

# DEPARTMENT OF TAXATION

## 2008 Fiscal Impact Statement

1. **Patron** Robert G. Marshall

3. **Committee** House Finance

4. **Title** Individual Income Tax: Credit for Qualifying Educational Expenses

2. **Bill Number** HB 420

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would provide a nonrefundable individual income tax credit for qualifying educational expenses incurred during the taxable year on behalf of a child of the taxpayer.

In order for the taxpayer to be eligible for the tax credit, the child must (i) be eligible to be enrolled in a public school in Virginia free of charge, and (ii) qualify as the taxpayer's dependent for federal income tax purposes.

The credit would be limited to the lesser of the actual amount paid by the taxpayer, \$3,000 for public or private elementary and secondary schools, or \$2,000 for home schooling. The qualifying educational expenses used by the taxpayer to claim this credit could not also be used to claim an itemized deduction when computing tax liability.

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

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

7. **Budget amendment necessary:** Yes. (See Line 8).  
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### 8. **Fiscal implications:**

#### Administrative Costs

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

There would be an unknown, but potentially significant, negative impact on General Fund revenue. Based on the reported number of Virginia public, private, and home schooled students, the estimated average educational expenditures, and the estimated tax liability for returns with dependents, this credit could potentially reduce state revenues by approximately \$190 million annually.

To implement this credit, a reduction of an equal amount of general fund support from other areas in the introduced budget would be required. Given the magnitude of funding involved, funding would need to be transferred from areas with significant general fund support.

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

Department of Taxation

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

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

This bill would provide a nonrefundable individual income tax credit for qualifying educational expenses incurred during the taxable year on behalf of a child of the taxpayer. In order for the taxpayer to be eligible for the tax credit, the child must (i) be eligible to be enrolled in a public school in Virginia free of charge, and (ii) qualify as the taxpayer's dependent for federal income tax purposes.

The credit would be limited to the lesser of the actual amount paid by the taxpayer, \$3,000 for public or private elementary and secondary schools, or \$2,000 for home schooling. The qualifying educational expenses used by the taxpayer to claim this credit could not also be used to claim an itemized deduction when computing tax liability.

This bill would authorize the Tax Commissioner to require a taxpayer to attach copies of receipts or similar financial documentation necessary for confirming the taxpayer's claim of the credit to his Virginia income tax return.

A "qualified school" would be either (i) a public elementary or secondary school or (ii) a private educational program, including home schooling, that can be used to satisfy the compulsory school attendance requirements.

"Qualifying educational expenses" would mean (i) with respect to a qualified school other than a home school, instructional fees such as tuition and fees charged by the qualified school; and (ii) with respect to home schooling in kindergarten through grade twelve, amounts paid for textbooks, workbooks, curricula, and other written materials used for academic instruction, and tutoring fees charged by an individual teacher or a home school

correspondence school for academic instruction. The taxpayer would not be allowed to claim a credit for tutoring charges for his own tutoring services.

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

Similar Legislation

**House Bill 985** would provide an individual income tax credit for teachers who purchase materials used in teaching.

cc : Secretary of Finance

Date: 1/19/2008 TG  
HB420F161