

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** W. Benny Keister

2. **Bill Number** HB 2496

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax: Tax Credit for Certain
Public School Teachers

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow an individual income tax credit to certain licensed instructors who are full-time employees in Virginia public schools. To qualify for this credit, this bill would require that the primary classroom instructional assignment of the individual be a subject matter area for which the school has been accredited with a warning under the Standards of Accreditation for the academic year immediately preceding the individual's assignment. In addition, an individual could qualify for this credit if he is employed by a school that has been accredited with a warning under the Standards of Accreditation for the academic year immediately preceding the individual's employment in that school.

The amount of this credit would be \$500 annually. If this amount exceeded the tax liability of the taxpayer in a taxable year, this bill would allow the excess amount to be carried over for the next three taxable years until the total amount was taken.

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

6. **No Fiscal Impact or 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	\$185,800	GF
2007-08	\$7,210	GF
2008-09	\$7,426	GF
2009-10	\$7,649	GF
2010-11	\$7,878	GF

7. **Budget amendment necessary:** No.

8. Fiscal implications:

The Department would incur administrative costs of \$185,800 for FY 2007, \$7,210 for FY 2008, \$7,426 for FY 2009, \$7,649 for FY 2010, and \$7,878 for FY 2011 for systems modifications and forms development and review.

The negative revenue impact associated with this bill is unknown, but potentially substantial. For 2004, there are 293 schools that have either been accredited with a warning or whose accreditation status has not been determined at this time. Assuming an average of 48 teachers per school, there could be as many as 14,064 teachers eligible to take this credit. If each teacher claimed the credit, there would be a revenue loss of approximately \$7 million.

9. Specific agency or political subdivisions affected:

Department of Taxation
Board of Education

10. Technical amendment necessary: Yes.

To encourage electronic filing (which cannot accommodate paper attachments), the following technical amendments are suggested:

Page 1 Lines 40 after accreditation.

Strike: The individual shall attach the applicable verification to his Virginia tax return on which the credit is claimed.

Insert: The Tax Commissioner shall establish guidelines regarding the information to include with the tax return.

11. Other comments:

General

The Standards of Accreditation are established by the Board of Education pursuant to Code of Virginia § 22.1-253.13:3. Schools earn accreditation based on students' achievement on tests related to the Standards of Learning, courses offered by the school, and teacher qualifications.

The Standards of Learning were developed for four core subject areas: English, mathematics, history and social science, and science. In order to be fully accredited, an elementary school must have 75 percent of students pass the test for English, 70 percent pass the test for math, 50 percent pass the science and history tests in grade 3, and 70 percent of students pass the science and history tests in other than grade 3. Middle schools and high schools will be fully accredited when 70 percent of their students pass the test in each of the four core areas.

Proposal

This bill would create an individual income tax credit for certain licensed instructors who are full-time employees of Virginia public schools. Teachers could qualify for this credit in two ways. First, teachers currently employed by the school could accept a primary classroom instructional assignment in a subject matter area for which the school was accredited with a warning under the Standards of Accreditation in the year immediately preceding the teacher's assignment. Second, the teacher could begin employment at a school that has been accredited with a warning under the Standards of Accreditation in the year immediately preceding the teacher's employment.

The amount of this credit would be \$500 annually. However, if that amount exceeded the tax liability of the qualifying individual in a taxable year, this bill would allow the excess amount to be carried over for the next three taxable years until the full amount of the credit has been taken.

If the school at which the individual is employed does not attain full accreditation within three years following the first taxable year in which the individual takes the credit, the individual would no longer qualify for the credit. However, if the school does attain full accreditation within that time, an individual who has qualified for this credit would continue to qualify for the next two taxable years, provided that the school maintains the full accreditation during that time.

This bill would require the Board of Education to develop guidelines setting forth the general requirements for qualifying for this credit. In addition, the Board would be required to provide a list of the schools that are accredited with warning as of January 1 to the Department of Taxation each year.

Technical Amendment Suggested

In order to claim this credit, this bill would require individuals to obtain written verification annually from the school principal concerning the school's accreditation status. This bill would also require the individual to attach the verification to the Virginia income tax return on which the credit is claimed.

An amendment has been suggested to offer the Department the flexibility to determine what information must be provided on the Virginia income tax return. Requiring attachments forces the taxpayer to file a paper return, as electronic filing cannot accommodate paper attachments.

cc : Secretary of Finance

Date: 1/25/2005 AMS
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