

DEPARTMENT OF TAXATION

2007 Fiscal Impact Statement

1. **Patron** Mark R. Herring

3. **Committee** Senate Finance

4. **Title** Income Tax; Telework Expenses Tax Credit

2. **Bill Number** SB 1266

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would create an individual and corporate income tax credit for employers who incur eligible telework expenses during calendar years 2008 and 2009. The credit would equal 100% of qualified expenditures up to \$1,200 per employee, if the business were located in a nonattainment area under the federal Clean Air Act and the participating employees telework at least 12 days per month. If the business is not located in an area designated nonattainment under the Clean Air Act, the credit is 75% of eligible expenses. If the employee teleworks at least 5 days a month but less than 12 days a month, in any area the credit is 25% of expenses.

This bill would also create an individual and corporate income tax credit for employers who undertake a telework assessment that leads to the development of policies and procedures necessary for the implementation of a telework program. This credit would be equal to 100% of the costs of preparing the assessment and is limited to \$20,000.

To be eligible for either of the above credits, the employer may not deduct such expenses against income in any tax year. The maximum amount of the credit is limited to \$2 million each year. If the applications for the credit exceed the cap the credits will be allocated to employers on a pro rata basis.

The effective date of this bill would be for taxable years beginning on and after January 1, 2008 but before January 1, 2010.

6. **No Fiscal Impact or Fiscal Impact Estimates are:** Not available. (See Line 8.)

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	\$0	GF
2007-08	\$11,250	GF
2008-09	\$26,200	GF
2009-10	\$26,200	GF
2010-11	\$0	GF
2011-12	\$0	GF
2012-13	\$0	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2006-07	\$0	GF
2007-08	\$0	GF
2008-09	(\$2 million)	GF
2009-10	(\$2 million)	GF
2010-11	\$0	GF
2011-12	\$0	GF
2012-13	\$0	GF

7. Budget amendment necessary: Yes

Page 1, Revenue Estimates

Item 265, Department of Taxation

8. Fiscal implications:

Administrative Impact

In order to implement this credit TAX would incur administrative costs of \$11,250 in FY 2008, \$26,200 in FY 2009 and \$26,200 in FY 2010 for a part-time employee to review and approve applications for the credit.

Revenue Impact

Data suggest that approximately 4,000 teleworking employees annually would qualify for the credit, plus an unknown number of teleworking studies. Therefore, the revenue loss associated with this bill is assumed to be the maximum, \$2 million annually permitted by this bill.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Transportation
Secretary of Technology

10. Technical amendment necessary: No.

11. Other comments:

Current Law

Ordinary and necessary business expenses are deductible for federal and Virginia income tax purposes. The expenses related to teleworking studies and setting up an employee for teleworking would be immediately deductible, or capitalized and deducted over several years.

Proposal

This bill would create an income tax credit for employers who incur eligible telework expenses during 2008 and 2009. The credit would equal 100% of qualified expenditures up to \$1,200 per employee, if the business were located in a nonattainment area under the federal Clean Air Act and the participating employees telework at least 12 days per month. If the business is not located in an area designated nonattainment under the Clean Air Act the credit is 75% of eligible expenses. If the employee teleworks at least 5 days a month but less than 12 days a month in any area the credit is 25% of expenses.

The following areas have been designated nonattainment under the Clean Air Act: Counties of: Arlington, Fairfax, Fredrick, Gloucester, Isle of White, James City, Loudon, Madison, Page, Prince William and York

Cities of: Alexandria, Fairfax, Falls Church, Fredericksburg, Manassas, Manassas Park, Norfolk, Newport News, Petersburg, Poquoson, Portsmouth, Richmond, Suffolk, Virginia Beach and Williamsburg

This bill would also create a credit for employers who undertake a telework assessment that leads to the development of policies and procedures necessary for the implementation of telework. This credit would be equal to 100% of the costs of preparing the assessment and is limited to \$20,000.

The income tax credit proposed by this bill could be claimed against both the individual income tax and the corporate income tax. To be eligible for either of the above credits the employer may not deduct such expenses against income in any tax year. Because all of the expenses are either deductible as an ordinary business expense or capitalized and deducted over several years, the revenue estimates assume that businesses will forgo the federal deduction in order to claim the proposed credit. The maximum amount of the credit is limited to \$2 million each year. If the applications for the credit exceed the cap the credits will be allocated by TAX to employers on a pro rata basis.

Similar Legislation

House Bill 2437 is identical to this bill.

cc : Secretary of Finance

Date: 1/29/2007 JOC
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