

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** H. Russell Potts, Jr.

2. **Bill Number** SB 1239

3. **Committee** Senate Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax: Tax Deduction for Teachers with Out-of-Pocket Expenses

Second House:

 In Committee

 Substitute

 Enrolled

5. Summary/Purpose:

This bill would provide an individual income tax deduction to primary and secondary public, private, or home school teachers who purchase materials used in teaching. This deduction is available if the individual is not reimbursed for the expenses and does not claim a deduction for the costs on his federal income tax return. The amount of the deduction would be limited to \$500 per year.

This deduction would be available for taxable years beginning on or after January 1, 2005.

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

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2004-05	\$0	0	GF
2005-06	\$142,750	0	GF
2006-07	\$1,000	0	GF
2007-08	\$1,030	0	GF
2008-09	\$1,063	0	GF
2009-10	\$1,099	0	GF
2010-11	\$1,130	0	GF

7. **Budget amendment necessary:** Yes.

ITEM(S): 284 and 286, Department of Taxation

8. Fiscal implications:

The Department of Taxation is in the final stages of preparing for an August changeover to an entirely new system developed over many years through a public-private partnership. Legislative changes that become effective before the new system is in place must be made to both the old and new systems. However, the Department must "freeze" both systems for several months while its existing records and other data are converted to the new system, and will not be able to resume system modifications until the new system is stable. This freeze is required both by the physical requirements of a major system

upgrade and the fact that all personnel capable of modifying either system will be fully committed to the changeover.

The Department would incur costs of \$142,750 for FY 2006, \$1,000 for FY 2007, \$1,030 for FY 2008, \$1,063 for FY 2009, \$1,099 for FY 2010 and \$1,130 for FY 2011 to implement this bill, including necessary systems changes. The Department believes that there will be sufficient time available to make the necessary systems changes required by this bill without affecting the system changeover. However, if numerous changes must be implemented within the same time frame the Department may not be able to accomplish all of the modifications without additional resources or the ability to delay the effective date of some of the changes.

The revenue loss associated with this bill is unknown. Based on the most recent statistics available, there are 95,844 public and private elementary and secondary school teachers in Virginia. In addition, there are 18,012 students who are home schooled. Assuming that there are three students per home instructor, this would create 6,034 home school teachers. If the total estimated population of 101,878 teachers were in the 5.75% marginal tax rate and took the maximum deduction, the revenue loss would be \$2.9 million annually.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

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

Page 5, Line 264 after federal income tax return.

Insert: For the purposes of this subsection, "materials used in 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 their 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.

In addition, the Working Families Tax Relief Act of 2004 continued a special deduction available only to teachers. For 2004 and 2005, eligible educators will be permitted 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

This credit would provide a new income tax benefit to primary or secondary public, private or home school teachers in the Commonwealth who purchase materials used in teaching. The proposed income tax deduction would be available if the teacher were not reimbursed for the materials and did not claim an income tax deduction on his federal income tax return. The deduction amount would be up to \$500 per year. This bill would be effective for taxable years beginning on or after January 1, 2005.

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 would create a \$500 individual income tax credit for teachers who purchase materials used for teaching. This credit would be available for taxable years beginning on or after January 1, 2006.

House Bill 1898 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 credit would be effective for taxable years beginning on or after January 1, 2006.

House Bill 2496 would allow a \$500 individual income tax credit to certain licensed instructors who are full-time employees in Virginia public schools that have not attained full accreditation.

Senate Bill 698 would provide an individual income tax deduction to primary and secondary school teachers who purchase materials used in teaching. This deduction is available if the teacher is not reimbursed for the expenses and does not claim a deduction for the costs on his federal income tax return. The amount of the deduction would be limited to \$500 per year.

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