

**DEPARTMENT OF TAXATION
2009 Fiscal Impact Statement**

1. **Patron** David E. Poisson

2. **Bill Number** HB 2439

3. **Committee** House Finance

House of Origin:

Introduced

Substitute

Engrossed

4. **Title** Income Tax; Veteran Job Creation Credit.

Second House:

In Committee

Substitute

Enrolled

5. Summary/Purpose:

This bill would provide an income tax credit to corporations for each new job that is created and filled by an honorably discharged veteran. The credit would be allowed in the taxable year following the year the honorably discharged veteran is hired and each succeeding year in which the job continues to be filled. The amount of the credit for each new job filled by a veteran would be two percent of each annual salary that is less than \$50,000 and \$1,000 for each annual salary that is \$50,000 or more.

This bill would be effective for taxable years beginning on or after January 1, 2009, but before January 1, 2014.

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

7. **Budget amendment necessary:** Yes. (See Line 8.)
Page 1, Revenue Estimates

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

This bill would decrease General Fund revenue by an unknown, but potentially significant, amount. The decrease in revenue is dependent on the response and awareness of employers in the Commonwealth, the pool of eligible veterans, the tax liability of the employer, and economic conditions.

Virginia has a very large pool of veterans and significant job creation each year. According to the most recent statistics available from the Department of Veterans Affairs, there were approximately 806,000 veterans living in Virginia in 2007, of which 569,000 were between the ages of 18 and 65. Based on statistics on military justice available from the Code Committee on Military Justice, less than one percent of new veterans receive a less-than-honorable discharge. Based on statistics from the U.S. Bureau of Labor Statistics' Business Employment Dynamics Report issued Nov. 2008, during the twelve month period ending March 31, 2008, Virginia experienced the creation of 741,000 new jobs even though net job creation for the same period was a loss of 5,000. A very large number of jobs each year would qualify for the credit proposed by this bill, resulting in a potentially very significant negative revenue impact.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: Yes.

If the intent of this bill is to create an income tax credit applicable only to corporate taxpayers, the following technical amendment is suggested:

Page 1, Line 16, after pursuant to §
Strike: 58.1-320 or

11. Other comments:

Other States

TAX identified two other states and the District of Columbia that have similar tax credits targeted to employers who hire veterans.

Illinois

In Illinois, employers can earn tax credits for the veterans they have hired since January 1, 2007 who have recently been on active duty overseas. Employers can earn the Veteran's Tax Credit of 5% of total wages paid, up to a maximum of \$600 annually, for wages paid to each veteran. The credit is available for veterans who (1) were members of the U.S. Armed Forces, members of the Illinois National Guard, or members of any reserve component of the U.S. Armed Forces; (2) served on active duty in connection with Operation Desert Storm, Operation Enduring Freedom, or Operation Iraqi Freedom; and (3) have provided to the taxpayer documentation showing that they were honorably discharged.

West Virginia

West Virginia offers a Military Incentive Credit to those who employ eligible individuals for a continuous period of one year. The credit is available for each Vietnam and Korean Conflict economically disadvantaged veteran, disabled veteran or unemployed member of the West Virginia National Guard or of the United States Reserve who is a West Virginia resident, who is employed by the taxpayer. The amount of credit allowed to an employer is an amount equal to the sum of the following:

- For each Vietnam or Korean Conflict veteran— 30% of the employee's wage base, which is the first \$5000 in wages or compensation actually paid the employee;
- For each disabled veteran—the percentage of disability (as determined by the U.S. Department of Veterans Affairs) multiplied by the employee's wage base (the first \$5000 of wages or compensation paid); and
- For each unemployed member of the West Virginia National Guard or U.S. reserve forces—25% of the employee's wage base (the first \$5000 of wages or compensation paid).

District of Columbia

The District of Columbia has recently enacted a new tax credit is equal to 10% of the wages paid by the employer to a qualified veteran during the first two years in which the employer employs the qualified veteran. The credit cannot exceed \$5,000 in the aggregate for each qualified veteran who is employed. "Qualified veteran" means an individual subject to the District's personal income tax who: (a) has previously served in a branch of the Armed Forces and who was honorably or generally discharged, (b) is not currently employed in a facility owned or operated by the District business with an exemption, (c) is hired to fill a position of indefinite duration consisting of a minimum of 35 hours per week for not less than 48 weeks per year, (d) is hired within five years after being discharged from the Armed Forces or within two years of a continuous 6-month National Guard deployment, (e) is a District resident at the time of hiring and maintains District residency for the duration of the 2-year tax credit period, and (f) is not currently employed in a facility owned or operated by the District business seeking this tax credit.

Proposal

This bill provides an income tax credit to corporations for each new job that is created and filled by an honorably discharged veteran. The credit would be allowed in the taxable year following the year the honorably discharged veteran is hired and each succeeding year in which the job continues to be filled. The amount of the credit for each new job filled by a veteran would be two percent of each annual salary that is less than \$50,000 and \$1,000 for each annual salary that is \$50,000 or more.

To qualify for the tax credit, a corporation would be required to demonstrate that a job was created and filled by an honorably discharged veteran in the taxable year prior to the year for which the credit is claimed or was continued from the previous taxable year in which a credit was claimed.

In the case of a partnership or limited liability company, the credit would be allocated to the corporate partners or corporate members in proportion to their ownership or interest in the partnership or limited liability company. The credit would not be allowed to employers that were not subject to the corporate income tax.

"Honorably discharged veteran" would be defined as any veteran who served in any of the United States armed services, either on active duty or in the reserves or National Guard, and received an honorable discharge.

"Job" would be defined as the full-time employment of an individual in Virginia by a corporation for at least 1,960 hours during the calendar year.

A corporation would not be eligible for the tax credit if the corporation is allowed a major business facility job tax credit.

This bill would be effective for taxable years beginning on or after January 1, 2009, but before January 1, 2014.

Other Legislation

House Bill 1125 would allow an income tax credit for each new "green job" that is created.

House Bill 2347 would allow an income tax credit for each new "Renewable Energy Job" that is created.

Senate Bill 1357 would modify the types of jobs for which a corporation would be required to provide in order to qualify for the clean fuel vehicle job creation tax credit.

cc : Secretary of Finance

Date: 1/22/2009 JKL
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