

# DEPARTMENT OF TAXATION

## 2005 Fiscal Impact Statement

1. **Patron** Charles W. Carrico, Sr.
2. **Bill Number** HB 1898  
**House of Origin:**  
  X   **Introduced**  
      **Substitute**  
      **Engrossed**
3. **Committee** House Finance
4. **Title** Individual Income Tax: Credit for Teacher's  
Purchases of Instructional Materials
- Second House:**  
      **In Committee**  
      **Substitute**  
      **Enrolled**

### 5. Summary/Purpose:

This bill would create an income tax credit for individuals who teach children in kindergarten through twelfth grade in Virginia. The credit would be equal to the unreimbursed amount of personal expenditures for supplies used in the classroom while teaching in the Commonwealth, with a maximum amount of \$500 in any taxable year.

This bill would be effective for taxable years beginning on or after January 1, 2006.

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

#### 6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2004-05	\$0	GF
2005-06	\$0	GF
2006-07	\$131,970	GF
2007-08	\$0	GF
2008-09	\$0	GF
2009-10	\$0	GF
2010-11	\$0	GF

### 7. Budget amendment necessary: No.

### 8. Fiscal implications:

The Department would incur administrative costs of \$131,970 for FY 2007 for forms development, printing and distribution, and systems modifications.

The negative revenue impact associated with this bill is unknown, but could be substantial. Based on the most recent statistics available, there are 95,844 public and private elementary and secondary school teachers in Virginia. Because the credit would reimburse teachers dollar-for-dollar for their unreimbursed expenditures, teachers would be very likely to use the proposed credit. If all teachers claimed the maximum amount of the credit, the revenue loss would total more than \$48 million annually.

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

Department of Taxation

## **10. Technical amendment necessary: Yes.**

In order to clarify that the credit would be limited to the lesser of an individual's income tax liability or \$500, the following technical amendment is recommended:

Page 1, Line 16 after exceed \$500

Insert: or the tax imposed by this chapter

If it is the intent of this bill to limit the tax credit to expenses that have not been deducted on the taxpayer's federal income tax return, the following technical amendment is suggested:

Page 1, Line 18 after are incurred

Insert: , provided that the individual has not claimed a deduction for such expenses on his federal income tax return.

In order to clarify the types of materials that would be eligible for this credit, the following amendment is suggested:

Page 1, Line 18 after are incurred.

Insert: For the purposes of this section, "supplies used in their classrooms while teaching" means books, supplies, computer equipment (including related software and services) and other equipment, and supplementary materials used in the classroom.

## **11. Other comments:**

### Generally

Virginia currently provides a deduction to teachers equal to 20% of the tuition costs to attend continuing teacher education courses that are required as a condition of employment. This deduction is available only if the teacher is not reimbursed for the tuition costs and has not claimed a deduction for the payment of the tuition costs on his or her federal income tax return.

Under federal law, teachers who have unreimbursed employee expenses may deduct such expenditures as an itemized deduction. The amount is limited to the excess of all the allowable expenses that exceed 2% of the teacher's federal adjusted gross income. As a conformity state, the allowable federal deductions would flow through on the Virginia return. Consequently, the proposed bill could potentially provide a double benefit to those individuals who claim an itemized deduction for unreimbursed employee expenses.

In addition, the Working Families Tax Relief Act of 2004 reinstated a special deduction for teachers for 2004 and 2005. This deduction allows eligible educators to deduct up to \$250 per year for unreimbursed expenses incurred for certain materials used in the

classroom in determining their federal adjusted gross income. The eligible expenses are not subject to the limitations of unreimbursed employee expenses claimed as an itemized deduction.

### Proposal

Under this bill, an individual who teaches children in grades kindergarten through twelfth grade would be eligible to earn an income tax credit for all unreimbursed personal expenditures made during a taxable year for supplies used in the classroom while teaching in the Commonwealth. This bill would be effective for taxable years beginning on or after January 1, 2006.

The maximum credit an individual could earn in any taxable year would be the individual's qualifying unreimbursed personal expenditures for instructional supplies, up to \$500. Thus, this bill would allow teachers to claim \$750 in tax benefits for a \$500 expenditure. This benefit would consist of the \$250 federal deduction and the proposed \$500 state income tax credit.

This bill does not define who qualifies as an individual who teaches children. There are many individuals who are either employed in schools or who visit schools and could be considered to be teaching. Such individuals include teacher's aides, administrators, part time teachers, substitute teachers, individuals presenting special programs, and parents who volunteer in a school or who home school their children. The definition of an "eligible educator" for purposes of the federal deduction is an individual who is a teacher, instructor, counselor, principal, or aide for at least 900 hours during a school year in a school, which provides elementary or secondary education. However, the inclusion of counselors, principals and aides may expand those eligible for the credit beyond the intent of this bill.

This bill does not clearly indicate what type of expenditures would qualify for the credit. The Department has suggested an amendment to clarify that "materials used in teaching" would mean books, supplies, computer equipment (including related software and services) and other equipment, and supplementary materials used in a classroom. This is the definition of "unreimbursed expenses" used for the federal income tax deduction allowed for teachers.

### Other Legislation

**House Bill 1529** is similar to this bill except that it does not limit the credit to unreimbursed expenditures.

**House Bill 2496** would allow a \$500 per year individual income tax credit to certain licensed instructors who are full-time employees in Virginia public schools for taxable years beginning on or after January 1, 2006.

**Senate Bill 698** would create a \$500 income tax deduction for primary and secondary school teachers who purchase materials used in teaching. This deduction would be available for taxable years beginning on and after January 1, 2005.

**Senate Bill 1239** would provide a \$500 individual income tax deduction to primary and secondary public, private, or home school teachers who purchase materials used in teaching for taxable years beginning on or after January 1, 2005.

cc : Secretary of Finance

Date: 1/18/2005 AMS  
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