

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** Mark D. Obenshain

3. **Committee** Senate Finance

4. **Title** Virginia Educational Choice Act

2. **Bill Number** SB 331

**House of Origin:**

  X   **Introduced**

      **Substitute**

      **Engrossed**

**Second House:**

      **In Committee**

      **Substitute**

      **Enrolled**

**5. Summary/Purpose:**

This bill would create a refundable income tax credit for low-income taxpayers in counties with a population of less than 10,000. The credit would equal to 100% of "qualified educational expenses" incurred during a taxable year up to \$1,000. For purposes of public school funding, a child for whom credit is taken would be included in the average daily membership of the school division in which the child resides, but the amount of the credit taken would be deducted from the state funds available to that school division.

This bill would be effective for taxable years beginning on or after January 1, 2006, but before January 1, 2009.

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

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

**8. Fiscal implications:**

Administrative Impact

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

## Revenue Impact

In 2003, when the latest county level data was issued, twelve Virginia counties had a total population of less than 10,000. Based on 2002 income tax return data, about 35.8% of taxpayers would meet the income qualification to take this credit. The number of eligible individuals that would send their children to qualifying schools charging tuition and would be able to take advantage of this tax credit is not known. As such, the negative revenue impact of this bill is unknown.

## Appropriations Impact

Any child for whom a credit is claimed would be included in the average daily membership of the school division for purposes of calculating the state and local share of the cost of meeting the Standards of Quality. While this will tend to increase the funds received by the school division, the appropriation will be reduced by the amount of the credit claimed for that child.

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

Secretary of Finance  
Secretary of Education  
Department of Taxation  
Department of Education

### **10. Technical amendment necessary: No.**

### **11. Other comments:**

Under this bill, low-income taxpayers in counties with a population less than 10,000 would be entitled to a refundable income tax credit for the lesser of 100% of "qualified educational expenses" or \$1,000.

Low-income taxpayers would be those individuals with a total combined federal adjusted gross income not in excess of 200% of the poverty guideline in the Federal Register by the United States Department of Health and Human Services. For purposes of this credit, combat pay for certain members of the Armed Forces of the United States would be excluded from federal adjusted gross income.

"Qualifying educational expenses" would be tuition and other instructional fees charged by the qualified school and the cost of textbooks, workbooks, curricula, and other written materials used primarily for academic instruction.

A "qualified school" would be either (i) a public elementary or secondary school charging tuition pursuant Virginia law, or (ii) a nonprofit nonsectarian educational program that meets Virginia compulsory school attendance requirements. The credit is not available for children attending a free public school.

In 2003, there were twelve counties with a population less than 10,000. These are listed below.

<u>County</u>	<u>Population</u>	<u>County</u>	<u>Population</u>
Highland	2,400	Bland	7,000
Bath	4,900	Charles City	7,100
Craig	5,100	Cumberland	9,300
Surry	6,700	Richmond	9,400
King and Queen	6,800	Mathews	9,500
Rappahannock	6,900	Middlesex	9,900

For purposes of public school funding, a child for whom credit is taken would be included in the average daily membership of the school division in which the child resides. However, the amount of the credit taken would be deducted from the state funds available to that school division.

The Department would be required to develop and publish regulations to implement this credit including a provision for a format of a standardized receipt to be issued by qualified schools for qualifying educational expenses.

This bill would be effective for taxable years beginning on or after January 1, 2006, but before January 1, 2009. For each year the credit is available, the Secretary of Finance and the Secretary of Education would be required to prepare an annual report projecting the total amount of credits expected to be claimed on returns for the current taxable year, as well as an analysis of the effect of the credit on the Commonwealth's finances and educational system. The report would be presented jointly to the chairmen of the Senate Committee on Finance and the House Committee on Appropriations within 60 days of the regular session of the General Assembly.

cc : Secretary of Finance

Date: 01/22/2006 AMS  
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