House Bill 1896 and Senate Bill 1182: Work Group

Office of Tax Policy, Policy Development Division

July 31, 2023



Agenda 2

- Introductions
- Review of HB 1896 and SB 1182
- Statement of Purpose
- Overview: Work Group Road Map
- Open Forum: Input and Discussion
 - Payment and Distribution Proposals
 - Modernization and Simplification Proposals
- Next Steps



Department of Taxation Contacts

- Kristin Collins, Assistant Commissioner of Tax Policy
- David Sams, Director of Tax Policy Development
- James Savage, Lead Tax Policy Analyst
- John Josephs, Senior Tax Policy Analyst
- Ryan Cunningham, Senior Tax Policy Analyst
- James Ford, Senior Tax Policy Analyst
- **E.V. Goode,** Director of Legislative Support
- Roderick Compton, Assistant Commissioner of General Legal and Technical Services
- Becky Akers, Agency Management Analyst Senior
- Keven Wright, Director of Special Taxes and Services



Recent Changes to the Bank Franchise Tax

HB 1896 & SB 1182

As introduced these bills would have:

- Created a centralized process, whereby banks having \$40 billion or greater in Virginia deposits could elect to pay the BFT entirely to Virginia Tax.
- This election would be binding for 10 years.
- ▶ 80% of BFT revenue from banks making such an election would have been distributed to localities based on population through a newly created Local Bank Franchise Tax Fund.

VIRGINIA ACTS OF ASSEMBLY -- 2023 SESSION

An Act to amend and reenact §§ 58.1-1206, 58.1-1207, and 58.1-1212 of the Code of Virginia, relating to bank franchise tax

Approved March 17, 2023

TH 18961

Be it enacted by the General Assembly of Virginia:
1. That §§ 58.1-1206, 58.1-1207, and 58.1-1212 of the Code of Virginia are amended and reenacted

§ 58.1-1206. Deductions from gross capital.
A. There shall be deducted from the gross capital otherwise ascertainable under § 58.1-1205:
1. The assessed value of real estate if otherwise taxed in this the Commonwealth which is owned by such bank, or is used or occupied by such bank, if held in the name of a majority-owned subsidiary of the bank or of a bank holding company which owns a majority of the capital stock of such bank or of the bank or of a bank holding company which owns a majority of the capital stock of such bank or of any wholly-owned subsidiary of the bank holding company which owns the majority of the capital stock of such bank and the assessed value, up to the amount of the unencumbered equity, of real estate in the nature of improvements which are owned by the bank, or used or occupied by the bank and held by a majority-owned subsidiary or a bank holding company or a wholly-owned subsidiary of a bank holding company, even if assessed in the name of some other person because of the ownership of the underlying land by such person. Real estate used or occupied by a subsidiary or originally conveyed as collateral for loans made by a subsidiary of the bank and reacquired upon foreclosure of mortgage loans will be deemed to be used or occupied by the bank. The deduction for assessed value of real estate shall be the most recent assessment made prior to January 1 of the current bank franchise tax year for real estate owned by the bank or affiliate on January 1 of the current year. Any locality shall provide electronic access to banks for real estate assessment records for such real estate referenced by this section at their

2. The book value of tangible personal property which shall be held for lease and is otherwise taxed which is owned by such bank or in the name of a majority-woned subsidiary of the bank. If the bank does not own all the stock of such subsidiary, it shall be entitled to deduct only such portion of the assessed value of the real estate and the value of such tangible personal property as the common stock it owns in such subsidiary bears to the whole issue of common stock of such corporation.

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3. An amount which shall equal the same percentage of the gross capital account, defined as its capital, surplus and undivided profits as set forth in § 58.1-1205 at December 31 next preceding as the obligations of the United States bear to the total assets of the bank. Such percentage of U.S. obligations shall be determined as of the four most recent (or less in case of a new bank) Reports of Condition and shall not exterimed as of the total restriction (restriction) restricted or a few damping reports of common and the percentage, total assets shall not include the goodwill described in subdivision 5. The obligations of the United States as used herein shall include all obligations of the United States exempt from taxation under 31 U.S.C. § 3124, of the United States Constitution or any other statute, or any instrumentality or agency of the United States.



Recent Changes to the Bank Franchise Tax

HB 1896 & SB 1182

As passed these bill made the following changes, effective January 1, 2025:

- Electronic filing of the BFT with Virginia Tax.
- Creation of an online portal by Virginia Tax.
 - Giving localities access to electronically filed BFT returns.
- Elective 60 day filing extension, and
- Localities required to provide electronic access to land records.

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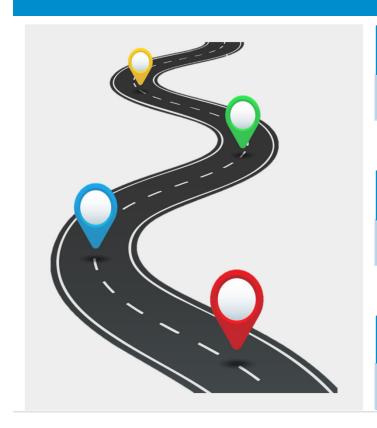


The Department shall convene a work group to assess potential alternative methods for the filing and allocation of bank franchise tax revenues for consideration in the 2024 Session of the General Assembly.

The work group's considerations will include, but not be limited to:

- permitting banks to submit their bank franchise tax payments to the Commonwealth,
- changes to the formula used to redistribute funds to local governments,
- the impact of the new method of collecting and distributing funds on counties, cities, and towns,
- the timeline for implementation of any proposed changes, and
- the cost to the Commonwealth and local governments of implementing these changes.





Policy Options

Work Group In Person Meeting: Today

Written Comments: Sep 15



Implementation Impact, Costs, & Timeline

Review Comments and Draft Report

Draft Report Circulated: Nov 1



Work Group Final Report

Additional Written Comments: Nov 15

Final Report Published: Dec 1



Provide Policy Options and Comments

Step 1

In-Person Meeting

- Legislatively mandated:
 - Permitting banks to submit their bank franchise tax payments to the Commonwealth, and
 - Changes to the formula used to redistribute funds to local governments.
- Optional:
 - Modernization proposals, and

Step 2

Simplification options.

Written Policy Options and Comments-By September 15, 2023



- Presentation will be made available on the Virginia Tax webpage later this week: https://www.tax.virginia.gov/
- Please Provide all Policy Options or any Comments in Writing:
 - By September 15, 2023
 - To: james.ford@tax.virginia.gov
- Final Report Submitted by December 1, 2023, to the Chairperson of the following:
 - House Committee on Finance;
 - House Committee on Appropriations; and
 - Senate Committee on Finance and Appropriations.

