DEPARTMENT OF TAXATION
2025 Fiscal Impact Statement

1. **Patron** Elizabeth B. Bennett-Parker

2. **Bill Number** HB 2653
House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
__X__ **Enrolled**

3. **Committee** Passed House and Senate

4. **Title** Income Tax: The Qualified Equity and Subordinated Debt Investments Tax Credit Sunset Provision

5. **Summary/Purpose:**

This bill would add a sunset provision to the Qualified Equity and Subordinated Debt Investments ("QESDI") Tax Credit, which would result in the tax credit being repealed for Taxable Years 2026 and after.

If enacted during the regular session of the 2025 General Assembly, the bill would become effective July 1, 2025.

6. **Budget amendment necessary:** Yes.
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7. **Fiscal Impact Estimates are:** Preliminary (See Line 8.)
7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2026-27	$4.06 million	GF
2027-28	$4.23 million	GF
2028-29	$4.08 million	GF
2029-30	$4.09 million	GF
2030-31	$4.11 million	GF

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 result in a positive General Fund revenue impact, as shown on Line 7b.

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

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

The Qualified Equity and Subordinated Debt Investments ("QESDI") Tax Credit

This tax credit was enacted in 1998 and effective in 1999.

Virginia currently allows QESDI Tax Credits in an amount equal to 50 percent of a taxpayer's qualified investments. The credit may be claimed against the individual income tax or the income tax imposed on trusts and estates. For purposes of the credit, a "qualified investment" is defined as a cash investment in a qualified business in the form of equity or subordinated debt. A "qualified business" is a business which:

- Has no more than $3 million of gross revenues in the most recent fiscal year;
- Has its principal office or facility in Virginia;
- Is engaged in business primarily in or does substantially all of its production in Virginia;
- Has not during its existence more than $3 million in aggregate gross cash proceeds from the issuance of its equity or debt investments; and
- Is primarily engaged in or is primarily organized to engage in one or more of the following high technology-related fields:
    - Advanced computing;
    - Advanced materials;
    - Advanced manufacturing;
    - Agricultural technologies;
    - Biotechnology;
    - Electronic device technology;
    - Energy;
    - Environmental technology;
    - Information technology;
    - Medical device technology;
    - Nanotechnology; or
    - Any similar technology-related field as determined by regulations promulgated by the Department.

Credits cannot be claimed by any taxpayer that has committed capital under management in excess of $10 million and engages in the business of making debt or equity investments in private businesses, or by any taxpayer that is allocated a credit as a partner, shareholder, member or owner of an entity that engages in such business.

The credit is currently capped at $5 million per year. One-half of the amount of credits available each year must be allocated exclusively for credits for commercialization investments. For purposes of the credit, a "commercialization investment" is a qualified investment in a qualified business that was created to commercialize research developed at or in partnership with an institution of higher education. If the amount of credits requested for commercialization investments is less than one-half of the credit cap, the balance of credits remaining must be allocated for qualified investments in any qualified business.

No taxpayer is permitted to claim more than $50,000 in credits for a taxable year. Any credit not useable for the taxable year in which the credit was allowed may be, to the extent usable, carried over for the next 15 succeeding taxable years or until the total amount of the credit has been taken, whichever occurs first.

Proposal

This bill would add a sunset provision to the QESDI Tax Credit, which would result in the tax credit being repealed for Taxable Years 2026 and after.

If enacted during the regular session of the 2025 General Assembly, the bill would become effective July 1, 2025.

cc : Secretary of Finance

Date: 02/17/2025 ALS
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