

**DEPARTMENT OF TAXATION  
2005 Fiscal Impact Statement**

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

**3. Committee** House Finance

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

**2. Bill Number** SB 1239

**House of Origin:**

           **Introduced**

           **Substitute**

           **Engrossed**

**Second House:**

  X   **In Committee**

           **Substitute**

           **Enrolled**

**5. Summary/Purpose:**

This bill would provide an individual income tax deduction to teachers who purchase books, supplies, computer equipment and other equipment, and supplementary materials used in the classroom. 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 \$250 per year.

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

**6. No Fiscal Impact:** (See Line 8.)

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

**8. Fiscal implications:**

At this time, this bill would have no revenue impact. In addition, the Department would not incur administrative costs to implement this bill. This is because taxpayers are expected to claim the federal deduction and thus be ineligible for this deduction. However, the federal deduction is currently scheduled to expire in 2006. If it is not extended, teachers would be eligible to claim the Virginia deduction, and there would be a negative revenue impact and administrative costs in FY 2007.

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

Department of Taxation

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

If the intent of this bill is to allow a Virginia deduction only if the similar federal deduction is not renewed, then the following amendment is suggested to ensure that taxpayers cannot claim both a federal and Virginia deduction when a taxpayer has qualifying costs in addition to the \$250 of such costs claimed on the federal return:

Page 5, Line 265, after return.

Insert: In no event shall a teacher be eligible to claim this Virginia deduction in any taxable year when the total of this deduction and the deduction under I.R.C. § 62(a)(2)(D) would exceed \$250.

**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 deduction would provide a new income tax benefit to teachers who purchase a variety of 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 \$250 per year. This bill would be effective for taxable years beginning on or after January 1, 2005.

This bill defines which types materials would qualify for this deduction. These materials would include books, supplies, computer equipment (including related software and services) and other equipment, and supplementary materials used in the classroom. This is the definition of "unreimbursed expenses" used for the federal income tax deduction allowed for teachers.

In addition, this bill states that the word “teacher” would be defined as it is used for federal tax purposes. For the purposes of the federal income tax deduction for unreimbursed expenses, the Internal Revenue Code defines an “eligible educator” as an individual who is a kindergarten through twelfth grade teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during the school year.

cc : Secretary of Finance

Date: 2/11/2005 AMS  
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