plan, an employee ownership trust, an employee equity grant program, or an employee stock purchase plan or conduct a feasibility study for a transition to such employee ownership models.

The amount of the credit would be \$5,000 for each eligible business transferring ownership to employees or up to \$5,000 for the actual costs incurred in conducting a feasibility study. The credit would only be allowed for the taxable year in which the eligible business transfers ownership to its employees or incurs costs for conducting an employee ownership feasibility study. The annual aggregate credit cap for this credit would be \$5 million.

Any unused credits would be permitted to be carried over for the next five taxable years, or until the total amount of the credit has been utilized, whichever is sooner. This bill would require the Department to develop guidelines, exempt from the Administrative Process Act, implementing the tax credit.

This bill would be effective for taxable years beginning on and after January 1, 2022, but before January 1, 2026.

cc : Secretary of Finance

Date: 1/23/2022 JLOF  
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