

**DEPARTMENT OF TAXATION
2012 Fiscal Impact Statement**

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| <p>1. Patron Ryan T. McDougle</p> <p>3. Committee Passed Senate and House</p> <p>4. Title Small Business Investment Grant Program:
Creates the Small Business Investment
Grant Fund and Program</p> | <p>2. Bill Number <u>SB 344</u></p> <p>House of Origin:
<input type="checkbox"/> Introduced
<input type="checkbox"/> Substitute
<input type="checkbox"/> Engrossed</p> <p>Second House:
<input type="checkbox"/> In Committee
<input type="checkbox"/> Substitute
<input checked="" type="checkbox"/> Enrolled</p> |
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5. Summary/Purpose:

This bill would establish the Small Business Investment Grant Fund, a non-reverting, permanent fund, on the books of the Comptroller. The Fund would be administered by the Virginia Department of Business Assistance (DBA). Under this bill, an individual would be allowed to apply for a grant for each qualified investment during the calendar year in one or more small businesses that have been certified by DBA. The grant would be equal to 10 percent of the qualified investment.

The grants would be issued in the order that the completed eligible applications are received. Any year-end balances would be reappropriated and the fund retains any interest earned. In the event that the total amount of grants requested in a fiscal year exceed the appropriated funds, the grants would be issued in the next fiscal year in which funds are available.

The eligible investor would be required to hold the investment for two years, unless the qualified investment is transferred as a result of (i) the liquidation of the small business issuing such equity, (ii) the merger, consolidation, or other acquisition of such business with or by a party not affiliated with such business, or (iii) the death of the eligible investor. If the eligible investor fails to hold the equity for at least two years, then the grant would be forfeited and interest will be assessed in the amount of one percent per month, compounded monthly, from the date the grant was awarded to the eligible investor. Any amount of forfeiture and interest would be deposited into the general fund of the Commonwealth.

An eligible investor would not be allowed to receive a grant and the Qualified Equity and Subordinated Debt Investments Tax Credit for same investment.

The bill would require DBA to establish policies and procedures, exempt from the Administrative Process Act, regarding (i) the certification of small businesses, (ii) the application for grants, and (iii) the recapture of grants and the assessment of interest in the event the qualified investment is not held for at least two years

This bill would be effective for qualified investments made beginning July 1, 2012, but prior to January 1, 2015.

This is an Executive Bill.

6. Budget amendment necessary: Yes.

ITEM(S):

Page 1, Revenue Estimates

New item for the Small Business Investment Grant Fund

107, Virginia Department of Business Assistance (an appropriation for the administration of the grant)

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

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2011-12	\$0	0	GF
2012-13	Unknown	1 FTE	GF
2013-14	Unknown	1 FTE	GF
2014-15	Unknown	1 FTE	GF
2015-16	Unknown	1 FTE	GF
2016-17	Unknown	1 FTE	GF
2017-18	Unknown	1 FTE	GF

8. Fiscal implications:

Expenditure

An appropriation would be needed for DBA’s administrative costs related to the development of a database to track the spending and reimbursement of the Small Business Investment Grant Fund. The costs associated with developing a database would be at least \$50,000. DBA has already developed databases to track the Virginia Jobs Investment Program and the Small Business New Jobs Grant Fund spending and reimbursement. In addition, DBA reports that it would likely need to hire at least one full-time employee and would incur additional costs depending on how many individuals qualify for the grant.

The Department of Taxation understands that DBA intends to use a portion of the principal of the Small Business Investment Grant Fund for DBA’s administrative costs. According to DBA, its current general fund appropriation is not sufficient to support the additional full-time employee that would be needed to implement this bill.

Revenue

The introduced House Bill 30 and Senate 30 included a revenue reduction of \$1.5 million annually to reflect the tax credit contained in this bill as introduced. The House amended House Bill 30 but did not reverse the \$1.5 million reduction, while the Senate amended Senate Bill 30 to restore the \$1.5 million revenue and appropriate it to the grant fund. Both bills, however, failed to pass. The introduced House Bill 1301 that is currently under consideration, is similar to House Bill 30, as amended, and does not restore the \$1.5

million for the administration of the grant program. Therefore, budget amendments are needed to appropriate funds to the Small Business Investment Grant Fund and DBA, and to reverse the revenue reduction.

9. Specific agency or political subdivisions affected:

Virginia Department of Business Assistance

10. Technical amendment necessary: No.

11. Other comments:

Current Virginia Small Business Incentives

The Virginia Department of Business Assistance (VDBA) provides a one-stop-service for technical assistance related to business formation, access to capital, and workforce development. VDBA works with and mentors entrepreneurs from ideas to launching their first business venture. To accomplish its objectives, VDBA provides workforce incentives, access to capital, business information, small business incubator counseling, and hosts entrepreneurial workshops statewide annually.

The Virginia Small Business Finance Authority (VSBFA) assists small businesses through a number of financing programs. VSBFA offers direct loans for fixed asset purchases to businesses, localities and Economic Development Authorities for projects of all sizes. VSBFA also offers loan guaranties and loan loss insurance programs to reduce risk to banks making it easier for financial institutions to make loans to small businesses. In addition, targeted financing programs are available for southern Virginia's tobacco region, minority-owned businesses, small manufacturers, non-profit organizations, licensed Child care and family home providers, and Virginia's tourism industry.

The Virginia Enterprise Zone program, administered by the Department of Housing and Community Development, provides two grant programs available to eligible businesses that locate a facility within the zone. The Job Creation Grant program provides grants to eligible businesses for certain permanent full-time job creation exceeding a four job threshold. The Real Property Investment Grant program provides grants for qualified real property investments made in a designated Virginia Enterprise Zone by an eligible individual or business. Since the program was converted to a grant program in 2005, no new tax credits have been allowed. However, firms that had previously been allowed Enterprise Zone General Business Tax Credits are permitted to continue to claim them.

Similar Bills

House Bill 585 is identical to this bill. **This is an Executive bill.**

cc : Secretary of Finance

Date: 3/22/2012 tlg
SB344FER161